



**REPUBLIKA E KOSOVËS**  
**REPUBLIKA KOSOVA / REPUBLIC OF KOSOVA**

**ZYRA E AUDITORIT TË PËRGJITHSHËM**  
**KANCELARIJA GENERALNOG REVIZORA / OFFICE OF THE AUDITOR GENERAL**

**Raporti Vjetor i Auditimit**  
**Godišnji Izveštaj Revizije**  
**Annual Audit Report**  
**2010**

Prishtinë, 31 Gusht 2011



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# **Annual Audit Report**

## **2010**

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## Acronyms

AAR	Annual Audit Report of the Auditor General
AC	Audit Committees
ACA	Anti Corruption Agency
AFS	Annual Financial Statement
AG	Auditor General
AI	Administrative Instruction 2005/11
APR	Annual Performance Report of the Auditor General
CAO	Chief Administrative Officer
CBK	Central Bank of Kosovo
CFO	Chief Financial Officer
CHU/FMC	Central Harmonisation Unit for Financial Management and Control
CHU/IA	Central Harmonisation Unit for Internal Audit
FY	Financial Year
FMC	Financial Management and Control
GL	General Ledger
IAU	Internal Audit Unit
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
KC	Kosovo Customs
KCB	Kosovo Consolidated Budget
KFMIS	Kosovo Financial Management Information System
KPC	Kosovo Protection Corps
KTA	Kosovo Trust Agency
LPFMA	Law no. 03/L-048 on Public Finance Management and Accountability
MESP	Ministry of Environment and Spatial Planning
MoF	Ministry of Finance and Economy
MLGA	Ministry of Local Government's Administration
MPA	Ministry of Public Administration
MKSF	Ministry for Kosovo Security Forces
OAG	Office of the Auditor General
PAK	Privatisation Agency of Kosovo
PCK	Pharmaceutical Cooperate of Kosovo
PFMA	Public Financial Management and Accountability
PIFC	Public Internal Financial Control
PPA	Public Procurement Agency
PPL	Public Procurement Law
PPRC	Public Procurement Regularity Commission
RTK	Radio Television Kosovo
SCD	Single Custom Declaration
SIGTAS	Tax Administration system
TAK	Tax Administration of Kosovo
TIMS	Trade Information Management System
UCCK	University Clinical Centre of Kosovo
UNMIK	United Nation Mission in Kosovo

## Address by the Auditor General



*Honourable Members of the Assembly,*

*It gives me great pleasure to submit this year's Annual Audit Report. This report covers the Government's implementation of the 2010 budget and the Annual Financial Statements of the Kosovo Budget for that period.*

*The Office of Auditor General continues in its core mission of giving a base for holding public spending bodies to account. But, this report also draws out common themes which support these bodies in pursuing improvement.*

*We have worked closely with the Assembly in order to expand our capacity to deliver quality information on the use of public funds, and to add value to the efficient and effective functioning of the public authorities. Our cooperation with the Government*

*in developing approaches for and building good governance and better systems for financial management and control has also yielding significant benefits.*

*The financial management approaches are developed, the legal framework is getting more consistent and the parliamentary oversight is getting stronger. To roll these intentions out over the entire public sector takes time.*

*The information quality in the Annual Financial Reports is improving year on year. But, at the same time the bodies we audit have to improve financial management and control. In the implementation of the new financial management approaches commitment and support from highest levels are crucial. Good examples on "how to do it" are needed and firm stands have to be taken in cases of mismanagement.*

*Where we have found weaknesses we have made constructive recommendations for change. We will closely follow how the audited body's addresses our recommendations and continue to work in close partnership with them, acting as a key driver for change in the public sector.*

*This report lays out in clear and honest terms the areas where we must all do our part to push forward improvements in the public sector. It is my hope that you will find it a useful tool in identifying areas where we can all work together to the benefit of the public sector and to the citizens of Kosovo.*

*I commend this report to Honourable Members and look forward to your deliberations and responses.*

*Prishtina, 31 August 2010*

*Lars Lage Olofsson  
Auditor General*

A handwritten signature in black ink, appearing to read 'Lars Lage Olofsson'. The signature is written in a cursive, flowing style.



