



REPUBLIC OF KOSOVO  
NATIONAL AUDIT OFFICE

ANNUAL AUDIT REPORT

**2016**

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## List of Abbreviations

<b>AAR</b>	Annual Audit Report	<b>ISSAI</b>	International Standards of Supreme Audit Institutions
<b>AC</b>	Audit Committee	<b>KC</b>	Kosovo Customs
<b>AFR/BRK</b>	Annual Financial Report on the Budget of the Republic of Kosovo	<b>KFMIS</b>	Kosovo Financial Management Information System
<b>AFS</b>	Annual Financial Statements	<b>LCS</b>	Law on Civil Service
<b>AG</b>	Auditor General	<b>LPFMA</b>	Law on Public Financial Management and Accountability
<b>BO</b>	Budget Organisation	<b>LPP</b>	Law on Public Procurement
<b>BRK</b>	Budget of the Republic of Kosovo	<b>MED</b>	Ministry of Economic Development
<b>COPF</b>	Committee for Oversight of Public Finance	<b>MF</b>	Ministry of Finance
<b>DDG</b>	Donor Designated Grants	<b>MH</b>	Ministry of Health
<b>EU</b>	European Union	<b>NAO</b>	National Audit Office
<b>FMC</b>	Financial Management and Control	<b>PAK</b>	Privatisation Agency of Kosovo
<b>GDP</b>	Gross Domestic Product	<b>PIFC</b>	Public Finance Internal Control
<b>IA</b>	Internal Audit	<b>PIH</b>	Public Health Institutions
<b>IAU</b>	Internal Audit Unit	<b>POE</b>	Publicly Owned Enterprise
<b>IFI</b>	International Financial Institutions	<b>PRB</b>	Procurement Review Body
<b>IMF</b>	International Monetary Fund	<b>PTK</b>	Post and Telecom of Kosovo
<b>IPSAS</b>	International Public Sector Accounting Standards	<b>TAK</b>	Tax Administration of Kosovo
<b>IPSASB</b>	International Public Sector Accounting Standards Board	<b>TSA</b>	Treasury Single Account
		<b>WB</b>	World Bank

## Foreword by the Auditor General



Honourable members of the Assembly  
of the Republic of Kosovo,

I have the special pleasure to present the  
Annual Audit Report on Fiscal Year  
2016 before the Assembly of the  
Republic of Kosovo.

We have fully met the annual work plan  
for 2016 by publishing 105 individual  
audit reports and the audit report on the  
financial statements of the Budget of  
Republic of Kosovo.

The Annual Financial Report for the Budget of the Republic of Kosovo for 2016 was given an unmodified opinion with emphasis of the matter due to the lack of disclosure of the information in the Explanatory Notes.

During the year, there have been some positive developments in financial reporting for 2016, including increased revenue collection from direct and indirect taxes, financing from domestic borrowing, good budget performance in executing payments, recording of third parties payments in the financial management and accounting system. Further on, the budget deficit is in compliance with legal requirements.

Despite these positive trends, in the audit report we have emphasised some important issues related to asset recording. Eventually, in 2016, assets amounting to 8.1 billion euros have been recorded, despite the fact that public assets are much bigger. Additional attention is required when it comes to handling outstanding liabilities that have reached the level of 215 million euros and receivables which have increased to 548 million euros.

Particular attention should be paid to the operation of publicly owned enterprises. They have been characterised by incorrect financial reporting resulting in negative audit opinions. All audited enterprises carry out their business with a total loss of 1.5 million euros, whilst the liabilities of the four audited enterprises amount to 8.2 million euros, out of which, a significant share are short-term liabilities. Therefore, financial position remains challenging and the liquidity risk of the enterprises' liabilities remains challenging, which seriously hampers the progress of their business.

By independently auditing public funds and then by reporting the findings through the publication of individual reports we have given everyone the opportunity to monitor the Government, Municipalities, Independent Institutions and several Publicly Owned Enterprises. We have worked responsibly to help Kosovo's institutions use the money in a good way, strengthen good governance, and improve the lives of citizens.

Despite this, the level of implementation of 2015 recommendations is not promising, as only 26% have been fully implemented, 37% partially and 38% have not been implemented at all. For fiscal year 2016 we have provided 1314 recommendations, out of which 914 with High Priority.

The fact that the number of recommendations has increased and the level of their implementation has declined poses an inalienable need for a national plan to implement concrete and well-coordinated measures to improve financial management in Kosovo.

Enhanced accountability is becoming increasingly important given the challenges surrounding limited budget resources to fund growing demands from all components of society and support institutional ambitions for the country's integration into European Union.

For the audit season 2016/2017, in addition to quality, we increased our audit coverage compared with the previous year by two regularity audits, two performance audits as we have audited for the first time four publicly owned enterprises. In this context, it is worth mentioning the participation in the 22<sup>nd</sup> Congress of the International Organisations of Supreme Audit Institutions as well as continuous communication and exchange of experiences in the region and the European Union countries.

We have also continued to improve our work quality based on international auditing and legal compliance standards that have led to increased audit coverage, increased assurance, and lower operational costs of our operations.

Particular attention has been paid to intensify the cooperation with stakeholders, particularly with civil society organisations and the media, as well as strengthen cooperation with justice institutions.

We aim at working closely with the Assembly and the Government to further develop current reforms in building-up good governance and better financial management and control systems and continue to adhere to the fundamental principles for a qualitative and fully impartial audit.

I would like to thank the partner organizations such as the Swedish National Audit Office, EU, USAID, GIZ and DEMOS for their continued support when it comes to building our capacities.

Last but not least, the respect and appreciation is paid to the staff of the National Audit Office and for the audited entities working together for meeting audit objectives, in the interest of improving governance within public institutions in Kosovo.



Besnik Osmani

Auditor General

## Executive Summary

The Annual Audit Report contains the outcomes from the audit of the Annual Financial Report of the Government of the Republic of Kosovo and the main findings from the audits of all public organisations funded by the Budget of Kosovo for the fiscal year 2016 as well as performance audits and publicly owned enterprises subject to the audit of the National Audit Office.

Our audits are undertaken in accordance with the International Standards on Supreme Audit Institutions (ISSAIs) for regularity audit (audit of the annual financial statements and audit of compliance with relevant rules and laws) and performance audit (review of value for money, audit of projects and systems).

We audited the AFR/BRK for the year ended on 31<sup>st</sup> of December 2016, which includes the Statement on Cash Receipts and Payments, Consolidated Statement of Comparison of Budget against Execution, Consolidated Statement of Cash Flow, Fund Balance Sheet and Explanatory Notes/Disclosures of Financial Statements and we gave an Unmodified Opinion with Emphasis of Matter because, in our opinion, the AFR/BRK presents, in all material respects, a true and fair view for the year ended on 31<sup>st</sup> of December 2016, in accordance with IPSAS, Law no.03/L-048 on Public Finance Management and Accountability.

In addition, the report includes the audit conclusions and recommendations to help the report users in the implementation stages. The main audit conclusions and recommendations are:

While there are positive issues to report at the AFR/BRK consolidation level, including the unmodified opinion, improvements are needed in explanatory notes particularly in those parts related to capital assets, accounts receivable and public debt which have led to the Emphasis of Matter.



The Annual Financial Report on the 2017 Budget of Kosovo should address all the shortcomings identified in this report, particularly the disclosures and issues that affected the audit opinion .  
(Chapter 1)

The low level of implementation of recommendations is resulting in continuous weaknesses of internal controls and operational efficiency in budget organisations.



More focus should be placed on and accountability measures applied at all management levels in order to improve the level of implementation of recommendations by budget organisations.  
(Chapter 2)

Although budget organisations have legal frameworks and strategies in place to support Good Governance arrangements, its implementation still needs to be improved.



Objective self-assessment of internal controls, strengthening of internal audit units and improvement of risks assessment are some of the key issues that need to be developed in order to improve governance systems in budget organisations .  
(Chapter 3)

Procurement is slowly improving as a result of insufficient implementation of audit recommendations and failure to make the e-procurement platform operational.



A more strengthened accountability should be placed on procurement managers/officers. Additional controls should be established over the whole procurement process, particularly over the supervision of works and contracts management .  
(Chapter 4)

Budget organisations' performance has stagnated due to lack of effective, strategic and operational management supported by a proper legal framework.



Clear objectives and closely-monitored outcomes are the key developments needed to improve performance management in the Public Sector of Kosovo.  
(Chapter 5)

## Introduction

Public Sector External audit is conducted by the Auditor General supported by National Audit Office. Our remit aims at helping those who deliver public services to strengthen good governance, enhance performance and services. For the 2016/17 audit season, we have fully implemented our annual work plan and managed to publish 106 audit reports, out of which:

- 92 regularity audits of budget organisations;
- 4 audits of Publicly Owned Enterprises;
- 2 audits of donor projects;
- 7 performance audits of projects and programs, with special emphasis on the economy efficiency and effectiveness in using resources; and
- The Audit Report on the Budget of Kosovo.

Our reports, including the Annual Audit Report, promote the accountability process of the Government and other budget users' by having their reports reviewed by the Kosovo Assembly, Municipal Assemblies and other competent bodies. Publication of our reports also enables citizens to be informed and to hold those responsible for the use of public resources into account.

Our work is outlined in this Annual Audit Report as follows:

Chapter	Focus	Content
1	Annual Financial Report on the Budget of the Republic of Kosovo	This report presents the results of the audit of the Government's AFR and the annual financial statements of individual budget organisations. Relevant findings are highlighted together with the mechanisms for improving compliance with accounting standards.
2	Addressing prior year recommendations	Audit recommendations are focused on improving the quality of external financial reporting, financial management and public services. The assessment of actions taken regarding the previous recommendations is an important element of the NAO work and is reported herein.
3	Good governance	Effective governance supports a better organisational performance and provides good quality in internal controls. The outcome of our work is summarised here and we have considered the initiatives to support governance at all levels.
4	Procurement	Procurement processes address important levels of public expenditures. In this part, we have reported the outcomes of regularity and performance audits which focused on this issue.
5	Performance in specific areas	BOs' performance in providing economic, effective and efficient services, regardless of insufficient resources, has a direct impact on the quality of services provided to individuals and businesses. Performance in a number of areas is reported under this chapter.
6	Audit of the financial statements of four POEs	This chapter presents the results of the audit on the financial statements of publicly owned enterprises on whether they give a true and fair view in all material respects. The key findings and relevant recommendations to improve compliance with accounting standards are highlighted herein.

The report contains three annexes. The first explains the various opinions given by the AG in regularity audits. The second specifies the opinions given and the related reasoning. In addition, important audit recommendations made to auditees have also been summarised herein. The third specifies how the recommendations given in the 2015 Annual Audit Report are addressed.

Individual audit reports are found on NAO webpage <http://www.zka-rks.org/publications/>.

# 1 Audit of the Annual Financial Report on 2016

On behalf of the Government, the Ministry of Finance prepared the AFR/BRK for 2016 on March 31<sup>st</sup>, 2017 in the format required by the Law on Public Finance Management and Accountability (LPFMA) and according to the International Accounting Standards Public Sector (IPSAS) for "Financial Reporting under the Cash Basis of Accounting".

AFR/BRK is a summary of the transactions related to all Government's activities except for those of the Kosovo Intelligence Agency.

The Director General of Treasury is responsible for the preparation and fair presentation of AFR/BRK in accordance with IPSAS - Financial Reporting under the Modified Cash based Accounting and for such internal control as management determines is necessary to enable the preparation of AFR that is free from material misstatement, whether due to fraud or error. This includes the application of Law number 03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

The Minister of Finance is responsible to ensure oversight of the financial reporting process of the Budget of the Republic of Kosovo.

The responsibility of the Auditor General is to give an opinion on the AFR/BRK. We conducted the audit in line with the International Audit Standards. These standards require us to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatements.

## 1.1 Audit Opinion

NAO audited the AFR/BRK for the year ended in 31<sup>st</sup> of December, 2016, which includes the Statement of Cash Receipts and Payments, Consolidated Statement of Comparison of Budget against Execution, Consolidated Statement of Cash, Funds Balance Sheet, and Explanatory Notes/Disclosures of Financial Statements.

### **Unmodified Opinion with Emphasis of Matter**

In our opinion, the AFR of BRK for the year ended on 31<sup>st</sup> of December, 2016 presents a true and fair view, in all material respects, in accordance with IPSAS, Law no.03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

NAO conducted the audit in accordance with ISSAIs. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Financial Statements. NAO is independent of the Government/Ministry in accordance with the ethical requirements and we have fulfilled other ethical responsibilities in accordance with these requirements. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of matter

NAO draws your attention to the fact that in AFR/BRK:

- The total value of capital expenditure presented cannot be considered to be accurate due to misclassification of capital investments. Expenditures of €14,640,098 for goods/services and subsidies/transfers were misclassified as capital investments, out of which €13,408,945 due to incorrect budgeting of expenditures by MF and €1,231,153 were misclassified by BOs as a result of errors and improper application of the accounting plan. The reason behind this is failure to conduct detailed analysis and to apply adequate controls in order to eliminate misclassification of projects in the budget process during the preparation of the Budget of the Republic of Kosovo. Misclassification of expenditures has resulted in understatement of Goods and Services and Subsidies and overstatement of Capital Investments;
- In the statement of disclosures, non-financial assets over €1,000 of the central government level were presented in the amount of €2,413,988,556, whereas according to individual audits the value of these assets was €2,405,092,643. The difference of €8,895,913 was as a result of the overstatements<sup>1</sup> of €13,837,933 and understatements<sup>2</sup> of €4,942,020. This was due to the lack of an effective and complete consolidation process and asset registration process in KFMIS. Incomplete and incorrect presentation of assets affects decision-making processes related to budget appropriations;
- Four (4) municipalities did neither register non-financial assets over €1,000 in KFMIS nor present them in their individual financial statements. As a result, they were not presented in the AFR/BRK either;
- The public debt amounting to €852,738,034 (€478,970, 587 internal debt and €373,767,447 external debt) and €20,000,000 debt for state guarantees was not disclosed. This was due to the lack of an effective process on the reporting of public debt in AFR/BRK. Failure to present the public debt affects the processes of information and decision-making by the Assembly and external creditors; and
- Accounts receivable for both levels of government (central and local) were presented in the amount of €515,990,050, whereas according to individual audit reports their total value was €548,963,060. This indicates an understatement of these accounts for €32,973,010. This was due to the lack of an effective reporting and consolidation process. Incomplete and incorrect presentation of accounts receivable may affect decision-making processes related to annual budget appropriations.

<sup>1</sup> MEST, MESP, and UCHS

<sup>2</sup> MH, MCR and PPRC

## 1.2 Audit Approach

Our objective is to obtain reasonable assurance on whether the Annual Financial Report as a whole is free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of this AFR/BRK.

An audit involves performing procedures to obtain evidence about the financial records and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the entity's circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the presentation of the financial statements.

Our audit focused on:

- Statement of Cash Receipts and Payments, Consolidated Statement of Comparison of Budget against Execution, Consolidated Statement of Cash Flow, Fund Balance Sheet and Explanatory Notes;
- Whether these financial statements present, in all material respects, a true and fair view of financial situation for the audit period; and
- Whether the Government has taken appropriate measures to implement Auditor General's recommendations given in 2015 and previous years.

NAO has also considered the declaration made by the Minister of Finance and Treasury's Director when the draft AFR/BRK was submitted to the Assembly and the Auditor General.

Our approach is based on the process through which AFR/BRK is produced. This has enabled the development of an audit strategy, which focuses on addressing specific risks. NAO has also reviewed compliance with the budget deficit ceiling, the analysis of the AFR/BRK and the individual statements of BOs, including the consolidation of accounts.

### 1.3 Declaration on the Budget Deficit Ceiling

Article 22.A.1 of the Law no. 03/L-048 on Public Financial Management and Accountability (LPFMA), as amended and supplemented, stipulates that "no law on budget appropriations shall include an overall deficit exceeding the estimated 2% of the Gross Domestic Product (GDP)". The estimated GDP for 2016 was €6,039,000,000.

For the purpose of keeping the total debt under the ceiling stipulated in the Law on Public Debt, the Assembly shall, each fifth fiscal year, review the deficit ceiling and adjust it where appropriate, in line with the debt ceiling and the mid-term increase in GDP as well as implementation procedures and key parameters serving as the basis for the deficit ceiling.

We have assessed the processes within the MF in order to ensure that these legal requirements have been implemented and we have assessed the current ceiling at the end of 2016.

The Law on 2016 Budget adopted by the Assembly of the Republic of Kosovo was approved with a budget deficit of 1.3% of GDP, whilst the current deficit at the end of 2016 was 0.9%. We may conclude that the Government has implemented the legal requirements on budget deficits.

#### **Failure to present explanatory notes in the AFR/BRK regarding the reduced budget deficit ceiling of 2016 compared to 2015**

In 2016, the budget deficit ceiling has been reduced compared to 2015. According to the Law on Budget, expenditures were planned to be higher than revenues by €95,439,000 or 1.6% of the planned GDP, whilst the incurred expenditures were higher than revenues by €53,872,000 or 0.9% of the planned GDP.

According to the 2015 Budget, expenditures were planned to be higher than revenues for €118,689,000 or 2% of the GDP whilst according to budget outturn expenditures were higher than revenues by €77,586,000 or 1.3% of DGP.

There were no explanatory notes or detailed information in the AFR/BRK on the reasons behind the reduced financing of the budget deficit compared to 2015.

## 1.4 Analysis of the Budget of the Republic of Kosovo

The data presented in the AFR/BRK reflect the actual receipts and payments and the respective budget appropriations. The 2016 Budget of the Republic of Kosovo has been subject to a budget review (Law No. 05/L-109 amending and supplementing the Law No. 05 / L-071) wherewith budgetary changes occurred between the economic categories within BOs.

### 1.4.1 Analysis of basic statements

The consolidated fiscal indicators of the state budget for 2016 are the following:

- **Overall revenues of 2016 budget** were collected at €1,777,908,000 out of €1,978,414,000 planned, or 90%, a difference of €200,506,000. Compared to 2015, receipts have increased by €70,534,000 or 4% in 2016. This was as a result of higher collection of direct and indirect tax revenues; and
- **Overall budget expenditures incurred in 2016** were €1,763,242,000 out of €1,863,753,000 planned, or 94.5%, a difference of €100,511,000. Expenditures for this year were higher by €148,904,000 compared to those incurred in 2015.

