



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

Document No: 24.18.1-2012-08

AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF KOSOVA JUDICIAL
COUNCIL FOR THE YEAR ENDED 31 DECEMBER 2012

Pristina, June 2013

The Office of the Auditor General (OAG) undertakes both Regularity and Performance Audits. The Auditor General Lage Olofsson, is the head of the OAG which employs around 140 staff. The Auditor General and the OAG shall be independent and certifies around 90 Annual Financial Statements each year, while undertaking other forms of audits.

Our Mission is to “Contribute to sound financial management in public administration”. We shall perform quality audits in line with internationally recognized public sector auditing standards and good European practices. We shall build confidence in the spending of public funds. We shall play an active role in securing taxpayers’ and other stakeholders’ interests in enhancing public accountability’

The reports produced by the OAG directly promote accountability as they provide a base for holding managers’ of individual budget organisations to account.

The Auditor General has decided on the audit opinion and the report on the Annual Financial Statements of Kosovo Judicial Council in consultation with the Assistant Auditor General, Ibrahim Gjylderen, supervising the audit.

The opinion and report issued are a result of the audit carried out under the management of the Audit Director Vlora Mehmeti supported by Astrit Bllaca (Team leader), Arian Haxha and Alban Beka.

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Executive Summary

Introduction

This report summarises the key matters arising from our audit of the 2012 Annual Financial Statements (AFS) of Kosova Judicial Council (KJC). I would like to thank the Chairman of the Council and his team for their assistance during the audit process.

The examination of the 2012 financial statements was undertaken in accordance with the internationally recognised Public Sector auditing standards (ISSAIs) issued by INTOSAI. Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements.

Our audit focus has been on:

- The AFS;
- Financial Management and Internal Control (including budget management and execution); and,
- Internal Audit System.

Opinion

The Auditor General (AG) reports his opinion to Parliament in the format set out in Annex I – Audit Opinion. Annex I explains the different types of Opinions applied by the OAG. The AG's report includes an opinion as to the truth and fairness of the financial statements.

The AG's opinion is:

Unqualified Opinion

In our opinion the financial statements present a true and fair view in all material aspects
(ISSAI 400 Unqualified Opinion)

Overall Conclusion

The level of work undertaken by the OAG to complete the 2012 audit is a direct reflection of the quality of the internal control environment implemented by management. Our overall conclusion is that:

The internal Control System within KJC is designed properly, but it did not operate efficiently in all areas of financial management and control.

KJC has shown progress in the area of Revenue management, by improving several shortcomings identified in audit for 2011 related to software for revenue management, and during 2012 this system was fully operational. KJC prepared job description for each civil servant position in compliance with new FMC requirements and judicial system reforms.

However, despite progress shown year after year, shortcomings identified in the area of procurement management clearly indicate that current processes and procedures should be reviewed and continuously monitored, securing the value for money and compliance with laws and instructions in force.

In addition, despite the fact that the budget for 2012 was used at the satisfactory level, special attention should be paid to capital projects by increasing the cooperation with other public authorities on methods and the possibility of executing capital projects. These and other shortcomings are detailed in the body of this report.

Audit recommendations are intended to support the KJC in improving financial controls and enhancing other aspects of operational activity. We have considered the response to our recommendations made in 2011 – the current position is summarised in Annex II. Our overall conclusion is that additional action is required to address several important prior and this year recommendations.

Our key recommendations for Chairman of KJC are as follows:

Financial Management and Control

- To ensure that the Action Plan is revised and it clearly sets out a timetable for addressing the recommendations with accountable staff members.
- When drafting the next year's budget, to ensure that sufficient analyses are carried out related to classification of goods and services and capital investments into relevant categories, with the aim to spend the budget in line with the approved accounting plan.
- Participants in the price quotation procedure should be selected among economically advantageous operators and should be invited to participate by encouraging the most efficient and effective manner.
- To follow-up contracts execution and if contractors with their responsibility do not timely meet their contractual obligations, penalties should be applied, provided for increasing their awareness in order to complete works within deadlines set.
- Revised procedures are introduced in the system ensuring that controls regarding the payments sector are increased, in order that, expenditures are classified and recorded in accordance with the approved accounting plan.