The following table shows the overall receipts and payments compared to planning:

**Table 2. Initial budget and actual receipts against payments** (in 000 €)

Description	Initial budget	Final budget	Outturn 2016	Outturn 2015	Outturn 2014
Receipts	1,861,909	1,978,414	1,777,908	1,707,374	1,462,578
Payments	1,773,032	1,863,753	1,763,242	1,614,338	1,510,857

### Collection of Revenues for 2016 Budget

During 2016, revenues of €1,777,908,000 were collected in the state budget, an increase of 4.1% compared to 2015. This percentage was mainly driven by the increase in tax revenues (direct and indirect taxes).

Failure to implement the plan on the collection of overall revenues has been impacted by the low level of collection of own source revenues by municipalities, financing from external borrowing, one-off revenues of Privatisation Agency of Kosovo (PAK) and revenues from the dividend.

The budget's overall revenues by items are presented as follows:

**Table 3. Initial budget and receipts in relation to payments** (in 000 €)

Receipts	Final budget	Outturn 2016	Outturn 2015	Outturn 2014
Direct taxes	227,289	232,121	199,454	189,904
Indirect taxes	1,207,759	1,227,392	1,104,923	1,005,180
Non-tax revenues	211,800	175,343	188,086	171,253
Returns	-42,850	-38,381	-35,644	-33,516
Financing from borrowing	309,459	154,412	166,719	113,836
Grants and assistance	12,887	8,735	13,310	12,092
Other receipts	52,070	18,286	70,526	3,829
<b>Total</b>	<b>1,978,414</b>	<b>1,777,908</b>	<b>1,707,374</b>	<b>1,462,578</b>

According to the above table, the overall revenues consist of:

- 13% from direct taxes;
- 69% from indirect taxes;
- 9% from non-tax revenues; and
- 9% from financing from borrowings, grants/assistance and other receipts.

Compared to the final budget, collection of tax revenues has resulted as follows:

- Direct and indirect tax revenues are of critical importance for the state portfolio and account for over 80% of the overall budget revenues. These tax revenues are generated through Kosovo Customs (KC) and Tax Administration of Kosovo (TAK). In 2016, these two agencies had a good performance in terms of fulfilment of the revenues collection plan;
- Revenues from direct and indirect taxes were collected in the amount of €1,459,513,000 out of €1,435,048,000 planned, an overrun of €24,465,000; and
- Compared to 2015, collection of tax revenues in 2016 has increased by €155,136,000 or 11.9%.

### Collection of revenues by Kosovo Customs

During 2016, KC collected revenues amounting to €1,051,419,000 or €99,611,000 (10.5%) more than in 2015. The largest increase was marked in the collection of VAT at the border, amounting to €57,943,000 or 13 %, and border excise tax of €41,046,000 or 12%.

### **Collection of revenues from Tax Administration of Kosovo**

During 2016, TAK collected revenues of €386,385,187, which compared to 2015 increased by €53,613,187 or 16%. The largest increase was marked in the corporate income tax amounting to €13,385,211 or 20%, VAT by €25,209,755 or 16%, income tax by €8,237,957 or 11.4%, individual businesses tax by €2,402,732 or 7.8% and other taxes increased by €4,377,532.

The overall increase in the level of collections in Customs and TAK is the result of the country's increased economic activity, new measures in taxation policies, reforms undertaken by revenue agencies, exemptions for raw materials and import machinery, implementation of the VAT escalation and the effect of the Law on Debt Forgiveness.

### **Collection of non-tax revenues**

Non-tax revenues for 2016 were planned in the amount of €212,000,000, whilst €175,342,000 was collected, a difference of 36,658,000 or 17% less than the planned. This was as a result of failure to collect revenues from taxes and charges at the local level on some items and failure to collect the dividend from Post and Telecommunication of Kosovo (PTK) in the foreseen amount of €15,000,000.

The declaration of the dividend from PTK over the years has declined. According to the Department of Macroeconomic Policies and based on the financial statements of PTK, there is a considerable decrease in profit and the declaration of the dividend thereof.

At the level of local government BOs, poor performance in the plan implementation was identified in Municipality of Prishtina with 19% less compared to the plan, or €24,243,686 collected out of €29,950,000 planned, and Municipality of Prizren had a lower collection of 34% compared to the plan or €6,292,849 collected out of €9,480,000 planned.

### **One-off revenues from Privations Agency of Kosovo**

PAK's one-off revenues in the amount of €33,000,000 were not collected at all. According to the Department for Macroeconomic Policy and International Financial Cooperation, one of the reasons behind this is the delays in handling the requests or potential complaints by the Special Chamber within the Supreme Court, whose main function is to handle issues related to the privatisation process.

### **Public Debts/ Financing from borrowing**

According to the Law on Public Debt, the overall debt is defined as "the total state debt and municipal debt. The state debt is a debt incurred on behalf of the Central Governmental Institutions that the Republic of Kosovo is obligated to pay, but shall not include any obligation of certain other governmental entities, including but not limited to Municipalities, public enterprises, or the Central Bank of Kosovo".

The purpose of the public debt is to finance the state budget deficit when authorized expenditures, according to the Minister's judgment (estimation), are exceeded, or are likely to exceed, the revenues needed to pay for them. Another purpose of public debt is to finance investment projects that are considered of national interest.

Therefore, the importance of state debt is that it has an impact on increasing economic activity, volume of production, creating new jobs, GDP growth and improving macroeconomic parameters.

The state debt portfolio was created in 2009 and by the end of 2016 it consists of domestic debt and external debt as well as two (2) state guarantees. By the end of 2016, the total debt was €852,738,034 (an increase of 14% compared to the previous year's nominal amount), which consists of the international debt of €373,767,447 and domestic debt of €478,970,587.

The first state guarantee of €10,000,000 was issued in 2014, which is guaranteed by the Deposit Insurance Fund for the credit line provided by the EBRD. Whereas, the second international guarantee, issued by Kosovo during 2016, guarantees the local Public Enterprise "Urban Traffic" for the loan offered by the EBRD in the amount of €10,000,000.

According to the Law on 2016 Budget, revenues from borrowing (debt) are planned to be €309,459,000, of which €154,194,000 or 49.8% were executed<sup>3</sup>.

**Domestic debt** - Financing from domestic borrowing for 2016 was €101,189,000 against €100,000,000 planned. The purpose of the domestic borrowing was to finance the budget deficit and to increase the bank balance.

The increase of the bank balance is a requirement of the International Monetary Fund (IMF), which by the end of 2016 is planned to be equal to 4.5% of GDP. During 2016, the bank balance has increased by €14,666,000 amounting to €256,539,000, thus being 4.2% of GDP

### **Low level of implementation of the plan for financing from international debt (borrowing)**

The purpose of international borrowing is to finance certain projects. According to the Law no.03/L-175 on Public Debt, the Government shall issue a Decision authorizing the Minister to sign agreements related to the international debt.

Borrowings from IFIs are linked to the progress of projects funded by the respective agreements.

The main reason behind the setback in borrowing from IFIs is failure to implement projects in accordance with the budget projections which was as a result of delays in ratification of financial agreements, delayed negotiation of financial agreements, and other reasons related to the project implementers.

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<sup>3</sup> According to Treasury explanations, sub-borrowings do not go through the Budget's accounts but have an impact on the increase of debt stock.

In 2016, the Minister of Finance approved the Regulation no.01/2016 on the Administration of Funds from Borrowing. The borrowing funds are budgeted and allocated according to the budget appropriations set forth in the annual law on BRK.

During 2016, six (6) agreements have been entered into with IFIs, which were approved by the Assembly of the Republic of Kosovo. These relate to projects in the sectors of Education, Health, and Road and Railways Infrastructure.

The purpose of these projects is: Rehabilitation of the Railway Line 10 (sub-borrowed loan), Improvement of the Education System, Regional Roads, Modernisation of Invasive Cardiology Services at the University Clinical Centre of Kosovo and Measures for Efficient Energy in Public Buildings in Municipalities.

The low level of outturn of financing from international borrowing was due to non-disbursement of tranches by the IMF and non-implementation of certain projects by BOs. Setbacks have been identified in the implementation of several projects compared to the budget projections in the Ministry of Infrastructure, Ministry of Economic Development and Ministry of Health.

The reason for non-disbursement of tranches according to the 2016 budget forecast from the Stand-By Arrangement (SBA) with the IMF is that the reviews of activities two (2) and three (3) conducted by IMF on the achievement of activities prior to the disbursement have been postponed for the following year. This was due to the Government late approval of the Law on Veterans (approved on 30 December 2016), resulting in IMF failure to review activities two (2) and three (3).

### **Non-implementation of projects financed by international borrowing at the ministries level**

NAO has addressed the reasons of failure to implement some planned projects:

- No funds were allocated for the Energy Efficiency and Renewable Energy Project within the MED, planned to be financed by WB in the amount of €4,060,000. The reasons for not disbursing funds as projected in the 2016 Budget were the delays in the finalisation of procurement procedures. Being dissatisfied with the procurement procedures conducted by the Ministry, WB decided not to fund this project (the first five buildings for renovation);
- In regard to the project "Extension of N2 Millosheva - Mitrovica main road" within the Ministry of Infrastructure, planned to be financed in the amount of €14,700,000, only the funds transfer process has been lagging behind for several months. Initially, delays (seven months) were caused in the establishment of the Project Management Unit (PMU), which will be the focus point of communication between the Ministry of Infrastructure, financiers, consultants and contractors. After the establishment of the PMU, the Islamic Bank expressed its readiness to transfer sufficient funds in advance to PMU for a six months period in a separate account which would be opened either at a commercial bank or at the Central Bank. But, the request to open such an account was rejected by Treasury based on the Law on Public Finances. On December 23<sup>rd</sup>, 2016, a sub-account was opened to transfer the funds to PMU; and

- Projects in the Ministry of Health: "Equipment and other medical devices" with a planned budget of €2,600,000 and outturn of €2,110,000 funded by the Austrian Government and "Review on the Kosovo Health Sector" with a planned budget of €1,771,105 and outturn of €1,328,825 or 75% funded by World Bank borrowing. The reasons for delayed disbursement of funds were the failure to establish a specific budget line for the specific health grant and the failure to operationalize the Health Information System and the Health Information System of the Health Insurance Fund.

## Analysis of Cash Payments

Overall expenditures of 2016 were €1,763,242,000 out of €1,864,413,000 planned in the final budget or 94.5%. Expenditures of the previous year were €1,614,338,000 or 9% less than in 2016.

The trend of budget expenditures incurred in the last three (3) years is as follows:

**Table 4. Final budget and outturn in 2016** (in 000 €)

Description	Budget KFMIS	Outturn 2016	Outturn 2015	Outturn 2014
Wages and Salaries	551,521	544,830	526,311	486,691
Goods and Services	192,602	179,897	184,828	188,033
Utilities	24,656	23,362	24,166	22,100
Subsidies and Transfers	477,620	475,103	422,099	364,526
Capital Investments	527,741	452,299	407,926	412,920
Other payments	90,273	87,751	49,008	36,587
<b>Total</b>	<b>1,864,413</b>	<b>1,763,242</b>	<b>1,614,338</b>	<b>1,510,857</b>

The table above shows that non-incurrence of expenditures in the amount of €101,171,000 has been largely affected by capital investments of €75,443,000, or 75% of the total.

The key issues arising from audits are the following:

**Expenditures for Wages and Salaries** – incurred at 99%, i.e. €544,830,000 compared to €551,521,000 planned. During 2016, there were spent €18,519,000 for Wages and Salaries, i.e. 3.4% more compared to 2015. The key factors that have contributed to the increase of these expenditures are the Government's decisions to pay for the work experience of public sector employees and the increase in the number of employees by 710 ones at both central and local government levels.

Central level BOs continue to face budget challenges every year, such as: covering positions with acting staff, special service contracts entered into without recruitment procedures and for over six (6) months periods, overtime remuneration in contradiction to the legal basis, etc.

**Expenditures for Goods and Services** - incurred at €179,898,000 compared to €192,602,000 planned, i.e. 93%.

Central level BOs still challenged by the same irregularities, such as: delays in closing advance payments, advances payment made in contradiction to the Law on Budget, misclassification of expenditures in the economic categories, compensation from the category of Goods and Services in the form of gifts and for overtime work within regular working hours, entry into liabilities without committed funds, as well as supply of items outside the contracts and overlooking of the procurement procedures.

Irregularities identified by the audits of municipalities are: entry into liabilities without sufficient commitment of funds, contract managers not appointed, supply with items outside the contracts and overlooking of procurement procedures, withhold tax not applied for employees engaged on special services contracts according to Law no.05-L-028;

**Expenditures for Subsidies and Transfers** - incurred at 99%, i.e. €475,103,000 incurred compared to €477,620,000 planned. During 2016, there was spent €53,000,000 more than in 2015. One of the factors that have contributed to this is the increase in war veterans' pensions, basic pension contributions as well as pensions for pension schemes.

Subsidies management still remains a challenge for both government levels. The current practice of assessing, monitoring and reporting subsidies does not provide sufficient assurance that they are used for the intended purposes and whether or not the expected results are achieved.

Moreover, the audits have highlighted these shortcomings: lack of written policies or legal framework for granting and monitoring subsidized projects, failure to comply with the criteria set for allocation of subsidies and subsidy beneficiaries' failure to report on the way these funds are used.

### **Expenditures on capital investments**

Capital Investments include planned public investment funds for BOs of central and local level, financed by state budget revenues or through external borrowing as well as by designated donor grants. During 2016, capital investment expenditures were €452,299,000 from €527,741,000 budgeted, or 86%.

The audits of capital investments at both central and local government levels have identified the following shortcomings:

- In central government BOs – €341,454,391 were spent out of €380,220,237 planned, or 89%. Identified issues relate to the development of procurement procedures not in compliance with the legal framework thus resulting in agreements with ineligible economic operators and inefficient oversight of projects implementation; and
- In local government BOs - the capital investments budget was €147,521,438 whilst €110,844,257 or 75% was spent. The total structure of these expenditures includes own source revenues wherefrom €47,010,724 were spent out of €78,586,598 planned, or 60%. Two (2) municipalities have had an impact on such low level of execution: the Municipality of Prishtina with an outturn of 58% of the plan, or €19,750,828 spent from €33,902,694 planned and the Municipality of Prizren with an outturn of 54% of the plan or €4,838,877 spent from €8,889,745 planned.

Other weaknesses identified are: lack of detail projects, delays in execution of works and procurement procedures, awarding of ineligible economic operators, poor monitoring and oversight and inefficient performance in projects implementation.

### **Expenditures for capital investments and external borrowing**

Capital expenditures from external borrowing incurred at €5,701,731 out of 24,675,984 planned, or 23%.

Failure to implement projects with external borrowing has been handled in more details in the Public Debt section under this Chapter.

### **Low level of execution of Donors budget**

Designated Donor Grants (DDGs) are funds used according to the terms of agreements and designated purpose. During 2016, DDGs were executed at 57% or €11,450,000 out of €20,090,803 planned.

The majority of these funds are dedicated and used for capital investments, goods and services, subsidies and transfers and salaries.

Unused funds carried forward from year to year indicate that these funds are not being efficiently managed. This increases the risk that donors' grants may be reduced in the future due to ineffective management and failure to achieve the intended purposes.

## 1.4.2 Analysis of disclosures/notes

The Government and BOs control and manage public funds and use them to achieve the objectives of delivered services. However, the Government should keep records and have detailed information on the public funds under its management.

IPSASB strongly encourages us to adhere to the disclosure of additional information, where appropriate, in order to enhance financial transparency and accountability. Disclosure of appropriate information in the AFR of BRK regarding the Government's overall activities may increase the transparency of financial reports and provide the opportunity of a better understanding of the relation between the activities of the Government and Stakeholders'.

Disclosures or annexes in the AFR/BRK should include notes or complete data on the increase and reduction of the public debt, payments for membership to IFIs, revenues, expenditures, state assets and liabilities in order to enable the readers of AFR/BRK to better understand the reported areas, i.e. annual budget trends.

### Failure to disclose public debt and payments for membership of the Republic of Kosovo to IFIs

Explanatory notes do not contain information on the stock of domestic debt (debt according to financial instruments and holders of securities); stock of international debt (debt according to creditors, information on achieved financial agreements); state guarantees and information on payments made for the membership of the Republic of Kosovo in IFIs.

Explanatory notes do only contain explanations on payments for the return on principal and interest, €65,992,000 and €19,206,000 respectively.

For following table shows the public debt over the last three years:

**Table 5. Public debt balance**

(in 000 €)

Description	Year 2016	Year 2015	Year 2014
International debt	373,760	371,170	326,350
Central level	323,930	339,870	316,540
Sub-borrowings	49,830	31,300	9,810
Domestic debt	478,970	377,780	256,520
Central level	478,970	377,780	256,520
Total overall debt	852,730	748,950	582,870
State guarantees	20,000	10,000	10,000
<b>Total overall debt (% of GDP)</b>	<b>14,58%</b>	<b>13,07%</b>	<b>10,65%</b>

The table shows that the public debt, including the state guarantees as of the end of 2016, amounts to €872,730,000, an increase by €113,780,000 or 15% compared to 2015.

## Assets

Controls continued to be ineffective when it comes to asset management (capital and non-capital assets) during this year as well. This is addressed as an Emphasis of the Matter in the Opinion section within this chapter.

**Assets of central institutions:** the net value of assets presented in AFR/BRK is €2,413,988,556, whereas according to audits their value is €2,405,092,643. This non-reconciliation of €8,895,913 is a result of overstatements of €13,837,933 and understatements of €4,942,020.

Some of the most common issues encountered during audits of Government Institutions (GIs) and which have led to such differences are: lack of asset inventory and valuation preventing GIs from having accurate information on assets, failure to keep asset records regularly, incorrect recording of new purchases and incorrect calculation or non-calculation of depreciation, calculation of depreciation for ongoing investments as a result of their incorrect recording as assets in use etc.

**Agricultural properties used by private persons:** agricultural properties (lands) worth €8,378,478 under the ownership of the Kosovo Agricultural Institute within the Ministry of Agriculture, Forestry and Rural Development (MAFRD) are used by private persons. MAFRD has initiated court proceedings for the restitution of its properties.

**Assets of Municipalities -** the net value of assets presented in AFR/BRK is €5,664,322,481, which indicates an increase compared with 2015. This was as a result of assets recording by the Municipality of Prishtina in the amount of €2,468,469,000 in the accounting register, which had not been recorded in the previous years.

The municipalities have not managed yet to provide an effective system for asset recording and management during 2016 either, resulting in an Emphasis of Matter on assets in almost all municipalities.

Furthermore, the municipalities of Mamusha, Zubin Potok, Zvečan and Leposaviç did not present any assets either those above or under €1,000, while the Municipalities of Novobërda, Ferizaj, Partesh and Klllokot did not present assets under €1,000.

Other identified shortcomings are: physical counting and valuation of assets, unfinalised reports on asset inventory, inadequate asset categorisation, depreciation, alienation and improper classification of ongoing investments.

## Outstanding Liabilities

The amount of outstanding liabilities at the end of 2016 was €215,682,000, an increase of €8,420,000 compared with 2015. The increase in liabilities occurred within central level organizations only. The following table presents outstanding liabilities broken down by governance level and comparison over the years.

**Table 6 Outstanding liabilities** (in 000 €)

Description	2016	2015	2014
Central level	200,275	191,816	148,199
Local level	15,407	15,445	17,188
<b>Total</b>	<b>215,682</b>	<b>207,261</b>	<b>165,387</b>

Around 93% of the total liabilities relates to the central level, out of which 83% relate to:

- The Ministry of Environment and Spatial Planning, whose liabilities amount to €152,899,219, which mainly relate to the expropriation process;
- The Ministry of Infrastructure, whose liabilities are €15,535,336 mainly relate to the category of capital investments (only €246,316 belong to categories of subsidies and goods and services); and
- The Ministry of Agriculture, whose liabilities are €12,903,046, out of which €12,870,485 are liabilities for subsidies and grants created as a result of the manner and timing of their approval.

Outstanding liabilities (other than expropriations) are created as a result of entering into contractual obligations in absence of sufficient funds for their financing as well as receiving and processing of receipts with delay<sup>4</sup>.

Moreover, the quality of reporting was poor. In certain cases, BOs did not report their liabilities regularly to the MF and in some other cases the reported liabilities were not complete.

BOs' failure to pay liabilities in time led to a considerable part of them being paid by Treasury and based on Court decisions (see sub-chapter below direct payments from Treasury and Court decisions). Delays in payment of liabilities cause negative effects on budget management by charging subsequent budgets and preventing the achievement of planned objectives.

<sup>4</sup> This derived from the analysis of liabilities in relation to the budget in six BOs that have the highest value of liabilities.

## Incomplete and inaccurate disclosure of accounts receivables

Accounts receivable at the end of 2016 have decreased compared to 2015.

**Central Level Receivables** - Their value presented in AFR/BRK was €371,241,906, whereas according to individual audit reports, their value is €391,504,642, an understatement of €20,262,736.

By the end of 2016, the total of receivables was lower by €140,332,991 compared with 2015. This decrease was as a result debts forgiven by TAK during 2016 in the amount of €188,376,150.

The balance of receivables in end of 2016 within TAK and Customs is €321,661,000 and €42,857,266 respectively.

**Local Level Receivables** - Their value presented at AFR/BRK is €144,748,144 whilst according to individual audits it is €157,458,418. The comparison shows the understated difference of €12,710,274.

Municipalities of North Mitrovica, Zvečan, Leposaviç and Zubin Potok have not reported on receivables as they do not apply property tax and other taxes or charges that generate receivables.

The balance of receivables at end of 2016 increased by €207,547 compared with 2015.

## Payments made directly by Treasury and court decisions

In 2016, Treasury executed payments of €11,249,089 under Articles<sup>5</sup> 39.2 and 40. Payments in the amount of €6,352,192 were made based on court decisions whilst €4,905,808 were paid based on the Treasury decisions.

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<sup>5</sup> LMFP neni 39 dhe 40 - Neni 39.2 Where an invoice is not paid by a BO for more than 60 days, the economic operator shall demand direct execution of payment by Treasury/MoF. Treasury shall have the right to pay the amount directly to EO bank account according to its request and according to Article 40 to make payments of final judgments.

**Table 7 Payments based on court decision and article 39.2 of the LPFMA** (in 000 €)

<b>Payments by Court Decision</b>	<b>Total 2016</b>	<b>Total 2015</b>	<b>Total 2014</b>
Wages and Salaries	117	-	-
Goods and Services	1,949	716	441
Subsidies and Transfers	404	170	-
Capital Investments	3,881	3,515	3,037
<b>Total</b>	<b>6,352</b>	<b>4,402</b>	<b>3,478</b>
<b>Payments under Article 39.2 of LPFMA</b>			
Goods and Services	666,058	886,848	441
Capital Investments	4,239,750	3,515,465	3,037
<b>Total</b>	<b>4,905,808</b>	<b>4,402,313</b>	<b>3,478</b>

Some of the BOs that have made payments in greater value based on court decisions and in Article 39.2 of the LPFMA are presented below.

- Ministry of Environment and Planning Spatial Planning, 2,579,567€;
- Ministry of Infrastructure, €473,772;
- Kosovo Judicial Council, €473,039;
- Municipality of Gjakova, €857,229;
- Municipality of Ferizaj, €812,388;
- Municipality of Prizren, €678,802; and
- Municipality of Prishtina, €622,486.

The main causes of payment of direct invoices by Treasury and those by court decisions are:

- Entry into liabilities without commitment of funds;
- Liabilities inherited from past government at the local level;
- Dispute of payments by BOs due to poor quality of work; and
- The negligence and irresponsibility of officials responsible for invoice management.

Failure to pay liabilities in time has led to costly and complicated litigations and additional budget expenditures. In addition, these delays have adverse effects on the reputation of public institutions. Therefore, it is more than necessary that the MoF, together with other relevant institutions and their responsible persons, ensure that invoices of economic operators are recorded and paid in a regular and timely manner.

### 1.4.3 Audit Opinions and Recommendations in Individual AFS:

The NAO carried out a regularity audit of AFS for 92 BOs. The audit findings for each BO are reflected in the AFR/BRK audit opinion.

The following table presents opinions given for 2016 by type and level of governance.

**Table 8. Type and number of opinions for individual AFS**

Auditees	Unmodified Opinion	Unmodified Opinion with Emphasis of Matter	Qualified Opinion	Qualified Opinion with Emphasis of Matter	Adverse Opinion	Total
State Institutions	7	14	2	1		24
Municipalities	1	32		5		38
Independent Inst.	16	12	2			30
<b>Total</b>	<b>24</b>	<b>58</b>	<b>4</b>	<b>6</b>		<b>92</b>

In addition to opinions, adequate recommendations on all audit findings have also been given in individual audit reports. The presentation on recommendations given to auditees contains the following data.

Auditees	Recommendations of high priority	Recommendations of medium priority	Total of recommendations
Central Level Institutions	179	127	306
Local Level Institutions	488	162	650
Independent Institutions	130	99	229
Publicly Owned Enterprises	55	12	67
Performance Audits	62	-	62
<b>Total of recommendations:</b>	<b>914</b>	<b>400</b>	<b>1314</b>

Annex II provides detailed notes on the basis of modification of opinion and the key recommendations to each BO.

Qualified opinion is given to four (4) BOs, while qualified opinion with Emphasis of Matter is given to six (6) BOs. The qualification of the opinion and the emphasis of the matter were given as a result of capital assets, exceeded the limit of 15% as set in the Law on Budget, for advance payments on capital investments, poor classification of expenditures, understatement of receivables, etc.

Opinion on PAK was qualified due to the overstatement of the dedicated revenues at the cash inflow in the Treasury account, whilst for Trust Funds the opinion is qualified due to payments to the Professional Service Provider which are made from the funds held in trust.

## 1.5 Recommendations

### Recommendations for the Government of the Republic of Kosovo:

- The Minister of Finance, in coordination with the Director of Treasury, should ensure that expenditures and projects are budgeted in the adequate economic category;
- The Minister of Finance, in coordination with the Director of Treasury, should ensure that when AFR/BRK is drafted, explanatory notes on capital assets, receivables and consolidation of intergovernmental transactions are complete and accurate. In addition to these, detailed information on the domestic and international debt stock, the debt balance by creditors, financial instruments should be presented;
- The Minister of Finance in coordination with the local government BOs should develop a more efficient process of monitoring and evaluating the trend in relation to the execution of the revenue collection plan, to identify the causes that have affected the non-fulfilment of the plan and undertake appropriate and efficient actions with the aim of meeting the plan;
- The Ministry of Finance should ensure that capital projects' planning is subject to controls over project management in accordance with the initial plans. Controls in project planning and budget execution should be strengthened in order to overcome the identified challenges and achieve the objectives within the deadlines. An adjustment of cash flow with project planning is indispensable to address the low levels of financial performance of capital projects;
- The Ministry of Finance should review existing financial reporting arrangements to enable BOs enhance in terms of quality in financial reporting. In this regard, key actions need to be taken, such as: updating the chart of accounts accompanied by relevant guidelines, updating the accounting manual and financial rules, with particular emphasis on drafting rules for the management of subsidies and receivables. Further on, it should ensure that regular training is carried through with responsible officials involved in financial reporting;
- The Minister of Finance should enhance accountability against Budget Organizations involved in the implementation of borrowing funded projects. The decision on borrowing should not be taken unless the prerequisites are put in place and projects are considered to be well-documented and feasible. This should be done in order to gain opportunities for the development of the country's economy in terms of public investments;
- The Ministry of Finance, in coordination with BOs, should apply a close oversight when it comes to the implementation of agreements on donation given to Budget Organisations to ensure that funds are used within the timeframe and fully in compliance with the agreements reached;
- The Minister of Finance should consider the current mechanisms related to the management of public assets. The interaction between the two current mechanisms (KFMIS and e-assets) is a necessity to ensure that the BO maintains complete records regarding their overall assets; and
- The Treasury/Monitoring Division within MoF needs to exercise stricter monitoring controls in monthly reporting processes of outstanding liabilities. A more critical review of reports on outstanding liabilities is needed and where delays and value of liabilities are material, the issue to senior officials in the accountability chain of the respective organization should be addressed.

## 2 Implementation of recommendations given in the AFS of 2015

The importance of audit reports lies in identifying practical recommendations, the implementation of which enables continuous improvement in overall governance and management of public finances. The current level of implementation of audit recommendations is not satisfactory, especially the fact that high priority recommendations are less implemented compared to the medium priority ones.

The Government prepared an Action Plan for implementing the AAR recommendations. However, it did not report on a quarterly basis in the Assembly on the progress made. While, at the level of individual audits, most Budget Organisations do not implement a systematic process for monitoring the implementation of the recommendations. Setbacks in the full implementation of recommendations lead to the repetition weaknesses and shortcomings in controls and systematic occurrence of irregularities from year to year. The causes that have influenced the low implementation of the recommendations are different and explained hereinafter.

The NAO continuously gives recommendations to audited institutions, the Government and the Assembly to address the various issues identified during audits. These recommendations are a key tool to support effective governance and financial management. Implementation of audit recommendations is one of the indicators on whether the management is improving existing processes and controls.

In addition to providing recommendations, the NAO through individual audits also assesses the implementation of the recommendations given. Consequently, in the AAR, the NAO assesses the level of implementation of the recommendations given<sup>6</sup> and the progress achieved (see Table 1 and 2).

In performance audits, the implementation of the recommendations is measured by carrying out specific assessments also known as the “follow up phase”.

Issues and recommendations for Publicly Owned Enterprises will be addressed in a separate section of this report.

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<sup>6</sup> Annex III - AAR Recommendations 2015

## 2.1 Implementation of recommendations given in the AAR of 2015

In the AAR for 2015, the AG recommended the Assembly to request from the Government to draft a report regarding the recommendations given in the AAR of 2014 and prepare an action plan for the implementation of the recommendations given in the AAR 2015, as well as reports on the progress of this plan on a quarterly basis.

The Assembly of Kosovo in December 2016 adopted recommendations requiring from the Government to:

- Prepare a feedback report on AG's recommendations for AAR 2014;
- Prepare an action plan for the implementation of AAR recommendations for 2015 and report to COPF on quarterly basis regarding the progress achieved; and
- Have all BOs report on the progress of implementing the recommendations on a quarterly basis in MoF and COPF.

In February 2017, the Government of Kosovo prepared an action plan for implementing the 2015 AAR recommendations, but did not produce quarterly reports on the progress of implementation of recommendations.

Based on the information provided during the audit process for the budget statements as well as individual audits, we have noticed that the actions taken by the Government have shown a progress in the implementation of the recommendations compared with the previous years. Out of the total of 39 recommendations<sup>7</sup> given, five (5) have been fully implemented, 21 are in process of implementation and five (5) others have not been addressed yet. For eight (8) recommendations related to performance audits, a follow-up audit of their implementation remains to be carried out in order to make an accurate progress assessment. For a clearer picture, please refer to Annex III of this report.

Failure to fully implement recommendations resulted in the repetition of certain weaknesses and shortcomings. These include: incorrect reporting of expenditures in AFS due to poor classification; Lack of effective approach to governance related to self-assessment and risk management; Weaknesses in procurement procedures; Lack of internal audit services for small independent institutions; and inefficient resource management in municipalities. Therefore, the Assembly and the Government should take the necessary actions for an adequate treatment of the recommendations given.

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<sup>7</sup> 28 recommendations were given to the Government and 11 to the Assembly of Kosovo. Out of these, 8 are given in relation to performance audit.

## 2.2 Implementation of recommendations given in the individual audit reports for 2015 and 2014

The implementation of AG's recommendations given in regularity audit reports is systematically followed up by the NAO. An assessment on how and to what extent they are implemented is conducted in each budget organization during the regular audit and the results for the previous year are presented in the audit reports for the following year.

The following table presents the data on the implementation of 2015 and 2014 recommendations, which are also categorised according to priority.

Audited entities are divided into: Central level Institutions<sup>8</sup>, Independent Institutions<sup>9</sup> and Local Level Institutions (38 Municipalities).

**Table 9. Implementation of AG's recommendations given to BOs for 2015**

Auditees	No of recommendations		Priority	Fully addressed		Partially addressed		Not addressed	
	Total	By priority	H/M	No	%	No	%	No	%
Central level Institutions	338	221	H	52	24	93	42	76	34
		117	M	41	35	33	28	43	37
Independent Institutions	184	109	H	28	26	49	45	32	29
		75	M	24	32	21	28	30	40
Local level Institutions	640	516	H	113	22	192	37	211	41
		124	M	40	32	37	30	47	38
High level recommendations		846	H	193	23	334	39	319	38
Medium level recommendations		316	M	105	33	91	29	120	38
<b>Total recommendations</b>		<b>1162</b>	<b>M+H</b>	<b>298</b>	<b>26</b>	<b>425</b>	<b>37</b>	<b>439</b>	<b>38</b>

<sup>8</sup> 19 Ministries (for 2015 not including MLGA - contracted out audit), Office of the Prime Minister, Tax Administration of Kosovo, Customs and HUCSK

<sup>9</sup> Independent institutions include the Kosovo Assembly, the Office of the President and 28 other institutions

Chart on implementation of recommendations for 2015

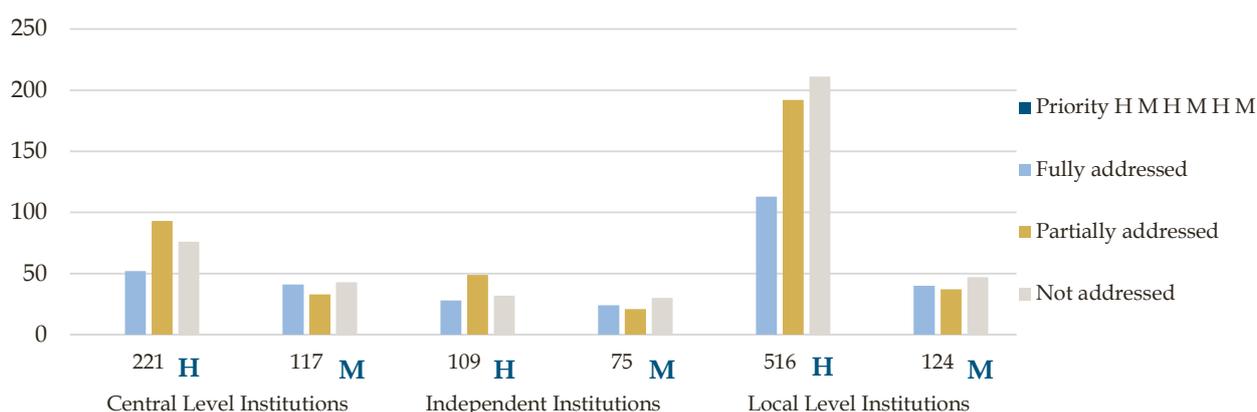


Table 10. Implementation of AG's recommendations given to BOs for 2014

Audited entities	No of recommendations		Priority	Fully implemented		Partially implemented		Not implemented	
	Total	By priority	H/M	No	%	No	%	No	%
Central level Institutions	347	222	H	78	35	77	35	67	30
		125	M	55	44	41	33	29	23
Independent Institutions	200	110	H	43	39	41	37	26	24
		90	M	51	57	16	18	23	26
Local level Institutions	630	489	H	87	18	200	41	202	41
		141	M	42	30	43	30	56	40
High level recommendations		821	H	208	25	318	39	295	36
Medium Level recommendations.		356	M	148	42	100	28	108	30
<b>Total</b>	<b>1177</b>	<b>1177</b>	<b>M+H</b>	<b>356</b>	<b>30</b>	<b>418</b>	<b>36</b>	<b>403</b>	<b>34</b>

As shown in the tables above, the total number of recommendations compared with the previous year (2014) is decreasing. Whereas, according to the institutions, there is an increase in the number of recommendations given to the Municipalities. Regarding the implementation of recommendations compared with 2014, the level of unaddressed recommendations is increasing. In general, medium priority recommendations have a better implementation rate, while the

implementation level of high priority recommendations is at a low percentage. This has led to the repetition of many AG's recommendations this year as well.

The main areas where the recommendations are repeated relate to: disclosure of information in AFS; Governance (self-assessment and risk management), classification of expenditures; Budget execution; procurement, internal audit, receivables, outstanding liabilities, asset management etc.

In order to improve the situation, there is a need for enhanced commitment by responsible persons and regular monitoring of the implementation of recommendations by all BOs.