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- To increase responsibility of Senior Officers by requesting evidences for reasoning the funds spent during the travel and submit those in time and that proper procedures for closing the advances are carried out within the period prescribed by law.
 - Acts of Appointment are reviewed and after justice system is reformed, take into account the errors identified securing that acts of appointment are prepared in accordance with legal requirements.
 - Ensure that the review of the actual asset register is reviewed and completed it with elements required by the Instruction in force, securing the recording, maintenance and preservation of assets from the loss or alienation.

Internal Audit System

- To undertake measures for making Audit Committee (AC) with aim to use AC input in improving public internal financial controls and managing of public money.

Chairman has acknowledged our findings and committed to make every effort address all recommendations given.

1 Audit Scope and Methodology

It is the responsibility of KJC to prepare financial statements under the International Public Sector Accounting Standards (IPSAS) for 'Financial Reporting under the Cash Basis for Accounting'. The Office of the Auditor General is responsible for carrying out a Regularity Audit which involves the examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

Audit work undertaken reflected our audit risk assessment for KJC. We have considered our understanding of the organisation, the extent to which management controls can be relied upon and the level of detailed testing required when determining the overall testing required to provide the necessary level of evidence to support the Auditor General's opinion.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review. An assessment of Management Responses to recommendations made in 2011 is at Annex II.

We have included the significant and other, less significant findings arising from our audit. For completeness we have included issues identified at the 9 month audit where they remain relevant. Our findings are defined as:

Significant - major issues for the attention of those charged with governance and senior management which may have the potential to result in a material weakness in internal control ; and

Other - weaknesses identified in our audit where action will offer the potential for improvements to the efficiency and effectiveness of internal controls.

Our procedures included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of the audit. Audit findings should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.

2 Annual Financial Statements

Our review of the Annual Financial Statements considers both compliance with the reporting framework and the quality and accuracy of the information recorded in the financial statements. We also consider the Declaration made by the CAO and Chief Financial Officer when the draft AFS are submitted to the Government.

The declaration regarding presentation of financial statements incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the financial statements. A number of the declarations are intended to provide assurance to the Government that all relevant information has been provided to ensure that a comprehensive audit can be undertaken.

2.1 Compliance with the Reporting Framework

Overall Conclusion

AFS were prepared in accordance with the requirements of the Financial Rule no. 07/2011, and according to the International Public Sector Accounting Standards (IPSAS) for 'Financial Reporting under the Cash Basis of Accounting'. KJC used a standard reporting format and met all requirements in accordance with the reporting Framework.

Description

The Financial Statements are required to comply with a specified reporting framework. We considered:

- AFS are prepared within time frame set and submitted to the MoF;
- AFS are signed by the CAO and CFO;
- AFS are submitted in Albanian and Serbian;
- AFS are prepared in hard and electronic copy;
- KJC prepared and submitted regular quarterly reports to the MoF Minister during 2012.

We have no issues to raise on these matters. Issues raised during our 9 Month audit relating to the reporting framework in our memo dated 14/12/2012 have been addressed by KJC.

2.2 Quality and Accuracy of Information Presented in the Annual Financial Statements

Overall Conclusion

We have analysed the quality of information presented in the final version of financial statements and assessed that they were complete, accurate and that appropriate disclosures have been made.

Description

As a result of our audit, adjustments were made to the draft financial statements presented for audit. The main reasons for these adjustments were:

- In Article 13, the budget execution statement - in the Final Budget column - note 22 concerning the category of Goods and Services: the budget was presented in the amount of €3,985,843. Whilst, the approved budget for this category should be presented in the amount of €4,141,747.

The declaration made by the CAO and CFO, when draft financial statements were submitted to the Government can be considered as accurate, with the exception of the above mentioned issue.

Recommendations

We have no recommendations in this area.

2.3 Audit Opinion

<u>Unqualified Opinion</u>
In our opinion the financial statements present a true and fair view in all material aspects (ISSAI 400 Unqualified Opinion)

3 Prior Year Recommendations

Overall Conclusion

KJC has undertaken concrete measures to address our recommendations. However, till the end of 2012, considering that KJC committed to address all recommendations during 2012, audit results have shown that action plan should be reviewed.

Description

Our Audit Report in the AFS of 2011 resulted in eight (8) key recommendations. KJC prepared an Action Plan which should address all OAG recommendations related to fiscal year 2011.

Till the end of 2012 audit, four (4) recommendations have been fully addressed; three (3) were partially addressed; and one (1) has not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex II.

Recommendations

1. Issue - Addressing Prior Year Audit Recommendations – Priority Significant

Finding	Prior Years recommendation which was not addressed by KJC relate to improving the budget planning and execution and improve the managing of e-Asset software securing recording of all assets.
Risk	Failure to address all recommendations resulted in repetition of the same shortcomings year after year.
Recommendation 1	To ensure that the Action Plan is revised and it clearly sets out a timetable for addressing the recommendations with accountable staff members.

4 Financial Management and Control

4.1 Introduction

Our audit approach is focused on understanding and evaluating the actions taken by management to secure effective financial management and control. For individual financial systems we seek to identify the level at which actual controls operate. This may, for example, be monitoring activity undertaken by senior management or lower level operational controls.

We consider that controls are well designed, but it was not fully implemented in practice. This is an indication that structures, processes and accountability lines should be reviewed.

Following our advice, KJC Management has undertaken a self assessment process, which shall be further developed with the support from the MoF. The initial self assessment process is a positive development.

4.2 Budget Planning and Execution

Overall Conclusion

In 2012, KJC budget is spent for the intended purposes. Spending the budget at the level of 90% shows a relatively good performance. The budget for all categories was spent at satisfactory level, with the exception of the budget for Capital Investments. This has impacted that the large part of the funds to remain unused and to be transferred as a surplus.

Description

We have considered the source of budgetary funds for KJC, spending of funds by economic categories and Revenues collected. This is highlighted in the following tables:

Table 1. Sources of budgetary Funds - outturn against the budget (in €)

Description	Initial Budget	Final ¹ Budget	2012 Outturn	2011 Outturn	2010 Outturn
Sources of Funds	19,464,842	18,318,737	16,332,438	15,453,779	13,696,368
Government Grant - Budget	18,250,942	16,818,442	15,256,209	14,248,035	12,780,191
Carried forward from previous year ² -		233,185	161,345	598,224	162,764
Own Source Revenues ³	1,213,900	1,213,900	865,204	382,492	714,953
Domestic Donations	-	-	-	-	
External Donations		53,210	49,680	225,028	38,460

KJC final budget for 2012 was spent in the level of 90%. KJC budget was funded by the Government grant, own source revenues and revenues carried forward from previous year and by external donations. Budget movements and spending by economic categories was presented in the Table no. 2.

Table 2 Spending of funds by economic categories - outturn against the budget (in €)

Description	Initial Budget	Final Budget	2012 Outturn	2011 Outturn	2010 Outturn
Spending of funds broken down by economic categories	19,464,842	18,318,737	16,332,438	15,453,779	13,696,368
Wages and Salaries	11,522,362	11,376,499	10,872,460	10,219,454	7,806,371
Goods and Services	4,120,105	4,141,747	3,605,107	3,517,403	3,356,802
Utilities	583,475	583,475	484,225	415,636	408,297
Subsidies and Transfers	1,250,000	310,616	158,324	189,384	176,913
Capital Investments	1,988,900	1,906,400	1,212,322	1,111,902	1,947,985

With budget law for 2012, the budget appropriated to KJC was in the amount of €19,464,842 whilst the budget was cut with review and government's decision for

¹ Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance..

² Municipality Own Source Revenues unspent in previous year carried forward into the current year.

³ A Portion of the receipts planned and collected for the Kosova Budget in the current year which was used by the entity for financing its own budget.

€1,432,500 on the other hand it was increased from the revenues carried forward from previous year and external donations in the amount of €286,395 resulting in a final budget of €18,318,737.

Upon review, the budget for Subsidies is cut for €1,000,000. From this amount, €750,000 was withdrawn by the MoF whilst €250,000 was transferred to the Wages and Salaries category. The budget for Wages and Salaries was reduced for €600,000, whilst the budget for Capital Investment is reduced for €82,500.

Budget for Capital Investment was spent at a level of 64%. Such low execution level is a result of failure to execute planned Capital Projects regarding the construction of the courts. KJC made a request to the Ministry of Public Administration (MPA) for managing these projects by the Department for management of facilities within the MPA. MPA did not approve KJC's request and this caused delays in initiation of procedures regarding these projects.