In general, no formal process of monitoring, evaluation or progress reporting has been implemented. This reflects the lack of focus to ensure that the recommendations are implemented timely and the obstacles for action are identified and addressed.

## 2.3 Implementation of recommendations given in performance audit reports

Monitoring the implementation of recommendations from individual performance audit reports is made through special audits which are also known as "follow-up phases". In this regard, the NAO in the audit season 2016/2017 carried out a follow-up audit on implementing the recommendations regarding the implementation of the contract for the e-procurement system. Out of 13 (thirteen) recommendations given, two (2) recommendations were implemented and initial progress was noticed, nine (9) recommendations are being addressed, whilst for two (2) recommendations no actions are taken to address them. We may therefore conclude that MF and the PPRC have managed to identify the needs for improvement, but no concrete steps for their improvement have been taken.

On the other hand, several reports have been reviewed in the COPF, including the performance audit reports such as: Report on the management of the process of equipping students with textbooks and Report on the management of the program for treatment outside the public health institutions.

## 2.4 Reasons for Low Implementation of Recommendations

The lack of formal processes for proper and systematic monitoring of Action Plans for implementation of recommendations and lack of proper commitment to address them are among the main causes for such unsatisfactory level. Similarly, the lack of effective oversight by the Government and oversight bodies has affected Budget Organisations to avoid full and consistent implementation of financial management guidelines, thus leading to the repetition of recommendations.

In order to increase the level of implementation of the recommendations, additional measures by the Government against the BOs and strengthened accountability measures to the Assembly of Kosovo are needed.

## 2.5 Overall Recommendations

### **We recommend the Assembly of the Republic of Kosovo to:**

- Ask from the Government and Independent Institutions a quarterly progress report on the recommendations given by the AG in AAR 2016, and the recommendations of the Committee on Oversight of Public Finances related to this report (including progress achieved and barriers that may lead to failure to fully implement the recommendations); and
- Ask from the Government and Independent Institutions to consider the reasons why a number of previous year's recommendations have not been implemented and ensure that the action plan prepared after receiving this report will incorporate all the recommendations given and set forth the exact actions, deadlines and responsible persons for the implementation of recommendations and their monitoring.

### **We recommend the Government of the Republic of Kosovo to:**

- Report on a quarterly basis regarding the progress and challenges in the implementation of recommendations given by AG in AAR 2016; and
- Apply an effective monitoring process on the implementation of action plans to implement the AG's recommendations, and request regular reporting from BOs on progress achieved. When competent bodies fail to implement recommendations, adequate administrative measures should be taken according to the legal framework;

### **We recommend the Municipal Assemblies to**

- Oblige the Mayors to report on regular basis to the Municipal Assemblies regarding the progress made and challenges faced in the implementation of recommendations given by the AG in 2016 AAR; and
- Mayors to implement an effective monitoring process on the implementation of actions plan for the implementation of AG recommendations and ask from the internal organisational units to report on regular monthly basis on the progress made.

### 3 Good Governance

State institutions are responsible for establishing and developing a functional internal control system. The Financial Management and Control should be implemented by senior managers of organisations in all structures, programs, operations and processes managed by them, while adhering to legality principles, sound financial management and transparency.

Governance as a very important component of performance assessment of budget organisations has marked a slight progress compared to the prior year. This year we have a better level when it comes to submission of self-assessment checklist. However, from our tests we may conclude that the process and the impact of self-assessment is still insufficient in terms of quality or even actions that need to be taken to address challenges faced by organisations.

The most highlighted challenges that continue being faced by organisations are lack of strategies, poor risk management and inadequate monitoring of set objectives. In addition, another challenge that remains is low level of implementation of internal audit recommendations (around 55%) and poor support of Audit Committees (AC) to Internal Audit Units of budget organisations.

Despite positive developments, a considerable part of BOs (41%) lack strategic plans and the financial costs (36%) of such strategies. In addition, around 59% of BOs do not have effective risk management systems, despite the fact that this is current requirement set by the Government.

The Draft law on Public Internal Financial Control has not been approved yet by the Kosovo Assembly.

Training provided by the Central Harmonization Unit related to self-assessment was more frequent this year, yet seemed to be insufficient as the self-assessment in some organisations was not accurate. Self-assessment has not yet been understood as a process where the organisation identifies shortcomings and seriously addresses the areas for their improvement.

Good Governance intends to contribute towards the increase of accountability, transparency, improvement of public sector performance and in combating corruption. Furthermore, good governance contributes to improvement of management of budget organisations, with a more active response against irregularities and potential misuses.

The government supports the good governance agenda by implementing a framework for promotion of good practices through an overall PIFC strategy that aims achievement of the following objectives:

- Including necessary resources in the managing processes of public finance and in reassessment of appropriateness of existing controls;
- Increasing accountability in implementation of government policies on management of public funds;
- Amending the legal framework in accordance with risk management requirements; and
- Further advancement of the internal audit system in order to increase the accountability for efficient and effective use of public funds.

The key tools available to support individual budget organisations for implementing positive governance arrangements include a self-assessment questionnaire which is returned to the Ministry of Finance by individual BO on an annual basis and the work of the CHU through training related to the increase of knowledge and awareness on FMC and the Internal Audit system.

CHU is responsible for drafting documents and policies for the development and monitoring of FMC and IA, by assisting, monitoring and conducting external assessments that relate to the quality assurance review of internal audit in public sector entities.

CHU has organised seminars for senior managers and internal auditors on the importance of self-assessment process and risk management.

### 3.1 National Audit Office's support to the good governance agenda

NAO has a key role in supporting governance developments. This is addressed through a risk-based work programme (focused on those areas where such work is expected to have maximum impact) and reflects in part key initiatives implemented by Government.

Out of individual audits on good governance have revealed:

- Progress related to the self-assessment process and risk management;
- Better management reporting and increased accountability as well as steps taken to timely respond to identified operational issues; and
- More effective work by the IAU and improved management in terms of level of implementation of internal audit recommendations.

### 3.1.1 The role of self-assessment out of individual audits in the Internal Control System

The FMC is an important tool that helps heads of state institutions promote accountability for achievement of the mission, vision and strategic objectives of the institutions that they lead. A key factor in improvement of accountability is the establishment and implementation of an effective internal control system. Depending on how the environment changes, institutions need to improve operational processes by continuously assessing the internal control system so that it is effective and updated as needed.

The MF/CHU has drafted the Self-Assessment Questionnaire for components of FMC which requires from BOs to evaluate their organisation through 106 questions in five (5) components that address the most important governance areas. This makes it possible to the MF to evaluate overall FMC developments and identify issues on which BOs require further support.

Notwithstanding the awareness on the importance and the impact that the financial management has on country's public finances, out of the audits carried out, NAO continues to encounter issues related to five (5) key components of FMC.

The assessment of the NAO on 91 audited BOs on the six selected questions of the Self-Assessment Questionnaire has resulted as follows:

#### 1) Control Environment

The control environment is the base for management of budgetary funds and the foundation on which rely all other internal control components. To audit this component, we handled the questions: whether the organisations drafted strategies and whether stakeholders and relevant actors were involved in the drafting, and whether the strategies contained costs and measuring indicators.

- Drafting of strategic plans and involvement of stakeholders in their drafting - a major concern remains the large number of organisations that have not yet developed a strategic plan. This situation has not changed from the prior year, as only 56% of budget organisations (or 50 out of 90) have a strategic plan in place. The non-drafting of strategic plans is more apparent in municipalities where 20 out of 38 municipalities do not have the strategic plan. In some cases, the non-involvement of stakeholders in drafting strategies is still a concern; and
- Calculation of the cost of strategies - Despite the decrease from 63% to 36% compared to the prior year, 18 out of 50 BOs that have drafted strategies had not calculated the financial cost and had not established measuring indicators.

## 2) Risk management

Under the FMC requirements, the institution after planning budgetary funds analyses and checks risks that may jeopardise the achievement of objectives. Risk management is a very important component on identification, assessment and monitoring of risks and for application of controls that are necessary to diminish the exposure to risk to an acceptable level.

The audit of this component examined whether the organisations had drafted the risks register and whether they had established adequate mechanisms to undertake specific actions for their management.

From tests conducted in budget organisations has resulted that the risk management component has improved due to the fact that in the prior year around 78% of BOs did not handle the level of risks, whilst this year it decreased by 19%.

In 2016, 54 out of 91 budget organisations around (59%) had not established formal and documented procedures on identification and risk management at the organisation level that would mitigate the exposure to risks associated with achievement of objectives. The setback regarding this matter was more significant in municipalities where only 13% of them had drafted the risks register, and 50% of independent institutions, whilst the situation was better at ministries by 72%.

In terms of concrete actions that have been taken related to risk management, we noticed a concerning situation as only few organisations have seriously considered the risk management. Around 73% of organisations had not taken concrete actions to manage the risk or 66 out of 91.

## 3) Control activities

Activities of control are rules, procedures and actions that aim reduction of risks upon achievement of objectives. For the audit of this component was addressed the question: Do organisations have an approved procurement plan against the availability of approved funds, and whether the same is updated during the year in accordance with the changes of funds available? The audit results are:

- Drafting of procurement plan by BOs - from the audits carried out, we have found that organisations stand well at this point as the final plan is drafted in line with the budget law where organisations can know exactly how much funds will be available and reconcile them with the appropriated budget. In only one case out of 91, the procurement plan was not drafted in full accordance with funds appropriated.
- Updating of the procurement plan either after the budget review or at the time when projects are increased or decreased, was noticed that organisations only notify the Central Procurement Agency but no updating of the plan is done as under the Public Procurement updating of the plan is not required.

#### 4) Information and Communication

In relation to this component, the NAO has handled whether the organisations with their established reporting systems support the decision-making at the right time. In addition, was handled the process of communication and reporting between Departments and Chief Administrative Officer and how he is informed about operational and financial performance of the organisation.

The assessment related to the level of communication and reporting can be considered positive as around 79% (72 out of 91) organisations have effective reporting and communication systems that facilitate management's operational decision-making.

Communication and reporting is done through weekly management meetings or through other forms of electronic communication that arise based on management's requests wherein is provided useful information on decision-making. In addition, reports on budget execution are provided on a weekly and monthly basis but there are also other supporting reports requested by the management.

#### 5) Monitoring

In relation to the latest FMC component, the NAO has handled whether the organisations regularly monitor the progress on achievement of objectives and analyse the causes behind potential failures.

- When it comes to the monitoring of progress on achievement of objectives, based on the obtained evidence, we consider that the situation has not improved from the prior year as 49% or (45/91) do not have an effective monitoring process as to whether the organization's objectives are being met.
- There is no efficient system that does any measuring against strategic objectives and that identifies why objectives were not achieved. Same here, the worst situation is noticed in municipalities and independent institutions.

In the context of expected controls, our review revealed:

- Limited progress in strategic processes that resulted in lack of strategic plans or even in strategic plans with no costs, thus leading to the risk that of no financial support for the approved plans;
- A slight increase of risk management activities but there are still many shortcomings in the content of this important component; and
- Information and communication processes are quite effective, while monitoring activities are not designed yet and do not operate as required so that they assess the progress towards achievement of strategic objectives. This makes it impossible to the management to respond to obstacles that hinder achievement of organization's objectives.

Our analysis shows that the purpose of self-assessment, despite the progress made, has not been sufficiently understood, as actions taken by organisations to address shortcomings identified by the prior year self-assessment is limited. This year, a greater attention was paid to completion of questionnaires, where many organisations have held internal meetings for their completion. In addition, the CHU has also provided training sessions on self-assessment that relate to the fulfilment of the questionnaire's requirements.

### 3.1.2 Internal Audit System

The IAU is an important function in the BO, which assures the senior management that internal control mechanisms are designed and function properly. In addition, the IAU has a significant role in increasing the level of services provided to users, and citizens of Kosovo.

The IAU is supported by the Audit Committee (AC), which is an advisory body to the senior management of BOs, which ensures independence of the IA and ensures that recommendations given by the IA have been received and implemented by the auditees.

One of the objectives of the Public Internal Financial Control Strategy (PIFCS) 2015-2019 is also the internal audit function. For achievement of this objective was requested advancement of the IA through implementation of professional development program, implementation of quality assurance for compliance, and updating of the legal framework. Therefore, the importance and sensitivity of the IA profession in assessment of the functioning of the internal control system and in issuance of recommendations obligates the IA to have the appropriate professional level.

During 2016, MoF approved the AI No. 04/2016 on the National Program for Training and Certification of Internal Auditors in the Public Sector, which was accredited by the National Qualifications Authority. The whole process has influenced the increase of certified internal auditors by 46% compared to the prior year (in 2015 there were 67 certified auditors, whilst in 2016 there were 98 ones).

Furthermore, the CHU coordinates the entire internal audit process, and among other things, in 2016 has carried out monitoring of five (5) IAUs<sup>10</sup> while in cooperation with European Commission experts has prepared as a template "the Book for description of processes" for three BOs wherein were identified risks in the area of PIFC, and was provided an analysis for their management.

<sup>10</sup> The annual report on functioning of the PIFCSP 2016 - Ministry of Environment and Spatial Planning, Ministry of Communities and Return, Ministry of Public Administration, Ministry of Local Government Administration and University of Prishtina

Our focus on the internal audit for 2016 included a joint assessment on several key areas such as:

- The AI no. 23/2009, in addition to the criteria for establishment of the IAU also determines the necessary number of IAs based on the size of BOs. Individual audits have identified that just four (4) municipalities<sup>11</sup> had not established the IAU out of nine ones that were in the previous year, which is a progress in this regard. Moreover, six (6)<sup>12</sup> BOs did not have enough staff in the IAU, whilst all these Units with the exception of three (3)<sup>13</sup> ones had prepared plans based on risk assessment and priorities of the BO;
- The focus of IA activity in the current year was at 71% of the activities. We have also looked into actions taken by the senior management of BOs in implementation of recommendations issued in these reports and identified that only 55% of them were implemented, which represents a slight increase compared to the prior year; and
- We have noticed that 11 organisations had not established the AC. Out of them eight (8) municipalities<sup>14</sup> and three (3) independent agencies<sup>15</sup>. Furthermore, 41% of these Committees were effective and had supported the IAU work, whilst 24% of the AC provided limited contribution.

The audits continue being oriented towards compliance and less focused on systematic changes and improvements.

Despite the prior year improvements, the internal control system is not at the satisfactory level yet, so that IA acts as consultants and as mechanism to prevent errors and shortcomings.

## 3.2 New developments in the reform of public administration

The public service reform has a special impact on creation of an effective public administration and good governance. MPA is making constant efforts to implement in practice the strategy 2015-2020 for modernisation of public administration.

A well-managed public service system helps state institutions reach a higher degree of professionalism and quality of public services provided to citizens and businesses. Some of the developments in this area are:

- Approval of the Law on General Administrative Procedures;
- Government's approval of the Draft Law on Salaries, which presents a new basic concept for implementation of the reform in the area of salaries and other remunerations to employees that benefit salaries from the Kosovo budget;
- Drafting of the job catalogue in the civil service;

<sup>11</sup> Municipality of Leposavic, Zubin Potok, Mitrovica North and Mamusha

<sup>12</sup> MEST, KHUCS, UP, Kacanik, Skenderaj and Peja.

<sup>13</sup> Prishtina, Gjakova and ANSAK.

<sup>14</sup> Municipality of Junik, Prishtina, Novoberda, Ranillug, Gjakova, Rahovec and Obilic

<sup>15</sup> Ombudsperson, ANSAK and Kosovo Property Comparison and Verification Agency

- Further advancement of the Human Resources Management Information System, and relation of this system with some other ones;
- Finalisation of the E-box project, which is expected to measure satisfaction of citizens for services provided by institutions; and
- In the processes of recording and reporting of non-governmental organisations has finished the Electronic System for Non-Governmental Organizations (ESNGO), which has started being applied as of January 2017.

The reform in public administration has continued and necessary preparations have been made to adopt the documents for the Law on Civil Service, the Law on Salaries and the Law on Organisation of State Administration. In addition, during 2016 the bases for rationalisation of all Agencies, both those under the responsibility of the Government of the Republic of Kosovo and those under responsibility of the Parliament, and other independent agencies were established.

Regardless of significant progress towards completion and amendment of the legal framework, implementation setbacks are evident. Despite the approval, the catalogue and the new payroll system have not yet been implemented in practice. These developments would enable a more efficient organisation of the state administration, levelling of salaries for the same engagement responsibilities at any level of public service (same payment for the same work), standardisation of titles and clear descriptions of jobs, and transfer of officials between institutions where appropriate.

In addition, our individual audits of BOs show weaknesses in implementation of requirements and legal procedures in personnel management and remunerations. This is particularly emphasised in personnel recruitment, managerial positions held with acting staff beyond the legal timeframe and engagement of staff on Special Services Agreements without applying procedures.

### 3.3 Other issues related to the legal collisions

The Ministry of Education, Science and Technology (MEST) based on the Law No. 04/L-032 on Pre-University Education in the Republic of Kosovo, has issued the Administrative Instruction No. 13/2016 on Supplying Pupils with School Textbooks, their Use and Preservation, which contradicts with the respective Law.

The Instruction obligates students/parents to preserve and return textbooks at the end of the school year, while the law stipulates for textbooks to be given for free, which makes a contradiction in the law itself as it specified the textbooks are given for free in one hand and obliges MEST to issue a specific Instruction on their distribution and preservation on the other.

Furthermore, there are still uncertainties between the Ministry of Education and the Ministry of Finance when it comes to which budget code the project "Purchasing and supplying of textbooks for students of level I and II of pre-university education" should be recorded.

## 3.4 Recommendations

### **We recommend the Government to ensure that:**

- Managements of budget organisations pay special attention to the strategies' drafting processes, where stakeholders should be involved, so that strategies contain the financial cost and the measuring indicators, and then monitors them in order to meet objectives established;
- Managements of budget organisations that have not yet addressed risk management at the appropriate level should ensure that concrete actions are taken to fully address this component through identification, analysis, assessment and risk management;
- Managements of budget organisations should undertake additional oversight measures over the activities to ensure that established objectives are achieved;
- Managements of budget organisations that have not established the IAU should establish this Unit, through which would be ensured efficient and effective functioning of the internal control system;
- Managements of budget organisations that have not established the AC should establish these committees, in order to support achievement of IAU objectives and to keep relevant staff accountable; and
- Management of MEST initiates revision of the Law no. 04/L-032 on Pre-university Education in the Republic of Kosovo in order to avoid uncertainties related to the supply and management of textbooks. In addition, in coordination with the MF, actions should be taken to ensure that the project for supplying textbooks is classified in appropriate budget codes and reported as expenditures in full compliance with requirements of the International Public Sector Accounting Standards.