Table 3. Revenues collected for the Kosova Budget – outturn against the budget (in €)

Description	Initial Budget	Final Budget	2012 Outturn	2011 Outturn	2010 Outturn
Total			8,900,218	9,793,920	8,708,689

Table 3 shows that KJC in 2012 collected revenues in the amount of €8,900,218. (For more details see Chapter 4.4. Revenues).

Recommendations

2. Issue - Budget Planning and Execution - Priority - Significant

Finding KJC in the category of Capital Investments, planned and purchased goods which do not belong in this category. "Supply with furniture and inventory for SKJC and Courts" in the total value of €137,534, are planned and purchased from the category of Capital Investments. According to the accounting plan approved in 2012, these goods do not meet the criteria to be classified as Capital Investments. These items should have been planed from the category of Goods and Services.

Risk Planning of goods from Capital Investments without meeting the criteria for such classification which resulted in recording into wrong economic categories. It has also caused the overestimation of Capital investments and underestimation of the Goods and Services category.

Recommendation 2 When drafting the next year's budget, to ensure that sufficient analyses are carried out related to classification of goods and services and capital investments into relevant categories, with the aim to spend the budget in line with the approved accounting plan.

4.3 Reporting Requirement

Overall Conclusion

Based on points presented below, we conclude that KJC acted in accordance with the external reporting framework, with the exemption of the Quality of Information in the nine month financial statements.

Description

KJC during 2012 met external reporting obligations, such as:

- Budget request
- Quarterly reports including nine month financial statements in time;
- Annual work reports for 2011;
- Draft and final procurement plan in time;

- Reports on debts submitted to the MoF;
- Reports on internal controls including self assessment report; and
- Action Plan on implementing recommendations.

Recommendations

3. Issue - Preparation of Nine month Financial Statements - Priority - Significant

Finding KJC failed to prepare Nine month Financial Statements in accordance with Financial Rule 06/2011.

Risk There is a risk that KJC does not possess accurate and complete information on budget and spending during the nine month period.

Recommendation 3 To analyse the reason for shortcomings repetition and take adequate measures so that upcoming Nine month Financial Statements are prepared in accordance with legal requirements on financial reporting.

4.4 Revenues (including own source revenues)

Overall Conclusion on Revenues

KJC managed to establish adequate processes and procedures in management of revenues.

Description

KJC for the year of 2012 generated revenues in amount of €8,900,218. Revenues of KJC based on their type, are presented in the following table:

Description	Initial Budget	Final Budget	2012 Outturn	2011 Outturn	2010 Outturn
Court fee			4,331,421	5,158,584	4,587,590
Court fines			2,584,828	2,134,052	1,805,899
Traffic fines			1,983,940	2,495,614	2,290,160
Other revenues			29	5,670	25,040
Total			8,900,218	9,793,920	8,708,689

For 2012, KJC is allowed to use funds in the amount of €1,213,900 from own source revenues for these categories: €963,900 for Wages and Salaries, €250,000 for Subsidies and Transfers. €865,204 was spent from this amount.

In 2012, KJC signed a contract for services of modification and adaptation of software for revenue management. Our tests have shown that revenue management software is fully functional and difficulties in its use are eliminated.

We tested whether the KJC made reconciliations with the Central Bank, Treasury report and the internal reports. We have not identified any shortcomings in this area.

Recommendations

We have no recommendations in this area.

4.5 Expenditures

Overall Conclusion on Expenditures

KJC has understood the need for stronger controls in the area of expenditures. However, shortcomings disclosed within this subchapter show the need for further development of these controls in order to eliminate them. Procurement procedures are a specific area where the need for further development and improvement of internal controls should be considered.

4.5.1 Procurement

Description

In this area of expenditures we have included all procurements related to Capital Investments and Goods and Services.

KJC drafted a procurement plan for 2012 in accordance with legal requirements. Based on this plan, KJC developed procurement procedures and signed 71 contracts.

We have tested procurement procedures and 66 payments amounting to €1,339,846 for purchases through procurement procedures, including the compliance of KJC procurement activities with the law and instructions in force.

Recommendation

4. Issue - Failure to adhere to competition principle- Priority -Significant

Finding Concerning the procurement activity “Supply with chairs for judges” in the amount of €9,829, price quotation procedure was used. Of the three eligible bids, two of them, winner and the second bidder, were related parties (surname and the business address were the same). The second bidder signed the contract with the KJC as the manager of the winning company.

Risk There is a risk that in the above mentioned contract, the competition was not fair in order to ensure the value for money.

Recommendation 4 Participants in the price quotation procedure should be selected among economically advantageous operators and should be invited to participate by encouraging the most efficient and effective manner.

5. Issue - Failure to provide supplies within deadline for deliver as set out in the contract – Priority –Significant

Finding On 18.06.2012, KJC entered into a contract for supply with vehicles in the amount of €164,160. We noticed that the supplier failed to deliver eight from ten vehicles within the timeframe stipulated by the contract. Supplies were delivered six days later, whilst KJC did not apply penalties foreseen by contract (0.25% per day for undelivered supplies). According to our calculations, the value of penalties for delays was €1,751.

Risk Failure to apply penalties has an impact that the company was not responsible to deliver supplies on time as set within the contract.

Recommendation 5 To follow-up contracts execution and if contractors with their responsibility do not timely meet their contractual obligations, penalties should be applied, provided for increasing their awareness in order to complete works within deadlines set.

6. Issue - Validity of performance security – Priority –Significant

Finding The contract for “Construction of the court premises in Shterpce-first phase” was signed on 05.06.2012 amounting to €172,284.

According to contract, the execution security (10% of the contract value) shall be valid from the date of entering into contract - up to 30 days after technical receiving certificate is issued. While testing, we found that the execution security provided by the winner was valid only until the date 04.09.2012 whilst technical receiving certificate is issued on 24.12.2012.

Risk Failure to cover full period foreseen in the contract, with the execution security increases the risk for losses and at the same time losses the possibility of KJC to be compensated in case contractual obligations are not met.

Recommendation 6 In order to avoid losses caused by contractor’s failure to meet their obligations, KJC should ensure that the execution security covers the whole period as determined by the contract.

7. Issue - No warranty was requested on the finalised works – Priority –Significant

Finding KJC entered into a contract for “Construction of the court premises in Gjilan” signed on 28.05.2012 in the amount of €666,918 and contract for “Construction of the court premises in Shtërpce” signed on 05.06.2012 in the amount of €172,284, by neither determining the warranty period on potential defects nor warranty for the work completed. In these two cases, the technical receiving work was performed but the warranty on the completed works was not requested.

Risk Lack of warranty for the completed work, increases the risk that the works were not carried out by the quality required and in case of defects, the contractor will not correct them. This will affect on additional spending by KJC to eliminate the defects.

Recommendation 7 When drafting the contracts, to specify warranty period for defects and request the warranty for the completed work.

8. Issue - Servicing vehicles without contract – Priority – Significant

Finding In the payment for “Vehicle maintenance” we noticed that services were performed for two vehicles which were not foreseen in the contract and the value of these services was €340.

Risk Maintenance and servicing of vehicles without contract increases the risk that these vehicles were serviced at prices higher than the contracted ones.

Recommendation 8 When preparing procurement activities, sufficient analysis are conducted with the aim to include all vehicles in KJC’s possession for maintenance and servicing.

9. Issue - Receiving of Goods not according to the offered brand – Priority - Significant

Finding At the tender dossier “Supply with computers for the Special Chamber of the Supreme Court” in the amount of €4,900, we found that based on mandatory technical specifications, the bidder should have provided catalogues for the equipment offered. The contract winner had only provided the “DELL” brand catalogue (for monitors and towers), whilst the received goods were of the “Fujitsu” brand.

Risk There is a risk that the goods supplied do not meet the needs and expectations, and that they were not of the proper quality. Therefore, in this contract the achievement of value for the money spent is jeopardized.

Recommendation 9 Accountability and responsibility measures are strengthened concerning legal implementation of duties starting from preparing tender dossier up to receiving of goods.

10. Issue - Error in the classification of expenditures – Priority – Significant

Finding While testing payments, we have noticed errors in economic codes classification:

- Facility’s security expenditures: were recorded in the economic code 13460-contracting services, in the amount of €11,993, whilst the appropriate code is 13953 (security services).
- Rent tax expenditures for 2012 amounted at €11,889. These expenditures were recorded in the economic code 14110-rent for

buildings, but should have been recorded in the economic code 14510-Payment of tax on rent.

- In the payment of €92,109 for "Fuel for heating " we have found that €11,199 were fuel expenditures for the generator and which were registered in the economic code 13720-fuel for central heating, but this amount should be recorded in the economic code 13770-fuel for the generator.