### **We recommend the Assembly of Kosovo to ensure that:**

- Government of Kosovo monitors implementation of objectives established in the Strategy for Internal Control of Public Finances; and
- Through COPF obligates all BOs to report on the process of implementation of recommendations issued in the individual audit reports by NAO.

## 4 Procurement

Development of the public procurement system during 2016 has made a slight progress despite the fact that the e-procurement platform is not fully operational. According to the Government's decision, E-procurement should have been put into use by central government organisations as of 01.09.2016. However, up to now it has been applied only by 16% of Ministries and 36% of Independent Institutions. The AG has given 13 recommendations<sup>16</sup> regarding the functionalization of E-procurement system, but only two have been implemented (by the MF and Public Procurement Regulatory Commission).

Our individual regularity reports highlight weaknesses starting from planning of procurement, development of procurement procedures, up to the management of contracts. Such conclusion has resulted in the performance report on Management of Procurement Process for Road Maintenance, which highlighted shortcomings almost throughout the entire procurement process, it was even concluded in some cases that the value for money was not achieved. While the shortcomings identified risk achievement of the value for money spent through the procurement processes.

In 2016 public institutions have signed 10,015 contracts through procurement that amounted to around 425 million euros<sup>17</sup> or about 1/4 of the Kosovo Budget. Therefore, the effective procurement process plays an important role in the development of the local economy although the electronic platform on public procurement has started to develop as of December 2014, it is not yet fully functional.

### 4.1 Role of organisations responsible for public procurement

Organisations responsible for functioning of public procurement are: Public Procurement Regulatory Commission (PPRC), Procurement Review Body (PRB) and Central Procurement Agency (CPA). Furthermore, each organisation has its own role and responsibility on development of effective procurement processes.

**PPRC** is responsible for the overall development, functioning and oversight of the public procurement system in Kosovo and the electronic one (e-procurement).

The main goals of the e-procurement platform are: increase of decision-making abilities of procurement officials, improvement of financial planning and budgeting, improvement of transparency, efficiency in the entire procurement process, promotion/encouragement of participation and promotion of competition among suppliers, maximisation of value for money in government procurement and impact on the economy, as well as increase of citizens' and business' confidence in the government procurement process when using public funds.

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<sup>16</sup> In the performance audit "Implementation of the contract for electronic procurement system"

<sup>17</sup> This amount does not include the contract for motorway Pristina-Hani i Elezit, which for 2016 had the value of approximately 126 million Euros.

The Government of Kosovo has decided that the e-procurement platform will function in all central-level contracting authorities as of September 2016, for large and medium-sized procurements. As of January 2017, this platform has become obligatory also for centralised procurements, local-level budget organisations and public enterprises.

However, during 2016 the e-procurement was used at a low level or around 16% of the Ministries. 26% of ministries have used it on several occasions, and 58% have not applied this platform at all<sup>18</sup>.

A better situation is in Independent Institutions as around 36% of them have developed procurement procedures electronically.

**PRB** is an independent agency and is responsible for implementation of procedures and review of procurement complaints. During 2016, PRB has received 481 complaints related to procedural irregularities, for public-private partnerships and auctions. Compared to the previous year, there is decrease of 19% in the number of complaints. Out of the total number of complaints, 158 were approved as grounded, 198 cases were returned for reevaluation, on 44 cases was decided retendering, 27 were rejected as incomplete, 30 were withdrawn by the complaining EO and the rest were considered not falling under the competence of the PRB.

Even in 2016, the most frequent violations by Contracting Authorities relate to: favouring Operators, equality treatment/non-discrimination, tools for promotion of transparency, tender dossier, technical specifications, examination, evaluation and comparison of tenders, and criteria for award of contract.

These complaints were addressed to 75 different institutions: central institutions, local government Institutions, independent institutions, public enterprises or other Institutions. PRB during 2016 had imposed two fines by €25,000 for non-adherence if its decisions; one for Kosovo Telecom and one to Kosovo Hospital and University Clinical Service (KHUCS).

**CPA** - is an independent executive agency within the MoF whose competencies are to: conduct specific procurement activities on behalf of contracting authorities (after a decision of the Minister of Finance), conduct centralised procurements for items that are jointly used, (as proposed by the MoF and approved by the Government), conduct procurements as requested by contracting authorities, and assist contracting authorities during the implementation of procurement activities, after the request of the latter.

During 2016, CPA carried out 12 centralised procurement activities, unlike in 2015, where only four procedures had been conducted. The total value of these contracts is around 14% lower than their estimated value. In addition, CPA has developed procedures for 16 Independent Agencies and other procedures based on the request of the MoF or contracting authorities.

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<sup>18</sup> MLGA is not included in this analysis, because the audit was outsourced.

## 4.2 Performance audits for public procurement

During the last year were conducted two (2) performance audits for public procurement: Management of procurement process for road maintenance and follow-up audit - implementation of the contract for electronic procurement system.

The Report on Management of the procurement process for road maintenance includes road maintenance from the Ministry of Infrastructure and the Municipality of Prishtina. The audit has identified weaknesses almost in the entire procurement process for road maintenance; from planning, tendering process and during oversight of road maintenance contracts. Detailed information are provided under Section 5 - Performance Audits

The Report on Follow-up Audit of the Implementation of the Contract for Electronic Procurement System aimed at assessing the level that the Ministry of Finance and the PPRC have managed to implement recommendations given in the published report "Implementation of the contract for electronic procurement system" published in July 2016. The audit has identified setbacks in the implementation of public procurement platform and more detailed information is provided under Section 2 - Implementation of recommendations

### 4.3 Key regularity issues in the area of procurement

Individual audit reports for 2016 have shown that the procurement process is accompanied with shortcomings at all stages, starting from planning, and development of procedures and particularly, management of contracts. Many issues identified this year are shortcomings that are repeated from year to year, whether in individual reports or in the annual audit report.

The following table presents key issues that have been encountered in central or local level institutions.

Issue	Cause	Impact	Required action by the Management
Poor procurement planning and activities outside the procurement plan without notifying the CPA.	Poor procurement planning	Failure to fulfil all legal requirements can lead to late implementation of projects, or failure to implement them.	A more detailed analysis of needs has to be carried out before finalising the procurement plan, so that procurements outside the plan are reduced to a reasonable level.
Failure by the EO to meet technical and professional requirements and rewarding highest price bids.	Weaknesses in the tender evaluation processes by the evaluation committees.	This prevents achievement of BOs objectives and may hinder daily activities of the requesting units, with the possibility of additional budget costs.	Through the procurement manager should be ensured that the evaluation process is in full accordance with criteria established and equal treatment of Operators.
Declarations Under Oath were not signed by the winners of tenders.	Failure of controls by the evaluation committees.	Due to improper implementation of rules and guidelines on public procurement can result in selection of irresponsive EOs and poor value for money.	Officials responsible for procurement should strictly implement legal requirements of the LPP, and evaluation committees should not consider incomplete files.
Shortcomings in procurement procedures, as requirements of the LPP were not fulfilled.	Weaknesses have occurred due to deviation from procurement procedures and operational guidelines by competent officials.	Potential favours or discriminations against EOs and poor value for money and/or failure to obtain certain services.	Clear accountability processes should be applied through oversight and review. In cases when procedures or guidelines are not applied, justifications and approvals should be done formally.

Payments for out of time delivery provided for the contract.	Due to negligence to develop procurement procedures on time, payments were made even after the expiration of the contracts.	Payments for supplies in the absence of a valid contract are in contravention of the rules on public money management and may harm the budget.	Make a rigorous review to ensure that all supplies are made in full compliance with legal rules and procedures and any payment is based on a valid contract.
Failure to assign contract managers, lack of plans for management of contracts, and poor management of contracts.	Lack of responsibility and insufficient controls from the highest levels of management.	Shortcomings in the contract management process reduce the assurance that contracts are implemented in accordance with foreseen conditions and specifications.	The respective management should ensure consistent and effective adherence to procurement rules. A systematic monitoring of contracts' execution would increase the assurance of their implementation in accordance with contract conditions.
Supply delays by EOs and failure to apply fines for delays.	Delays by Economic Operators are because supplies are purchased without a purchase order.	Due to the failure to deliver supplies in time can result in non-achievement of objectives by the BO, and potential impact on the progress of operations.	Budget spenders should conduct a review of the process and take necessary measures for better management of supplies, and apply penalties in case of delays.
Delays in implementation of capital projects.	Lack of effective monitoring and implementation of contracts and failure to reconcile requests with funds available.	Delays in gaining benefits from project and budget charges of the following years.	Continuous management of cash requests, against payments' schedule, and application of penalties for every delay.
Carrying out payments before completion of works, and non-completion of works due to expiration of contract.	Monitoring shortcomings over the implementation of contracts and completion of works, in terms of time and the impact of other conditions.	Carrying out payments without receiving works and not ensuring that works are completed within the deadline specified in the contract pose a risk as works may not be completed and projects not finished.	Internal controls should be enhanced to ensure that are taken necessary actions which ensure that works are completed within the contract deadline and that no payments are executed before works are completed.

## 4.4 Recommendations

### We recommend the Government to ensure that:

- The reasons behind insufficient application of electronic procurement are identified;
- Electronic procurement platform is fully implemented in all institutions, whether of central, local or public level; and
- Recommendations given by performance audits “Management of procurement process for road maintenance” and “Follow up audit - Implementation of the contract for electronic procurement system” are implemented.

### We recommend the Assembly to ensure that:

- It exert its impact over the Government to ensure that our recommendations for current and prior year are fully addressed by establishing effective controls over the development of procurement procedures, and by ensuring the value for money; and
- PPRC timely monitors the implementation of electronic procurement by ensuring greater transparency, efficiency in the procurement process, promote and encourage competition and increase confidence in the use of public money.

## 5 Performance Audits

Effective strategic and operational management underpinned by an adequate legal structure and effective monitoring processes is vital to optimised benefits from public services.

Despite the efforts, documented during the auditing process by the institutions, to establish structured processes and procedures by putting in place monitoring and implementation mechanisms, there is still a lack of consistency between strategic plans and capacities for their effective implementation.

Weaknesses identified in the audit areas in 2016 are the following:

- Citizens do not receive quality medical services from public health institutions. In addition the treatment program for outpatients outside the PHIs is not well administered;
- Insufficient attention is paid to environment protection measures, institutions do not even provide quality and complete information on the environment situation;
- The review of textbooks, as an indispensable process, has not achieved the intended purposes for raising the quality of education, improvements have been small and the review added the costs without getting the benefits;
- Weakness were identified in the road maintenance process, the intended results were partially achieved and in some cases value for money was not reached;
- Responsible authorities still have difficulties to effectively manage the planning of construction contracts;
- Government investments in public enterprises have not contributed to the extent necessary to increase the quality of public services whilst investment monitoring has been lacking proper; and
- The development fund has not been fully managed in accordance with the applicable legislation and there was a low budgetary execution of project negatively impacting the achievement of the intended goals for economic and social development

The NAO has carried out performance audits aimed at assessing how public money has been used, and what are the results achieved. The applied approach reflects the framework incorporated in the INTOSAI standards, based on 3 Es:

- **Economy**, reducing the cost of resources used for an activity, with a regard for maintaining quality;
- **Efficiency**, the relation between outputs in terms of goods, services, outcomes and resources used to produce them; and
- **Effectiveness**, the extent objectives have been achieved to and the relation between the intended and actual impact of an activity.

This chapter presents a summary of seven (7) performance audits<sup>19</sup>. Of these, 2 (two) are related to projects (5.7 and 5.8). These topics have been selected for review as a result of a broad planning process that includes discussions with a number of stakeholders and are considered important areas for the country and for the general public.

## 5.1 Treatment of Patients Outside Public Health Institutions

The citizens of the Republic of Kosovo enjoy the right to receive equal medical treatment, the right of free choice for medical treatment and the right to complaint. Healthcare services are provided by public-private and private Public Health Institutions (PHIs). But PHIs have not managed to provide medical services for all the citizens in need. In 2015, there were submitted 1,859 applications for treatment outside public health institutions or even abroad.

In regard to these needs, the Ministry of Health established the Program for Treatment of Patients outside PHIs, inland or abroad. The Assembly of Kosovo has, in the Law on 2015 Budget, allocated €7.8 million for this Program. However, not all cases benefit from this fund. Out of 1,859 applications for treatment outside the PHIs, 1,347 were considered during 2015 whilst 512 were not reviewed at all. Of the considered cases 1,212 have been approved.

Program administration<sup>20</sup> in the procedural and financial aspect has been a challenge for MH. This is highlighted in the Financial Audit Reports of the NAO and in the Kosovo Progress Report for 2015.

**Audit message**, MH has not provided for a secured database which ensures that applications are considered according to the order and priority of the disease. The Executive Board has not provided clear explanations for the reasons of the rejected cases. Also, there is no defined way to monitor the cost of financial means for patient treatment and as a consequence for 2015 these costs have not been monitored at all.

<sup>19</sup> Complete individual audit reports may be found at <http://www.zka-rks.org/publications>

<sup>20</sup> The program foresees the procedures as follows: the application for treatment is followed by the drafting of the report by Consular Commission (UCCK) submitted to the MO for evaluation and approval / refusal by the Executive Board. Board decisions for values up to €30,000 are approved by the Secretary General and Minister of Health, whilst values over €30,000 lie under the competence of the Government.

The request made for two (2) consecutive years for the urgent installation of a computer program/system, which provides correct administration of applications, was ignored by the Management of MH, indicating the lack of remedial actions.

In conclusion, the citizens of Kosovo are not provided with quality medical services by the PHIs and MHs. Furthermore, the Program for Treatment of Patients outside the PHIs is not well managed, which contributes negatively to this situation.

## 5.2 National Measures for Environment Protection

Creation of a safe environment for living and its protection are crucial issues for the health of citizens and economic development of the country. Environmental programs in Kosovo are identified as Government programs whilst the Ministry of Environment and Spatial Planning (MESP) has a key role in their implementation.

The 2016 Progress Report for Kosovo highlights environmental issues in Kosovo, such as environmental degradation and environmental quality are far from the EU environment standards. The Ministry has also identified the so-called 'hot spots' as hazardous areas (air, water and soil pollutants). The development of industry, technology and increased number of vehicles make the environmental issue even more serious.

**Audit Message:** - environmental legislation has almost been consolidated but no attention has been paid to environmental protection measures. The objectives set out in the National Environment Action Plan are not sustainable as resources to implement them are limited. Therefore, the actual handling of environmental challenges is far from the aimed objectives.

Low priority is given to oversight on the most environment pollutants, whilst instruments related to the "pollutant pays" principle and the economic incentive to invest in clean technology are missing.

Effective information system on environmental issues and their impact on the citizens' health which has not yet been provided is another challenge. Internal mechanisms for implementation, monitoring, and coordination of environmental projects have not been operationalized.

Indications show that capabilities and capacities that Kosovo currently has to address environmental challenges are limited and a systematic institutional approach to these issues is needed. The Government and the Assembly of Kosovo are not involved in the efforts of MESP to include environmental issues in the agenda. Therefore, citizens are still not provided with adequate living environment and information on the situation and the impact of the environment we live in is lacking.

### 5.3 Textbooks Review Process

A good quality education is the only way to increase opportunities for students to pursue further education and achieve better employment. The Ministry of Education, Science and Technology holds the main responsibility for planning, standard setting and ensuring good quality pre-university education system. The quality in education is a complex issue and relates to the quality of curricula and textbooks. Various sources highlight that the content of elementary textbooks have technical and pedagogical errors. The weight of schoolbags and high costs to equip students with textbooks are some other concerns.

In 2015, MEST initiated the textbooks review process with the aim to improve them by engaging the Council of Experts for Programs and Textbooks.

**Audit Message:** - The review process has not achieved the intended goals given that it has generally resulted in just technical improvement of textbooks. The objective regarding the reduction of the schoolbag weight as not addressed at all, whilst the decision to publish all the textbooks from grades 1-9, including those not subject to review, has led to enormous expenditures rather than savings as initially intended.

The initiative to review textbooks was indispensable. However, the Council of Experts for Programs and Textbooks has failed to achieve three set objectives: improvement of mistakes in textbooks, reduction of pupils' schoolbags weight, and budget savings for publishing. As a result, MEST has failed to provide preconditions for quality education in the country.

### 5.4 Roads Maintenance Procurement Process

Roads are an important asset in economic and social aspect and they should be maintained to ensure normal movement of citizens. During 2013-2015, budget organizations have spent over 31 million Euros on road maintenance. Ministry of Infrastructure and the Municipality of Prishtina are the largest spenders (Mi-29% and MP-10%). Roads maintenance is made through annex contracts. This is an area where inefficient management has been identified and related findings are presented in the financial audit reports. Shortcomings in this area have also been highlighted by the media and non-governmental organisations.

**Audit Message:** - Weaknesses have been identified in almost the whole road maintenance procurement process; from planning, tendering process all the way to contract management.

The procurement process has resulted in delays, contracts not awarded in compliance with the Law on Public Procurement, low competitiveness as well as irregular and incomplete reporting on executed works and additional works.

In the technical specifications of road contracts, the Ministry of Infrastructure did not specify the width of roads whilst the Municipality did not specify the length of the roads. This has led to uncertainties, and differences in prices per kilometre of road/maintenance between the Municipality and the Ministry were huge. Moreover, the merger of summer and winter

maintenance in one tender resulted in high qualification criteria, thus leading to reduced competition.

Activities undertaken by the Ministry of Infrastructure and Municipality of Prishtina for road maintenance have partially achieved the intended results and the value for money was not reached.

## 5.5 Planning for Construction Contracts

The aim of the Government is to improve the standard of living of its citizens. One way of doing this is by investing in infrastructure such as schools, cultural and sports centres etc. To this end, public authorities have invested considerable funds in the construction of facilities, which are managed by the respective Ministries. The Ministry of Public Administration and the Ministry of Culture Youth and Sports alone have spent 58 million Euros on the construction of such facilities in the last four years (2013-2016)<sup>21</sup>. However, the intended purpose was not always achieved and citizens have expressed their discontent with the authorities involved in the implementation of construction contracts. This was presented in the published reports and media<sup>22</sup>.