Risk Registering expenses in inadequate economic categories presents an incorrect reflection of spending.

Recommendation 10 Revised procedures are introduced in the system ensuring that controls regarding the payments sector are increased, in order that, expenditures are classified and recorded in accordance with the approved accounting plan.

4.5.2 Other expenditures

Description

Other expenses include other purchases which are not subject to procurement procedures. From this expense category we tested 19 payments in the amount of total of €239,682.

Recommendations

11. Issue - Payment for extra work from the category of Goods and Services - Priority - Significant

Finding KJC established a committee to work on “Overall criteria for compensating groundless convicted or arrested persons’. The amount paid to a member for one session is €60. We have found that members’ payment for sessions held during 2012 is made from the category Goods and Services, namely, from the intellectual services code.

Risk The 2012 budget law prohibits spending public money from the category of Goods and Services for paying employees, whether in form of salaries or contributions. Compensation of expenditures from Goods and Services increases the risk for underpaid salaries and increase of other expenditures.

Recommendation 11 To undertake concrete measures for planning additional payments within the framework of the category of Wages and Salaries.

12. Issue - Official travel advances - Priority - Significant

Finding According to AI 2004/07 on official travels, advances for official travel expenditures should be closed within 15 days upon return from the travel. Four (4) tested advances for official trips, in total of €22,200, we have found that they were closed after the legal deadline.

Risk Delays in closing advances, respectively, returning the remaining of funds, may affect in inefficient use of funds dedicated for carrying out official duties with interest for KJC.

Recommendation 12 To increase responsibility of Senior Officers by requesting evidences for reasoning the funds spent during the travel and submit those in time and that proper procedures for closing the advances are carried out within the period prescribed by law.

4.5.3 Remunerations (Wages and Salaries)

Description

In 2012 for the category of Wages and Salaries, budget in the amount of €11,376,499 was appropriated to KJC, where €10,872,460 or 96% of the budget was spent.

We tested transactions related to salaries, personnel files, recruitment process, and we compared employment contracts and payments.

In 2012, KJC signed acts of appointments for all civil servants with fixed term period until 31.12.2012. The acts of appointments we issued in this way due to the fact that in 2013 courts will be subject to restructuring process, foreseen by the new Law on Courts.

Recommendations

13. Issue - Shortcomings within Acts of Appointment prepared by the KJC - Priority - Significant

Finding

While testing, we found that the employees' Acts of Appointment were not prepared in accordance with the law requirements. Based on the Law on Civil Servants for career positions, probation period is twelve (12) months, whilst for the non-career positions probation period is three (3) months. Identified shortcomings are as follows:

- Procurement Officer, employed in the career position got an Act of Appointment with probation period of (3) months and Certifying Officer got Act of appointment for a non-career position (to a certain period), whilst in the candidates notice it is stated that it is selected for a career position. In addition, probation periods was not set; and
- For all career positions, probation period in acts of appointment is specified for 3 month, whilst the probation period for all non-career positions in acts of appointments is not specified.

Risk

KJC did not take adequate measures ensuring that human resources office prepares acts of appointment in accordance with legal requirements. Shortcomings in acts of appointment regarding the probation period may lead to disagreements between the staff engaged and KJC.

Recommendation 13 Acts of Appointment are reviewed and after justice system is reformed, take into account the errors identified securing that acts of appointment are prepared in accordance with legal requirements.

14. Issue - Remunerations for Maternity leave – Priority -Significant

Finding While testing calculations for salaries of maternity leave, we have found that, there is no case where allowances were removed from basic salary. Under Regulation no. 06-2011 on maternity leave in the Civil Service, 70% of basic salary is paid for the first 6 months.

Risk Lack of controls in calculation of salaries, increases the risk of payments made to employees without legal basis.

Recommendation 14 Salaries for the employees on maternity leave should be calculated and paid according to the provisions in force.

15. Issue - Duty Execution – Priority – Significant

Finding Based on internal rule on the KJC's organisation, upon director's decision on 17.03.2010, that the position of deputy director and Assistant Director are exercised by the Directors of other departments. Since 2010 up to finalisation of audit, the management positions were exercised by the same officers, which were also benefiting salaries based on acting positions. Under the law on civil service, positions should not be covered with acting officers longer than three months.

Risk Holding senior management positions by acting officers could affect the achievement of objectives defined by the KJC.

Recommendation 15 To initiate procedures for completing positions covered by acting officers.

4.5.4 Subsidies and Transfers

Description

Expenditures from this category for 2012 were in the amount of €158,324. These spending relate to payments/compensations to the groundless convicted persons. These payments were made from the own source revenues.

Our tests have not identified any shortcomings regarding the management of this category of expenditures.

Recommendation

We have no recommendations in this area.

4.6 Assets

Overall Conclusion on Assets

For the end of the year 2012, KJC took concrete measures to carry out assets inventory and evaluation in accordance with AI no. 21/2009. But, a challenge for KJC is reconciliation of the internal Asset register with the requirements of the AI in order to incorporate information from reports into the Asset Register.

4.6.1 Capital and non capital assets

Description

According to AI no. 21/09, the budget organisation is obliged to annually establish the Assets Evaluation Committee and Asset Inventory Committee. KJC established committees in all courts, one committee per each court, in order to carry out assets evaluation and inventory.

We reviewed whether the recording process, maintenance and management of non-financial assets are in compliance with the requirements of AI no.21/2009 on recording and the management of Government Assets.

Recommendation

16. Issue - Failure to reconcile asset register - Priority - Significant

Finding Although the assets inventory was performed in 2012, KJC failed to use inventory reports for updating the internal Asset registry. The reasons for this were that the internal KJC's registry did not contain all the elements required by AI no.21/2009, such as: barcode, serial number, location and depreciation.

Risk Asset Registry is a database used for asset's management. Maintaining an Asset registry which does not contain any elements necessary for recording the information on assets, makes the inventory useless and does not meet the planned objectives. This threatens assets loss or alienation.

Recommendation 16 To ensure that the review of the actual asset registry is considered and completed with elements required by the Instruction in force, in order to ensure the recording, maintenance and preservation of assets from their loss or alienation.

17. Issue - Recording the goods in e-Assets software - Priority -Significant

Finding In case of purchasing fifty tires for the winter season, for new vehicles, in the amount of €4,952, the goods were directly received from the requesting department, respectively from the courts, and not through the warehouse. This affected that tires were not registered in the e-Assets software.

Risk Receiving Goods from the requesting unit and not through the warehouse increases the risks that the goods were not of the quality and quantity requested by the contract. In addition, lack of documentation for receiving of goods affected in failure to register these goods in e-Assets software.

Recommendation 17 Goods should be received through the warehouse in order to ensure that goods are of the quality and quantity requested and so that they are registered in the e-Assets software.

4.7 Handling of debts

Overall Conclusion regarding Handling of Debts

We concluded that the KJC managed to handle and administer debts well. The same are reported according to the requirements on reporting debts by budget organisations.

Description

Statement of outstanding liabilities to suppliers at the end of 2012 was in the amount of €199,006. These liabilities were related to invoices received at the end of the year and carried forward to be paid in 2013.

Recommendations

We have no recommendations in this area.

5 Internal Audit System

Overall conclusion on Internal audit system

In its annual audit plan, IAU included the current period and risk areas. We assessed that IAU assisted the KJC management in identifying shortcomings and progress of works. However, the Audit Committee was not fully operational during 2012.

Description

Kosovo Judicial Council established an Internal Audit Unit (IAU), which consists of the Head of Unit and three (3) audit officers. This unit prepared the annual audit plan for 2012, which was signed by the Director of SKJC. For 2012, this unit has conducted nine (9) reports, as well as one draft report. Audit reports carried out under the plan are:

- Two reports in separate regions, related to management of court revenues, expenditures of judicial procedures and execution;
- Report on the management of procedures for: recruitment, maintenance of personnel records, employee promotion process;
- Report on the procurement procedures and maintenance/servicing of vehicles;
- Report on the transport management;
- Report on outstanding liabilities and management of cash;

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- Report on procurement procedures during 2012;
 - Report on security procedures in SKJC and four Courts; and
 - Report on SKJC's budget management for 2011.

We have looked into audit reports completed by the IAU and assessed that this unit has given useful recommendations for management.