**Audit Message:** - In most of the examined projects we have found shortcomings concerning the planning stage, definition of needs from the users of facilities and examination of physical conditions of construction sites. We have also found shortcomings concerning funding and securing whether the technical specification fully correspond with reality. As a result, construction projects have led to costs overrun and more time allocated to finish the projects.

The current project management problem causes cost implications for society and the state budget. Poor planning by the requesting units, project cost overruns, delays in contract execution, and insufficient oversight lead to failure to achieve the intended purposes.

## 5.6 Capital Investments within Publicly Owned Enterprises

In Kosovo, public utilities such as energy, telecom, railway transport, water supply, sewerage and waste are managed by Publicly Owned Enterprises (POEs). To improve the quality of public services, the Government of Kosovo, through the Ministry of Economic Development (MED) allocates a budget for capital investments in POEs each year. The quality of public services needs to be improved whilst financial audit reports and monitoring reports from the Ministry indicate that there are problems in the process of managing the Government funds.

**Audit Message:** - MED has not draft a supporting document based on the National Development Strategy, setting forth the priorities for building infrastructure in the POEs. There are no guidelines and standard procedures for oversight and monitoring of POEs and there is no unified reporting system. Importance is not given to the budget allocated to POEs and in some cases the Government

<sup>21</sup> A total of 41 projects were implemented during this period: 13 by MCYS and 28 by MPA. We audited 11 projects.

<sup>22</sup> <http://m.gazetaexpress.com/lajme/klina-me-ne-fund-e-ndertoi-palestren-sportive-u-deshten-12-vjet-te-plota-205146/?archive=1>  
<http://www.kosova-sot.info/sport/139368/vonesat-pergjegjese-e-institucioneve-tona/>

has, following the budget review, reduced the budget despite the fact that POEs had already signed contracts with economic operators.

POEs have delayed the operationalization of projects funded by the Ministry, adequate coordination with the local level was lacking, whilst in three POEs the budget was not managed according to the Ministry's requirements.

The funds allocated to POEs for quality public services have not achieved the desired impact. In some cases, projects funded by the Kosovo Government have not been functionalized or used for the intended purpose. Control and monitoring mechanisms are ineffective and adequate funds management is lacking.

## 5.7 Development Fund

The Development Fund (the Fund) was established under the agreement of the European Union and the Government of the Republic of Kosovo in 2013 in Brussels. This fund was created by customs revenues at the two (2) border crossing points in the north of the Republic of Kosovo and aims at promoting social economic development in the municipalities: Mitrovica e Veriut, Zvečan, Zubin Potok and Leposaviç. Ever since the establishment of the Fund, written and electronic media have continuously raised concerns about its establishment and management. The Fund is managed by a Management Board consisting of the Minister of Finance, the EU Special Representative as well as a community representative from one of the beneficiary municipalities.

**Audit Message:** - the management board has been delayed in reviewing and approving the projects. As a result, municipalities have signed several contracts without prior approval by the Board. Benefiting municipalities have not reported to the MB on the progress of projects as required in the Terms of Reference (ToR).

MF and Municipalities have failed to properly classify projects in the budget. Financial means for the Fund are allocated only in the economic category of Capital Investments, whilst some projects relate to Goods and Services or Subsidies. In addition, approved projects were not included in the Law on 2016 Budget; whilst for the current year they are partially included (7 projects out of 21 are included in the annual budget).

Kosovo Customs have installed an operational revenue collection system at the two border crossing points Jarinjë and Bërnjak.

Municipalities benefiting from the Fund have partially carried out their activities in accordance with the legislation in force. They have not shown to be effective in the budget and projects execution. By September 2016, only 2 out of 21 projects were implemented or 14% of the budget. This has a negative impact on the achievement of the goal for economic and social development.

## 5.8 Recommendations

### We recommend the Assembly of Kosovo to:

- Oblige the Government to develop a strategy in order to ensure that the BOs performance is maximised by increasing the quality of services to citizens and cost effectiveness.
- Oblige the Government to discharge its mandate and provide qualitative medical treatment to the citizens, a safe living environment, qualitative education and qualitative public services through a better performance of POEs;
- Oblige public authorities to provide effective management of the construction contracts' planning process when it comes to investments in infrastructure such as schools, culture and sports and health facilities; and
- Oblige the Government and municipalities to provide an adequate and effective management of the Development Fund in order to achieve the intended results.

### We recommend the Government and Municipalities to:

- MH should put in place a software application to register, manage and process the data of applicants for treatment outside PHIs. The patients recovery should be followed up and the flow of expenditures should be managed/monitored properly;
- Review the measures set out in the National Environment Action Plan based on a realistic analysis and priorities by setting achievable objectives and sustainable funding. An integrated environmental information system should be set up. Ensure that coordination of actions with the Government and Assembly of Kosovo intensifies the joint efforts for environmental concerns in various policies and economic sectors;
- MEST should provide for a qualitative review of textbooks. The work of reviewers and members of the Council for Programs and Textbooks should be continuously monitored for the progress made in achieving the targeted objectives. The Council of Experts for the Review of Textbooks should set out clear criteria as a basis for review and textbooks should be republished following the changes/improvements.
- Ministry of Infrastructure and the Municipality of Prishtina should initiate procurement procedures earlier and consider dividing the summer and winter maintenance of roads in order to reduce the value of contracts. The monitoring level should be increased and expenditures incurred for road maintenance should be recorded in a database which would serve to future planning;
- Ministries to draft the strategies where their future public investments are based upon and define the investments criteria from the early stage of planning of investment projects/contracts as well as the flow of information from the requesting units to the Ministry. Ministries and the requesting units should from the early stage (initiation of projects) clear the roles, responsibilities and needed resources for each project. The Ministries should also exercise control over their projects in order to achieve the intended results;

- MED and POEs as key authorities for delivering effective and efficient public services to citizens of the Republic of Kosovo should implement good practices and be sufficiently coordinated to manage capital investments in the public services area; and
- The Management Board of the Development Fund should ensure a timely evaluation of projects as well as adequate management and implementation of projects within the deadlines set by the Ministry and respective Municipality. The applicable legislation should be fully implemented and all projects approved by the Board should be included in the Law on Budget.

## 6 Publicly Owned Enterprises

In 2016, NAO carried out the audit of the AFS of four (4) Publicly Owned Enterprises (POEs). Given the importance of managing with public funds and enhanced public interest for Publicly Owned Enterprises, the NAO, in addition to increasing its capacities, will also increase the number of POE audits. With this, the NAO intends to enhance transparency on how public funds are managed and hold into account those charged with governance within Publicly Owned Enterprises.

The audit of 2016 AFS highlighted that the financial management and control system within POEs needs significant improvements. The fact that we have given modified opinions to four POEs indicates the inadequate quality of financial systems within POEs. The financial data reported in the Financial Statements contained material errors. This weakens the quality of financial reporting and transparency on the management of public funds.

Furthermore, a good governance mechanism within the POEs is not yet in place which would contribute to the implementation of effective policies ensuring that the objectives are being met economically and efficiently. Lack of strategic plans, managerial accountability and ineffective internal audits indicate the necessity of revising existing arrangements.

Existing budget planning processes are not adequate. They have not taken into account the causes that may occur during the year that put POEs to risk when it comes to achieving objectives and increase the impossibility of covering expenditures. POEs continue to operate with financial losses and continued need for subsidies from the Kosovo Budget or donors point to fragile financial systems. Financial non-stability prevented capital capacity building to ensure the provision of quality services to citizens.

In order to improve the current way of managing with POEs, we have provided a number of recommendations presented within the individual audit reports and addressed to those charged with governance of POEs.

## 6.1 Budget Management within POEs

The NAO carried out the audit of AFS for 2016 for four Publicly Owned Enterprises, two of central and two of local level. Below, we presented the income generated, the expenditures, the financial outcome as well as short and long term liabilities.

**Table 11: Financial Outcomes and Liabilities of audited POEs**

No.	Audited Enterprises	Incomes 2016	Expenditures 2016	Financial Outcome 2016	Short-term liabilities on 31.12.2016	Long-term liabilities on 31.12.2016
1	Kosovo Railways Trainkos JSC	3,151,291	(4,338,002)	(1,186,711)	4,196,300	859,398
2	Kosovo Landfill Management Company	1,851,415	(2,175,193)	(323,778)	690,750	158,582
3	Regional Waste Company Pastertia JSC	1,577,603	(1,629,260)	(51,656)	754,488	0
4	District Heating of Gjakova JSC	1,047,819	(1,098,384)	(50,565)	699,613	921,506

Controls on the overall budget management with the POE were not adequate. Own source revenues as one of the main sources of funding were not fully collected. Consequently, receivables increase from year-to-year. This is due to the ineffective policies implemented by the management and the lack of a debt collection strategy. The fact that POEs at end of 2016 have outstanding liabilities burdening the coming budget reflects the financial challenges in POEs. Financial non-stability prevented capital capacity building to ensure the provision of quality services to citizens.

POEs continue to operate with financial losses and the continued need for subsidies from the Kosovo Budget and donors increase the risk for financial stability. Moreover, the current way of managing human resources within the POEs does not provide a well-planned and managed system in terms of increasing the quality of public service to citizens.

### Recommendation

The shareholder should increase accountability of the Board Chairpersons to ensure that budget performance is improved. Systematic monitoring of POEs by Shareholders is indispensable for timely identification of barriers and taking measures for improvement.

## 6.2 Audit Opinions

The table below provides an overview of opinions given for the AFS of 2016.

**Table 12: Opinions given for audited POEs**

No	Audited Enterprises	Audit Opinions
1	Kosovo Railways Trainkos JSC	Adverse Opinion
2	Kosovo Landfill Management Company	Qualified opinion
3	Regional Waste Management Company Pastertia JSC	Adverse Opinion
4	District Heating of Gjakova JSC	Qualified opinion

Confirmed irregularities considering the audits carried out for 2016, due to which abovementioned opinions were given, relate to as follows:

**Kosovo Railways Trainkos JSC** - AFS do not present a true and fair view in all material aspects. With particular emphasis information related to receivables, payables, balance sheet, reserve capital, assets and explanatory notes were incomplete and inaccurate.

**Kosovo Landfill Management System** - AFS present a fair and true view, in all material respects, except the effects of receivables, payables, long-term liabilities, equity and inaccurate presentation of the balance sheet.

**The Regional Waste Company Pastertia JSC** - AFS do not present a true and fair view in all material aspects. This is due to the unilateral recording of transactions, assets, reserve capital, expenses, stocks, receivables, payables and explanatory notes which do not provide complete and accurate disclosure.

**District Heating of Gjakova JSC** - AFS present a true and fair view, in all material respects, in addition to the effects of handling with accounts receivable, short-term liabilities and assets.

### Recommendation

The Chairperson of the respective Boards should provide an analysis to determine the causes behind the Adverse and Qualified Opinions. In order to increase the quality of information in the AFS and prevent errors, the Chairpersons of the Boards should take concrete action to address the causes in a systematic and pragmatic way.

### 6.3 Prior Year Recommendations

The AFS of POEs in the previous year were audited by private audit companies licensed by the Kosovo Financial Reporting Council. These audits resulted in some recommendations aimed at assisting management in improving the processes of financial management and control. The table below presents the implementation of recommendations given in the previous year.

**Table 13. Implementation of External Audit Recommendations for 2015**

POEs audited by NAO for AFS 2016	No. of recommendations given for the 2015 AFS	Implemented	In process of implementation	Not implemented
KR Trainkos JSC	6	1		5
KLMC	3			3
District Heating of Gjakova JSC	4	1	3	
RWC Pastertia JSC	8	5	2	1
<b>Total of recommendations</b>	<b>21</b>	<b>7</b>	<b>5</b>	<b>9</b>

The implementation of prior year external audit recommendations as a key tool to support effective overall governance has not been taken into account by the POEs' management. A large part of the 2015 recommendations were not implemented and consequently the same shortcomings were evident in 2016. This is an indication that POEs did not carefully address the recommendations given and the commitment to improve controls in public financial management is limited.

#### Recommendations

- The Chairperson of the respective Boards should provide an action plan determining the activities, deadlines and officers responsible for implementing the recommendations as well as apply an effective and formal process for monitoring the implementation of the AG's recommendations. Progress against the plan should be systematically reviewed and proactive actions should be taken against the barriers appeared during the implementation stage; and
- The shareholders should require progress reports from the POEs management regarding the recommendations given by the Auditor General in individual audit reports of the enterprises for the previous year.

## 6.4 Good Governance in Publicly Owned Enterprises

The Government of the Republic of Kosovo has the exclusive powers to exercise the rights of a shareholder in POEs. Thus, the Government through the Ministry of Economic Development (MED) as its representative, guarantees its citizens that POEs comply with the principle of competitive neutrality and that they use public funds with efficiency, economy and effectiveness.

In order to support good corporate governance and enhance accountability and transparency regarding the performance of POEs, MED drafted the Code of Ethics and Corporate Governance. Good corporate governance refers to the implementation of effective policies and processes ensuring that the objectives are achieved economically and efficiently within the expected timeframe.

The audit results have shown that POEs have not yet implemented good corporate governance. Despite some positive processes, shortcomings have been identified in a significant part of governance areas such as:

- Enterprises do not prepare a strategic plan, instead they prepare one year business plan only. These plans have identified some risks faced by enterprises, however, most POEs operate at a loss because of low tariffs or high maintenance cost of machinery and actions for managing these risks were not foreseen;
- Management accountability and reporting were not adequate and consequently the quality of financial information was not good. Decision-making may be based on inaccurate information and this undermines the achievement of the enterprise's objectives; and
- The Internal Audit Unit was established in three of four audited POEs. However, IAUs were not effective in supporting management to improve the functioning of internal controls. The internal audit reports did not reflect the existing risks of the enterprise did not provide a clear picture on the level of assurance and did not provide relevant recommendations for their improvement.

### **Recommendations to the Board of Directors:**

- Shareholders should ensure that enterprises prepare a strategic plan or supporting document based on the National Development Strategy and Program of the Government of Kosovo in order to prioritise their objectives. Further on, they should ensure that POEs prepare a risk management plan and implement it in order to prevent, reduce, or eliminate these risks; and
- Ensure that through professional boards hold the Management into account to put controls and mechanisms in place for their functioning, especially when it comes to collection of revenues and expenditure execution. The shareholders should ensure that the enterprises are engaged in developing and operationalizing the internal audit.

## 6.5 Procurement in POEs

The procurement process within POEs as well should be carried out according to the rules and procedures set out in the Law on Public Procurement in Kosovo.

The audit of four POEs for 2016 highlighted that existing controls in the field of public procurement are relatively good. However, the audit highlighted the existence of some shortcomings for which POEs still need to work on in order to advance the current system and ensure that public money is used economically, efficiently and effectively.

The following table presents the main issues encountered during the audit of POEs.

Issue	Cause	Impact	Action required by the management
Failure to assign a Contract Manager under the Law on Public Procurement	Lack of a decision by the Chief Executive Officer.	Failure to fulfil the performance obligations under the terms of the contract by the economic operator	The Chairperson of the Board should ensure the appropriate measures are taken for adhering to public procurement rules and exercise adequate oversight for effective management.
Shortcomings in contracted services	Lack of internal controls	Acceptance of works or equipment inadequate and outside contractual conditions.	Adequate controls should be put in place and contractual obligations on the prices and quality of contract acceptance of contracted goods should be in place.
Lack of report on receiving of goods/services	Lack of effective internal controls	Goods/services should not be accepted under the financial bid and contract specifications.	Acceptance should be made in accordance with the rules and the acceptance report should be evidence of the performance of the contract and for the execution of the payment.

## 6.6 Issues related to the legal requirements

The Constitution of the Republic of Kosovo and the Law on “the Auditor General and the National of Audit Office” has given full mandate to the Auditor General to audit POEs. However, the Law on Publicly Owned Enterprises, the Law on Business Organisations as well as the Law on Accounting, Financial Reporting and Audit treat POEs as a Business Organisation and as such are subject to the terms and timelines of financial reporting and audit other than those provided in the Law on Auditor General. Furthermore, in case of non-compliance with these terms and conditions, financial penalties for POEs are foreseen. Collisions between laws have caused difficulties and uncertainty among the parties involved in the audit.

A clearly defined reporting system allows public institutions to record, monitor, audit, and evaluate the performance of POEs, and oversee their compliance with corporate governance standards.

### **Recommendations to the Assembly of Kosovo and POEs shareholders**

- Shareholders of Publicly Owned Enterprises should ensure that they have initiated a review of the current legal framework related to POEs aimed at amending and synchronising laws and requirements in the field of reporting and audit of POEs.
- We recommend the Assembly of Kosovo to address the legal amendments for this area in order to allow public institutions carry through their constitutional and legal mandate.

## Annex I: Explanation of the different types of opinion applied by NAO

(extract from ISSAI 200)

### Form of opinion

147. The auditor should express **an unmodified opinion if** it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the opinion in the auditor's report in accordance with the section on "Determining the type of modification to the auditor's opinion".

148. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor should discuss the matter with the management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the audit opinion.

### Modifications to the opinion in the auditor's report

151. The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or if the auditor was unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Auditors may issue three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.

### Determining the type of modification to the auditor's opinion

152. The decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification – that is, whether the financial statements are materially misstated or, in the event that it was impossible to obtain sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

153. The auditor should express a **qualified opinion if**: (1) having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

154. The auditor should express an **adverse opinion if**, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

155. The auditor should **disclaim an opinion if**, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, the auditor concludes that the effects on the financial statements of any undetected misstatements could be both material and pervasive. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the audit scope that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705<sup>19</sup> provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

### **Emphasis of Matter paragraphs and Other Matters paragraphs in the auditor's report**

157. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not materially misstated in the financial statements, the auditor should include an Emphasis of Matter paragraph in the auditor's report. Emphasis of Matter paragraphs should only refer to information presented or disclosed in the financial statements.

158. An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading "Emphasis of Matter" or another appropriate heading;
- include a clear reference to the matter being emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor's opinion is not modified in respect of the matter emphasised.