Recommendations

18. Issue - Non-functioning of the Audit Committee- Priority - Significant

Finding	Audit Committee during 2012 held only one meeting in May, 2012. The reason for not holding the meetings was that one member has resigned from the Audit Committee.
Risk	Non-functioning of the audit committee may affect in management's failures to fulfil the responsibilities in addressing the recommendations and maintaining the independence of the IAU.

Recommendation 18 To undertake measures for making Audit Committee (AC) with aim to use AC input in improving public internal financial controls.

6 Overall conclusion

Our overall conclusion reflects the review of the controls related to AFS, Financial Management and Control and Internal Audit System.

In several financial management areas, the KJC designed internal control systems which can provide a good base for effective and efficient use of public money and providing better quality of information, and supporting management decisions.

Compared with last year, KJC managed to avoid difficulties related to the revenues management software and this ensured that revenues are managed in accordance with the requirements. Budget was spent at the satisfactory level, although attention should be paid to implementation of capital projects.

Development of procurement procedures and contract management leaves room for further improvement. Controls should be strengthened and monitored from the beginning of the procurement activity until goods are received, in order to ensure that the value for money is achieved and secure that goods and services are received in accordance with the contract. Asset management is still not in line with current requirements. In addition, more attention should be paid to reporting of transactions and activities, in order to ensure that the spending in the economic category reflects the KJC's financial position.

The Internal Audit, by identifying control weaknesses and by giving recommendations for their improvement, gave support in developing an effective environment of internal control. In order to achieve this, management should increase its attention to implementation of recommendations from internal audit and making the Audit Committee operational.

Annex I: Explanation of the different types of opinion applied by the OAG

(extract from ISSAI 400)

9. An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse (paragraph 14) or a disclaimer (paragraph 15) of opinion.

10. An unqualified opinion is given when the auditor is satisfied in all material respects that:

- a) the financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
- b) the statements comply with statutory requirements and relevant regulations;
- c) the view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- d) there is adequate disclosure of all material matters relevant to the financial statements.

11. **Emphasis of Matter.** In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references which are meant as "emphasis of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

12. An auditor may **not be able to express an unqualified opinion** when any of the following circumstances exist and, in the auditor's judgement, their effect is or may be material to the financial statements:

- a) there has been limitation on the scope of the audit;
- b) the auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or
- c)]there is uncertainty affecting the financial statements.

13. **Qualified Opinion.** Where the auditor disagrees with or is uncertain about one or more particular items in the financial statements which are material but not fundamental to an understanding of the statements, a qualified opinion should be given. The wording of the opinion normally indicates a satisfactory outcome to the audit subject to a clear and concise statement of the matters of disagreement or uncertainty giving rise to the qualified opinion. It helps the users of the statements if the financial effect of the uncertainty or disagreement is quantified by the auditor although this is not always practicable or relevant.

14. **Adverse Opinion.** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.

15. **Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

16. It is customary for SAIs to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

Annex II: Prior year recommendations

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
1. Budget planning and Execution	Budget is planned and executed in compliance with the cash flow plan in order to avoid excessive spending by the end of the year.		Partially	
2. Revenue	The revenues software is maintained in order to have eventual errors evidenced and eliminated in time so as to avoid such differences in the future.	Yes		
3. Procurement	Contracts are signed as a result of a procurement process carried out in compliance with the public procurement legal framework; Detailed analyses are made before procurement procedures are developed in order to have a contract estimated amount set as realistically as possible, procurement procedures selected adequately, and achievable Technical		Partially	

	Specifications; and Contracts are executed fully in accordance with the other contracted terms as well as by adhering Technical Specifications in the Tender Dossier, document changes and secure that decisions are taken at proper levels.			
4. Subsidies and transfers	Process of preparing documentation for compensation of groundless convicted persons is developed in order to have accurate and complete documentation.	Yes		
5. Assets	The process of assets and inventory registration in the E-assets is carefully followed up securing that all assets are registered; and The Assets Officer is supported with in order to have this process accelerated.			Jo
6. Reporting requirements	The action plan for addressing the recommendations given in this reports is prepared in time.	Yes		
7. Internal Control System	Duties and responsibilities of the civil servants are prepared in accordance with new requirements of FM/C and	Yes		

	reforms of judicial system.			
8. Internal Audit	Further efforts are made in addressing all recommendations given by the internal audit.		Through a memo, the general director has appointed persons responsible for implementing recommendations; however the IAU's recommendations were not followed.	