159. If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, and provided this is not prohibited by law or regulation, this should be done in a paragraph with the heading "Other Matter," or another appropriate heading. This paragraph should appear immediately after the opinion and any Emphasis of Matter paragraph

## Annex II: Audit Opinions and key recommendations

**Table 1. Audit Opinions and Key Recommendations to State Institutions**

1.1. Unmodified Opinions		
Entity	Budget (in mil.€)	Summary of Key recommendations to the managements of auditees
Tax Administration	8.42	To provide for the application of a formal monitoring process on the implementation of AG recommendations; to ensure that actions to make the organisation structure fully operational are taken; to analyse and address controls weaknesses in revenues, salaries and goods and services.
Ministry of Economic Development	31.12	To ensure that the AFS preparation process includes a formal and effective management review; to provide the application of a formal monitoring process on the implementation of AG recommendations; to improve accountability arrangements; to analyse and address control weaknesses in capital projects management, procurement and assets management.
Ministry of Kosovo Security Forces	46.96	To provide for and continuously address the full implementation of AG recommendations and to address control weaknesses in planning, procurement and staff.
Ministry of Labour and Social Welfare	366.00	To ensure that the AFS preparation process includes a formal and effective review; to provide for the application of a formal monitoring process on the implementation of AG recommendations and implement the self-assessment process; to improve accountability arrangements and management reporting; to address control weaknesses on subsidies and transfers, procurement, wages and salaries.
Ministry of European Integration	1.71	To provide for the application of a formal monitoring process on the implementation of AG recommendations; to appoint the new Audit Committee; to address control weaknesses on subsidies management, staff and liabilities.
Administration of the Assembly	9.58	To provide for additional actions for eliminating shortcomings in subsidies and assets.
Office of the President	2.05	To provide for the application of a formal monitoring process on the implementation of AG recommendations; to address shortcomings in procurement, processing of payments and management of liabilities.

<b>1.2 Unmodified Opinions with Emphasis of Matter</b>			
<b>Entity</b>	<b>Budget (in mil.€)</b>	<b>Reason for emphasis of matter</b>	<b>Summary of Key recommendations to the managements of auditees</b>
Ministry of Finance	8.85	Expenditures for membership to EC Development Bank have been incorrectly budgeted and paid from Goods and Services.	To analyse the reasons behind the emphasis of matter and prepare an action plan for the fair presentation in the classification of expenditures; to provide for the application of a formal monitoring process on the implementation of AG recommendations; to analyse and address control shortcomings in the areas of concern highlighted in this report.
Customs	8.05	Disclosures of accounts receivable were not completely accurate and reliable.	To analyse the reasons behind the emphasis of matter and undertake actions for the fair presentation of accounts receivable; to analyse the application of a formal monitoring process on the implementation of AG recommendations, reasons of misclassification, failure to adhere to budget procedures, monitoring of the budget performance and controls weaknesses in revenues management.
Ministry of Public Administration	16.18	IT maintenance expenditures were incorrectly budget and paid from capital investments; capital assets and stocks were overstated.	To analyse the reasons behind the emphasis of matter and identify actions for a true and fair presentation of expenditures and assets; to provide for the application of a formal monitoring process on the implementation of AG recommendations; to improve accountability arrangements and management reporting; to apply a detailed assessment on capital projects management, procurement, assets and liabilities management.
Ministry of Trade and Industry	5.42	Overstatement of capital assets.	To analyse the reasons behind the emphasis of matter and ensure a true and fair presentation of assets; to ensure that the action plan is reviewed and sets forth the deadlines and staff responsible for the implementation of AG recommendations; to make a detailed assessment of areas of concern highlighted in this report.

Ministry of Justice	18.60	Disclosures of assets are not fully accurate and reliable.	To analyse the reasons behind the emphasis of matter and identify actions for a true and fair presentation of assets; to provide for the application of a formal monitoring process on the implementation of AG recommendations; to monitor the reasons behind the low level of budget execution; to take actions to stop staffing management positions with acting staff beyond the legal terms.
Ministry of Internal Affairs	106.52	Expenditures on wages and salaries were incorrectly budgeted and paid from Capital Investments.	To analyse the reasons behind the emphasis of matter and identify actions for a true and fair presentation of expenditures in the AFS; to ensure that Directors General of the Agencies have delegated the direct responsibility on risk management; to take actions to stop staffing management positions with acting staff beyond the legal terms; and to strengthen mechanisms for a better management of subsidies.
Ministry of Health	52.99	Disclosures of assets and pharmaceutical stock were not correct.	To analyse the reasons behind the emphasis of matter and identify actions for a true and fair presentation of assets and stocks in 2017; to ensure that the AFS preparation process includes a formal and effective management review; to apply a formal monitoring process on the implementation of AG recommendations; to improve accountability arrangements, risk management and internal organisation; to address control shortcomings in procurement.
Ministry of Education, Science and Technology	43.62	Fix assets disclosed in the AFS were overstated.	To analyse the reasons behind the emphasis of matter and identify actions for a fair presentation of expenditures and assets in 2017; to provide for the application of a formal monitoring process on the implementation of AG recommendations; to improve accountability and quality of management reporting; to address management shortcomings in investments management, goods, salaries and assets and liabilities management.

Ministry of Foreign Affairs	18.75	Failure of Kosovo Diplomatic Missions to close expenditures for goods and services; and failure to register assets in the respective electronic systems	To analyse the reasons behind the emphasis of matter and identify actions for a true and fair presentation of expenditures in the AFS; to take actions for drafting the strategic plan; to establish the Audit Committee; to apply a formal monitoring process on implementation of AG recommendations.
Office of the Prime Minister	12.37	Misclassification of expenditures from capital investments for goods and services and lack of evidence on the reasoning of expenditures from the category of subsidies	To analyse the reasons behind the emphasis of matter and ensure that expenditures for subsidies are documented and classified under adequate categories in order to ensure a fair presentation in the AFS of 2017; to apply a formal monitoring process on implementation of AG recommendations; and to address control shortcomings in procurement.
Ministry of Communities and Returns	8.63	Failure to disclose capital assets in the AFS.	To analyse the reasons behind the emphasis of matter and take actions to ensure a true and fair presentation in the AFS of 2017; to apply a formal monitoring process on implementation of AG recommendations and the self-assessment process in a proactive manner; to make a detailed assessment on budget planning and execution; to address control shortcomings in assets management and reporting.
Ministry of Agriculture, forestry and Rural Development	54.97	Misclassification of expenditures and incorrect presentation of assets.	To analyse the reasons behind the emphasis of matter and identify actions to ensure a true and fair presentation of assets; to apply a formal monitoring process on implementation of AG recommendations and the self-assessment process in a proactive manner; to address shortcomings in services and subsidies.

Ministry of Infrastructure	214.00	Expenditures for goods and services were misclassified; the final budget in the AFS was overstated; the value of assets and accounts receivable was incorrect.	To analyse the reasons behind the emphasis of matter in order to ensure a true and fair presentation of expenditure while preparing the AFS of 2017; to apply a formal monitoring process on implementation of AG recommendations and the self-assessment process in a proactive manner; to improve accountability and quality of management reporting; to address control weaknesses in procurement, assets and accounts receivable.
Ministry of Environment and Spatial Planning	39.36	Disclosures of non-financial assets and outstanding liabilities were incorrect and unreliable.	To analyse the reasons behind the emphasis of matter and take actions for a true and fair presentation of assets and liabilities; to apply a formal monitoring process on implementation of AG recommendations and the self-assessment process in a proactive manner; to improve accountability and quality of management reporting; to address shortcomings in procurement.

### 1.3 Qualified Opinion

Entity	Budget (in mil.€)	Reason for qualification of opinion	Summary of Key recommendations to the managements of auditees
Ministry of Diaspora	1.78	Subsidies are paid and reported from the category of Goods and Services.	To analyse the reasons for modification of the opinion and identify actions for a true and fair presentation in 2017; to apply a formal monitoring process on implementation of AG recommendations; to address control shortcomings in budget management, goods and services, and monitoring of subsidies.
Ministry of Local Government Administration	5.01	Overstatement of opening balances of capital assets.	To analyse the reasons for qualification of the opinion and identify actions for a true and fair presentation of assets; to improve the self-assessment process and recommendations to be addressed in a pro-active manner and regular basis.

<b>1.4 Qualified Opinion with Emphasis of Matter</b>			
<b>Entity</b>	<b>Budget (in mil.€)</b>	<b>Reason for qualification of opinion /emphasis of matter</b>	<b>Summary of Key recommendations to the managements of auditees</b>
Ministry of Culture, Youth and Sports	19.94	Misclassification of expenditures in different economic categories; employees paid based on an abrogated decision of the Government; untrue presentation of the value of non-financial assets.	To analyse the reasons for qualification of the opinion and emphasis of matter and take actions for adequate classification of expenditures and true presentation of assets; to ensure that the 2017 AFS preparation process includes a formal and effective management review; to apply a formal monitoring process on implementation of AG recommendations; to improve accountability arrangements and management reporting; to apply a detailed assessment of subsidies and other areas of concern.

**Table 2. Audit Opinions and Key Recommendations to Municipalities**

<b>2.1 Unmodified Opinion</b>		
<b>Entity</b>	<b>Budget (in mil.€)</b>	<b>Summary of key recommendations to the managements of auditees</b>
Viti	9,49	To ensure that 2017 AFS preparation process includes a formal and effective management review; to apply a formal monitoring process on implementation of AG recommendations and implement the risk assessment process and strategic plan in a pro-active manner; to address control weaknesses on classification of expenditures, monitoring of subsidies, reporting of capital investments and procurement system.

<b>2.2 Unmodified Opinions with Emphasis of Matter</b>			
<b>Entity</b>	<b>Budget (in mil.€)</b>	<b>Reason for emphasis of matter</b>	<b>Summary of Key recommendations to the managements of auditees</b>
Prishtina	65.88	Classification of expenditures in inadequate economic codes; Failure to record properties in the accounting register.	To analyse the reasons for emphasis of matter and address actions to prevent the same from repeating; to address issues related to overall governance, particularly those on internal auditing; to consider the reasons for poor budget planning, particularly capital investments; to record and pay liabilities within the legal deadlines; to register all account receivables from business tax.
Fushë Kosova	8.58	Misclassification of expenditures and failure to record all assets.	To analyse the reasons for emphasis of matter and provide for a formal and effective review in order to ensure a fair presentation in 2017 AFS; issues related to overall governance; and to address control shortcomings in procurement and assets management.
Obiliq	5.27	Failure to present third party payments in AFS; misclassification of expenditures; inaccurate assets accounting register.	To analyse the reasons for emphasis of matter and provide for a formal and effective review in order to ensure a fair presentation in 2017 AFS; issues related to overall governance; and to address control shortcomings in procurement and assets management.
Podujeva	18.45	Disclosures on own source revenues and accounts receivable contained errors; and inaccurate assets register.	To analyse the reasons for emphasis of matter and identify actions for a true and fair presentation in 2017; to put in place effective processes in order to confirm that the 2017 AFS preparation process address all financial reporting requirements; to analyse and address control shortcomings in procurement and other areas of concern; accountability arrangements and quality of management reporting.
Mitrovica	15.96	Incomplete assets registration; failure to receive the progress report on works advance payments are made for.	To analyse the reasons for emphasis of matter and provide for a formal and effective review in order to ensure a fair presentation in 2017 AFS; to improve accountability and management reporting processes; to analyse and address control weaknesses in procurement and other areas.

Gračanica	6.08	Exceeded ceiling as set in the Law on 2016 Budget (over 15%) for capital investments and advance payments; failure to register assets in the accounting registers and failure to disclose in the AFS.	To analyse the reasons for emphasis of matter and provide for a formal and effective review in order to ensure a fair presentation in 2017 AFS; to address issues related to overall governance and other areas.
Zubin Potok	1.89	Failure to register and disclose assets in the AFS; misclassification of expenditures in capital investments for paying salaries; invalid employment contracts	To analyse the reasons for emphasis of matter and provide for a formal and effective review in order to ensure a fair presentation in 2017 AFS; to address issues related to overall governance, procurement, salaries and capital investments.
Shtërpca	3.12	Failure to register assets in the accounting register.	To analyse the reasons for emphasis of matter in 2016 and identify the right actions for a true and fair presentation of assets and account receivables; to apply a formal monitoring process on the implementation of AG recommendations and to address issues related to overall governance.
Shtime	6.01	Assets were understated	To analyse the reasons for emphasis of matter and provide for a formal and effective review in order to ensure a fair presentation in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to prepare and manage the risk register; to address the registration process of all assets.
Lipjan	13.07	Irregular payments for vehicles servicing and maintenance and understated accounts receivable.	To analyse the reasons for emphasis of matter and identify the actions for a true and fair presentation of information in the AFS; to apply a formal monitoring process on the implementation of AG recommendations; comprehensive assessment of budget projection; to address control shortcomings in assets and accounts receivable.

Prizren	40.63	Misclassification of expenditures and incomplete assets register.	To analyse the reasons for emphasis of matter and identify the actions for a true and fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to improve accountability arrangements and quality of financial reporting; to address control shortcomings in procurement and assets management.
Suhareka	13.31	Misclassification of expenditures and incorrect presentation of assets under €1,000.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to draft a risks register and action plan to manage them; to assess and analyse potential resources of revenues.
Dragash	6.90	Incorrect presentation of assets under €1,000 in the AFS.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance, procurement and assets management.
Malisheva	12.36	Misclassification of expenditures and failure to include a part of immovable properties in the accounting register; overstatement of assets.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to implement the self-assessment process and address control shortcomings on procurement and management of assets, subsidies and accounts receivable.
Mamusha	1.51	Failure to register and present assets in the AFS and misclassification of expenditures.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to implement the self-assessment process and address control shortcomings on procurement and management of assets and subsidies.

Rahovec	11.39	Incomplete assets register; misclassification of expenditures.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance and assets management.
Kamenica	7.25	Failure to register assets financed by donors and other assets.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance, procurement, revenues and assets management.
Gjilan	21.35	Failure to register or incorrect registration of assets.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance, procurement, revenues, salaries, subsidies and assets management.
Kaçanik	6.63	Misclassification of expenditures.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of expenditures in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to implement the self-assessment process; to improve accountability arrangements and management reporting; to draft a comprehensive strategic plan and risk register; to address control shortcomings in procurement.
Han i Elezit	2.11	Incomplete assets register and misclassification of expenditures.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance and procurement.

Novo Bërdë	1.97	Incomplete assets register and misclassification of expenditures; overstatement of own source revenues to be carried forward in the next year.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance and procurement and assets management.
Partesh	0.84	Failure to register and to present assets in the AFS; lack of accounts receivable register.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to implement the self-assessment process; to improve accountability arrangements and management reporting; to address control shortcomings in assets management.
Ranillug	1.47	Understatement of accounts receivable and overstatement of assets.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of accounts receivable in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance, procurement, accounts receivable and assets management.
Ferizaj	25.29	Incomplete registration of assets in the assets register and AFS; misclassification of expenditures.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance and procurement.
Gjakovë	19.97	Failure to register properties in the assets register in KFMIS.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance and procurement.
Junik	1.21	Incomplete registering of assets.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance and procurement.

Pejë	20.72	Understatement of assets; overstatement and understatement of accounts receivable	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of assets and accounts receivable in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance and procurement, accounts receivable, liabilities and assets management.
Istog	8.80	Understatement of assets over €1,000 and accounts receivable.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of assets and accounts receivable in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance, procurement and assets management.
Klinë	8.33	Incorrect e-assets register.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to implement the self-assessment process; to improve accountability arrangements and management reporting; to address control shortcomings in procurement and assets management.
Drenas	12.71	Overstated register of assets over €1,000; understated register of assets under €1,000 and of accounts receivable.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of assets and accounts receivable in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance, procurement, revenues and assets management.
Skenderaj	11.28	Understated register of assets under €1,000 and of accounts receivable.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of assets and accounts receivable in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to systematically monitor the budget; to address control shortcomings in procurement, revenues and assets management..

Vushtrri	14.72	There is a lack of the report on the use of funds for payments on behalf the co-financing with Lux-Dev; overstatement of assets over €1,000 and understatement of accounts receivable.	To analyse the reasons for emphasis of matter and identify the actions for a fair presentation of expenditures, assets and accounts receivable in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance, procurement, revenues and assets management.
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### 2.3. Qualified Opinions with emphasis of matter

Entity	Budget (in mil)	Reason for qualification of opinion/emphasis of matter	Summary of key recommendations
MNAO/ Mitrovica North	5.85	Exceeded ceiling as set in the Law on Budget (over 15%) for advance payments on capital investments and; failure to register assets in the accounting registers and disclose them in the AFS	To analyse the reasons for qualification of opinion and emphasis of matter and identify actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance, procurement, subsidies, revenues and assets management.
Zveçan	2.21	Exceeded ceiling as set in the Law on Budget (over 15%) for advance payments on capital investments; lack of confirmation report on the way of spending.	To analyse the reasons for qualification of opinion and emphasis of matter and identify actions for a fair presentation of expenditures and assets in 2017 AFS; the AFS preparation process to include a formal and effective management review; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance, procurement, subsidies, revenues and assets management.

Leposaviq	4.52	Exceeded ceiling as set in the Law on Budget (over 15%) for advance payments on capital investments; lack of confirmation report on the way of spending; failure to register assets in KFMIS; and invalid employment contracts.	To analyse the reasons for qualification of opinion and emphasis of matter and identify actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance, procurement, capital investments subsidies, revenues and assets management.
Kllokot	0.89	Misclassification of expenditure and failure to register assets in KFMIS.	To analyse the reasons for qualification of opinion and emphasis of matter and identify actions for a fair presentation of expenditures and assets in 2017 AFS; the AFS preparation process to include a formal and effective management review; to apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance, procurement, revenues, accounts receivable, liabilities and assets management.
Deçan	7.16	Presentation of errors in the draft AFS; Incomplete assets register; Misclassification of expenditures.	To analyse the reasons for qualification of opinion and emphasis of matter and identify actions for a fair presentation of expenditures and assets in 2017 AFS; the AFS preparation process to include a formal and effective management review; to apply a formal monitoring process on the implementation of AG recommendations; to implement the self-assessment process; to improve accountability arrangements and management reporting; to address control shortcomings in procurement and assets management.

**Table 3. Audit Opinions and Key Recommendations to Independent institutions**

<b>3.1 Unmodified Opinions</b>		
<b>Entity</b>	<b>Budget (in mil.€)</b>	<b>Summary of key recommendations to the managements of auditees</b>
Independent Oversight Board for Civil Service of Kosovo	0.31	To ensure that the AFS preparation process includes a formal and effective management review; to draft the strategy action plan; to address control shortcomings in expenditures management and assets management.
Independent Commission for Mines and Minerals	1.31	To ensure that the AFS preparation process includes a formal and effective management review; to apply a formal monitoring process on the implementation of AG recommendations; to draft a risk register and action plan on their management; to address control weaknesses on the management of accounts receivable and to stop illegal activities.
Constitutional Court of Kosovo	1.50	To analyse and address control weaknesses in the category of goods and services, special services and assets management.
Kosovo Judicial Institute	0.57	To ensure the drafting of a comprehensive institutional strategy and defining indicators for monitoring the achievement of objectives; to take actions for stopping management positions from being manned with acting staff beyond the legal deadline; to address control weaknesses in assets management.
Ombudsperson	1.40	To apply a formal monitoring process on the implementation of AG recommendations.
The State Agency for the Protection of Personal Data	0.35	To apply a formal monitoring process on the implementation of AG recommendations; to draft the action plan on risk management; to address control weaknesses in the management of expenditures, assets and liabilities.
Anti-Corruption Agency	0.50	To apply a formal monitoring process on the implementation of AG recommendations; to implement the self-assessment process.
Civil Aviation Authority	0.93	To address control weaknesses in the management of revenues, assets and liabilities.
Council of Kosovo for Cultural Heritage	0.20	To ensure the implementation of a review mechanism in the filling of self-assessment questionnaire and institutional comprehensive strategy; to initiate the procedures for appointing the Chief Executive Officer; to prepare and monitor the budget systematically.
Academy of Sciences and Arts	1.19	To draft the comprehensive strategic plan.
Procurement Review Body	0.33	To apply a formal monitoring process on the implementation of AG recommendations; to implement the self-assessment process; to address control weaknesses in the management of expenditures and assets.

Central Election Commission	5.43	To apply a formal monitoring process on the implementation of AG recommendations; to implement the self-assessment process; to review the existing arrangements to ensure that the CEC organisation structure complies with the applicable regulation; to address control weaknesses in the salaries management, processing of payments, and assets management.
Election Complaints and Appeals Panel	0.21	To draft the list of risks; to ensure that decisions on remuneration of employees are made based on the applicable legislation; to ensure the accurate presentation of assets in the AFS.
Kosovo Property Comparison and Verification Agency	2.00	To ensure that the AFS preparation process includes a formal and effective management review; to apply a formal monitoring process on the implementation of AG recommendations and implement the self-assessment process; to improve issues related to overall governance, management of staff and revenues.
Free Legal Aid Agency	0.30	To ensure that payments are only executed based on regular invoices and in line with legal requirements.
Energy Regulatory Office	0.74	To apply a formal monitoring process on the implementation of AG recommendations; to address issues related to overall governance, management of staff, capital investments and assets management.

3.2. Unmodified Opinions with Emphasis of Matter			
Entity	Budget (in mil.€)	Reason for qualification of opinion	Summary of key recommendations to the managements of auditees
Kosovo Judicial Council	20.75	Incomplete and incorrect disclosure of assets.	To analyse the reasons for emphasis of matter and take actions to ensure completeness, accuracy, and fair presentation of assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations and those of IAU; to improve issues related to overall governance, staff, expenditures and assets management.
Kosovo Prosecutorial Council	8.33	Disclosure of assets not fully reliable and incomplete.	To analyse the reasons for emphasis of matter and take actions to ensure a fair presentation and disclosure of assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to improve accountability arrangements and quality of management reporting; to address payments to the Council members, payments for overtime work; to ensure assets management is fully in line with the applicable legislation.
Agency for Management of Memorial Complexes of Kosovo	2.44	Misclassification of expenditures and overstatement of assets.	To analyse the reasons for emphasis of matter and take actions to ensure a fair presentation of expenditures and assets in 2017 AFS; to draft the development strategy and put in place adequate risk management and monitoring mechanisms; to address control shortcomings in expenditures management.
University Hospital and Clinical Hospital of Kosovo	69.65	Incorrect disclosure of assets and stocks in the AFS; misclassification of expenditures and payments in contradiction to the Law on Public Procurement.	To analyse the reasons for emphasis of matter and provide for an effective and formal review in order to ensure a fair presentation of expenditures and assets in 2017 AFS; to address issues related to overall governance; to address control shortcomings in budget management, procurement, revenues, wages and salaries, assets and medicines management.

University of Prishtina	28.15	Incorrect disclosure of assets and stocks and misclassification of expenditures.	To analyse the reasons for emphasis of matter and provide for an effective and formal review in order to ensure a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations and address issues related to overall governance; to increase efficiency of IA services; to address control shortcomings in budget management, procurement, revenues, salaries and assets management.
Public Procurement Regulatory Commission	0.78	E-procurement project incorrectly budget and spent from Goods and Services; failure to register assets in the assets register.	To analyse the reasons for emphasis of matter and identify actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to address control shortcomings in assets management.
Independent Media Commission	1.05	Failure to disclose non-capital assets in the AFS.	To analyse the reasons for emphasis of matter and identify actions for a fair presentation of expenditures and assets in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations; to effectively address risk management; to address control shortcomings in budget management, revenues and assets management.
Water Regulatory Authority	0.36	Overstated accounts receivable.	To analyse the reasons for emphasis of matter and identify actions for a fair presentation of accounts receivable in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations and implement the self-assessment process; to address control shortcomings in the management of revenues, staff, goods and services and assets.

Railway Regulatory Authority	0.29	Irregularities in salaries; failure to disclose final budget; not closed advance payments were not disclosed; incomplete and inaccurate value of stocks and liabilities.	To ensure that the AFS preparation process includes a formal and effective management review; to ensure that the self-assessment process and risk management are effectively addressed; to conduct a critical review of governance arrangements in the strategic planning area.
Regulatory Authority of Electronic and Postal Communications	0.80	Understated disclosure of accounts receivable in the AFS whilst non-capital assets were overstated.	To analyse the reasons for emphasis of matter and identify actions for a fair presentation of accounts receivable and assets in 2017 AFS; to prepare to new Charter and Rules of Procedures; to address control shortcomings in the management of expenditures, staff and accounts receivable.
Air Navigation Services Agency	2.81	The final budget on wages and salaries and sources of funds were understated; incomplete disclosure of assets.	To analyse the reasons for emphasis of matter and identify actions for a fair presentation in 2017 AFS; to ensure that the AFS preparation process includes a formal and effective management review; to apply a formal monitoring process on the implementation of AG recommendations and implement the self-assessment process; to address control shortcomings in receipts and expenditures, assets management, contracts implementation and administration of liabilities.
Kosovo Competition Authority	0.22	Source and use of funds in the statement of receipts and payments was overstated; failure to present revenues in the budget execution report; and understatement of non-capital assets.	To analyse the reasons for emphasis of matter and identify actions for a fair presentation in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations and implement the self-assessment process;

3.3 Qualified Opinions			
Entity	Budget (in mil.€)	Reason for qualification of opinion	Summary of key recommendations to the managements of auditees
Privatisation Agency of Kosovo	8.97	Overstatement of the execution of designated revenues for cash inflow into the treasury account in the second table of the AFS "Budget Execution Report"	To analyse the reasons for qualification of opinion and identify actions for a fair presentation in 2017 AFS; to apply a formal monitoring process on the implementation of AG recommendations and implement the self-assessment process; to improve accountability arrangements and management reporting; to address control shortcomings in budget planning, procurement, salaries, assets and liabilities.
Privatisation Fund	39.52	Payments to Professional Services Provider from Trust Funds not based on PAK Law.	To undertake the needed actions in order to ensure that payments to Professional Services Provider are made from the budget of the Privatisation Agency of Kosovo.

**Table 4. Audit Opinions and Key Recommendations to Publicly Owned Enterprises**

4.1 Qualified Opinions			
Entity	Budget (in mil.€)	Reason for qualification of opinion	Summary of key recommendations to the managements of auditees
District Heating Gjakova	0.74	Incorrect and incomplete accounts receivable; unfair presentation of corporate income tax; mismatch of outstanding liabilities with suppliers' invoices; incomplete assets register.	To analyse the reasons for qualification of opinion in 2016 and identify actions to ensure a true and fair presentation of assets, liabilities, receivables and equity in 2017 AFS; to ensure that the AFS preparation process includes a formal and effective management review; to apply a formal monitoring process on the implementation of prior year recommendations; to improve accountability arrangements and management reporting; to consider the possibility of establishing the Internal Audit Unit; to address control shortcomings in expenditures, salaries and revenues.

Kosovo Landfill Management Company	2.53	Understated accounts receivable; failure to confirm accounts payable for tax and contributions; inaccurate long-term liability on deferred revenues; equity incorrectly presented in the AFS; mismatch of accounting records with AFS.	To analyse the reasons for qualification of opinion in 2016 and identify actions to ensure a true and fair presentation of assets, liabilities, receivables and equity in 2017 AFS; to ensure that the AFS preparation process includes a formal and effective management review; to apply a formal monitoring process on the implementation of prior year recommendations; to improve accountability arrangements and management reporting; to address control shortcomings in expenditures, salaries and revenues.
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#### 4.2 Adverse Opinions

Entity	Budget (in mil.€)	Reason for adverse opinion	Summary of key recommendations to the managements of auditees
WRC Pastërtia, Ferizaj	1.59	Single registration of transactions in the accounting system; obscurities in the presentation of other short-term liabilities; Incorrect presentation of assets, accounts receivable and reserve capital; incomplete and inaccurate explanatory notes for some items in the AFS; unfair presentation of expenditures.	To analyse the reasons for adverse opinion in the 2016 AFS and take actions for a fair presentation of 2017 AFS; in addition to the business objectives, to define the deadlines for their achievement and the way of financing of expenditures; the Audit Committee to critically review the plans, outcomes and quality of internal audit reports; to undertake concrete actions in order to eliminate weaknesses in FMC.
Trainkos	4.56	Single registration of transactions in the accounting system; understatement of reserve capital, accounts receivable and stocks; incorrect presentation of non-current assets and long-term liabilities; incomplete and inaccurate explanatory notes.	To analyse the reasons for adverse opinion in the 2016 AFS and take actions for a true and fair presentation of 2017 AFS; to implement a rigorous oversight process in order to ensure the implementation of prior year recommendations; to define deadlines for the achievement of objectives and the way of financing of expenditures; the Audit Committee to critically review the plans, outcomes and quality of internal audit reports.

## Annex III: Progress in the implementation of recommendations in 2015 AAR

Responsible institution	Implemented recommendations	Partially implemented recommendations	Unimplemented recommendations
Kosovo Assembly	<p><b>Chapter 1</b></p> <ul style="list-style-type: none"> <li>The Government of Kosovo has made an assessment to identify the causes that led to inefficient management of processes on financial management and control,</li> <li>Preparation and implementation of action plans to address all recommendations from this report and individual audit reports should be in the focus of oversight by the Assembly.</li> </ul>	<p><b>Chapter 3</b></p> <ul style="list-style-type: none"> <li>The Government gives priority and monitors the implementation of the action plan on implementation of the strategy for public finance internal control;</li> <li>The heads of BOs are obliged through COPF to report on the level of addressing recommendations given in audit reports on a timely basis.</li> </ul> <p><b>Chapter 4</b></p> <ul style="list-style-type: none"> <li>It exercises its influence over the Government to ensure that our recommendations for the current year and previous years are fully addressed, by establishing effective controls over the development of procurement procedures and ensuring value for money.</li> </ul>	<p><b>Chapter 3</b></p> <ul style="list-style-type: none"> <li>An Internal Audit Unit is established within the Kosovo Assembly for auditing the independent institutions of the Republic of Kosovo.</li> </ul> <p><b>Chapter 4</b></p> <ul style="list-style-type: none"> <li>Procurement monitoring activities in PPRC are regulated in order to ensure the identification, prevention and elimination of potential errors by CA in advance rather than after the procurement process is due.</li> </ul>

<b>Kosovo Assebmly</b>	<p><b>Chapter 2</b></p> <ul style="list-style-type: none"><li>• Ask from the Government a progress report on the recommendations given by the AG in AAR 2014 and the recommendations of the Committee for Oversight of Public Finances related to this report (including progress and barriers which hampered to fully implement recommendations); and</li><li>• Ask from the Government to prepare an Action Plan on implementing AG's recommendations arising from AAR 2015 as well as quarterly reports on the progress of implementation of this plan. These reports should clearly explain why recommendations are not being implemented.</li></ul>		
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<p><b>Government</b></p>	<p><b>Chapter 1</b></p> <ul style="list-style-type: none"> <li>• The Minister of Finance, while preparing the revenue plan and taking fiscal measures, ensures proactive involvement of the management of both agencies (Customs and TAK) so the budgetary projections are approximate. Budget projections should be supported with reliable data indicating the revenue flows throughout the year.</li> </ul>	<p><b>Chapter 1</b></p> <ul style="list-style-type: none"> <li>• The Minister of Finance in coordination with the Director of Treasury puts in place effective processes to confirm the plan to draft AFR/RKB 2016 addresses all issues related to compliance and financial reporting requirements. In this regard, he should ensure that the budget is spent within adequate economic categories. Moreover, the consolidation process should include supplementary information on accounts receivable, complete records and reports on capital assets, third party payments and outstanding liabilities;</li> <li>• The Minister of Finance in coordination with the Committee on Budget and Finance plays a more active role during budget discussions with the BO's. Where there are proofs and necessity for additional budget, it should be incorporated in coming budgets. The capital projects budget should be set only for those projects that are well justified by shifting funds towards more important and feasible goals or priorities;</li> <li>• Controls over the management and reporting of accounts receivable are more efficient and strengthened and that the causes behind increased accounts receivable are analysed in order to find the causes of failure to pay debts and to use legal actions for their collection;</li> <li>• The Treasury/Monitoring Division within the MoF exercises stricter monitoring controls in monthly reporting of outstanding liabilities. A critical review of reports on outstanding liabilities is needed and where the delays and value of outstanding liabilities is material the issue should be addressed to the responsible officials of the relevant organization.</li> </ul>	<p><b>Chapter 1</b></p> <ul style="list-style-type: none"> <li>• The Minister of Finance/Treasury reviews the existing financial reporting arrangements to enable BO's raising the quality of financial reporting. In this respect, the key actions to be taken are as follows: update of the accounting plan associated by appropriate guidelines, update the accounting manual and of financial rules and, and in particular drafting rules on accounts receivable and subsidies management. In addition, he should provide regular training with responsible officers involved in financial reporting;</li> <li>• The Minister of Finance should increase the accountability to officers involved in the implementation of projects funded by loans. The decision for a loan should be taken only after the establishment of prerequisites such as: well documented and feasible projects. This should be done in order to gain opportunities for development of the economy in terms of public investment.</li> </ul>
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<p><b>Government</b></p>		<p><b>Chapter 2</b></p> <ul style="list-style-type: none"> <li>• Prepare a systematic process for implementation of recommendations given by AG in AAR 2015 and earlier AARs. This process should clearly identify and address barriers in implementation of recommendations;</li> <li>• Require from all Budget Organizations to implement and report on the level of implementation of audit recommendations, with quarterly progress reports submitted to Ministry of Finance and COPF. These reports should clarify why recommendations are not being implemented.</li> </ul> <p><b>Chapter 3</b></p> <ul style="list-style-type: none"> <li>• Managerial responsibility has been further strengthened throughout budget organisations to ensure a more efficient internal control, to increase the effectiveness of IA and timely addressing the audit recommendations. Whilst the approval of the awaiting PIFC law and completion of accompanying legislation acts will regulate and further develop the system of financial management and controls as a whole;</li> <li>• Effective processes of risk management were undertaken by all BO's and they address barriers to improvements in this area. CHD should continue providing management training for self-assessment and risk management, identify good practices from selected BOs and share them with others. Internal Audit to have a more active role in supporting this process;</li> </ul>	<p><b>Chapter 2</b></p> <ul style="list-style-type: none"> <li>• Closely monitor the level of implementation of AG's recommendations by inviting the Ministry of Finance to report on the situation of recommendations in one of the Government's meetings.</li> </ul>
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<b>Government</b>		<ul style="list-style-type: none"><li>• BOs produce internal regulations and procedures outlining the necessary instructions on the daily administration of financial and operational activities. Internal information and reporting as well as management reporting should be further developed;</li><li>• The self-assessment of financial management and controls process by BOs is further strengthened to enhance the objectivity and quality of the assessment as a whole. In this regard, CHD should continue providing additional training to managers of BOs on importance of self-assessment questionnaire, the process development and the potential it offers to the development of good governance;</li><li>• Emphasis is placed on future developments of internal audit, ensuring adequate IAU capacities in line with the size of organizations. Further on, in order to increase the effectiveness of internal audit, the audit work should cover more and more activities in the current year to increase the level of implementation of the recommendations given by IA and enhance the effectiveness of audit committees;</li><li>• The issue of additional compensation to members of Audit Committees in BO's is sufficiently considered and clarified;</li><li>• Consideration is given to the European Commission recommendation to prepare a concept document which clarifies the scope of the LCS, the status of civil servants in relation to other categories of employees, clarification of the criteria for recruitment in CS, de-politicization and professionalism of employees, regulation of positions in senior management, promotion, disciplinary proceedings and suspension of employment;</li></ul>	
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<p><b>Government</b></p>	<p><b>Chapter 4</b></p> <ul style="list-style-type: none"> <li>• PRB board members are proposed in time in order not to undermine the functioning of the Board and avoid situations where the complaints by the EO remain unhandled.</li> </ul>	<ul style="list-style-type: none"> <li>• HRMIS is launched completely and in all state institutions. All information necessary for employees of public service to be registered and updated on time in this system; and</li> <li>• All necessary actions in implementation of a new salary system have been finalized. BO's managements should address all shortcomings encountered in personnel management and additional compensations by addressing the recommendations given by NAO.</li> </ul> <p><b>Chapter 4</b></p> <ul style="list-style-type: none"> <li>• Procurement activities concluded and signed by the CPA enable the achievement of benefits from the current centralised purchasing and the application of a systematic approach in order to ensure a planned increase of CPA contracts in the coming years;</li> <li>• E-procurement system is implemented in practice by all BOs;</li> <li>• Necessary developments in BOs in addressing AG's recommendations, referred to in Chapter 3, put a special emphasis on procurement issues and with a consolidated response covering the addressing of procurement issues in performance audits.</li> </ul>	
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