## Executive Summary

My overall Opinion on the Government's Annual Financial Statements (AFS) on the KB 2010 is that they are, in all material aspects:

- In compliance with the Law on Public Financial Management and applicable Administrative Instructions;
- In accordance with IPSAS<sup>1</sup>; and
- Give a true and fair view of the financial situation of the KB.

This is thus an 'Unqualified Opinion' in line with internationally recognised Auditing Standards by the International Organisation of Supreme Audit Institutions (ISSAI 400 cf. appendix 1).

We are able to give an opinion on the financial statements of the KB as a result of our audit work on the underlying budget organisations. Our audit for 2010 has covered 99% of the revenues and 87% of the expenditures as consolidated into the KB AFS.

During the audit season we have carried out 89 audits:

**Table 1: Audits carried out and reported**

Audited entities	Audit Season 2010/2011	Audit Season 2009/2010	Audit Season 2008/2009	Audit Season 2007/2008
<b>Regularity Audits:</b>				
KB	1	1	1	1
Central Authorities	24	23	17	16
Municipalities <sup>2</sup>	37	33	33	29
Independent Agencies	15	7	5	8
Outside KB (public enterprises)	4	2	1	
Donor Fund (Danida)	1	1		
<b>Management Audits of public enterprises:</b>	4	2		
<b>Performance Audits:</b>	3	1		
<b>Total</b>	<b>89</b>	<b>70</b>	<b>57</b>	<b>54</b>
<b>FM/C Health Checks<sup>3</sup>:</b>	<b>34</b>			

Not including our KB AFS opinion the 81 Regularity audits opinions were as follows:

- Fifteen (15) Unqualified;
- Thirty five (35) Unqualified with Emphasis of Matter;
- Nineteen (19) Qualified;
- Nine (9) Disclaimers; and
- Three (3) Adverse Opinions.

1 International Public Sector Accounting Standards

2 The audit of the municipalities' AFS was contracted out in 23 cases during the Audit season 2010/2011. The previous seasons the number outsourced audits were 29, 31 and 19

3 Health Checks of Financial Management and Control status is carried out during the current year in organisations not under full Regularity audit in order to be preventive and give advices

In comparison with earlier years this is a clear indication on that the external financial reporting is improving in quality. There are, however, *shortcomings in the reporting processes*, which are not so material as to affect the overall quality of the information.

There are still challenges in securing consistent reporting of assets between Treasury general ledger and Budget Organisations financial statements. Improper and inaccurate presentation of assets in the AFS of budget organisations has resulted in an underestimation of the value of publicly owned assets. Securing compatibility between the KFMIS and the e-asset system should assist in this.

There were also differences between the KB AFS and in the AFS of the individual Budget Organisations in the area of disclosing outstanding liabilities due to inappropriate disclosures in the latter.

Revenues are in general regular and are recorded correctly. Some deficiencies are related to:

- Timely reconciliations between Budget Organisations and the Treasury;
- Failure to register the transaction within the adequate economic codes;
- Lack of sufficient measures when it comes to collection of revenues; and
- Amongst certain of the Municipalities there are general accounting problems.

The Government reporting system is not yet fully developed. Existent reporting arrangements are not producing comprehensive information of the business for the external needs. According to the applicable legal framework every Budget Organisation should produce both financial and operational reporting. In practice, production of this information is on different stages of development. The situation on operational reports is the same as in previous year, most Budget Organisation's were not producing them at all. Few others did it for other purposes rather than using it as a tool within the budget process and for accountability discharge. The Government have recently put focus on this reporting requirement.

Lack of sufficient information creates difficulties for the Assembly in holding Government to account for the policies implemented and resources used.

*Budget management* is still at an unsatisfactorily level. I would like to draw your attention to some specific issues of concern:

- The Budgetary Organisations still *increased their spending during the last quarter*. This is an indicator of poor planning and a sign of avoiding a surplus. At the same time this increases the risks for random spending and poor value for money.
- There is a need for substantial improvement in the handling of *procurement*. The public procurement process still remains one of the main challenges in the Public Internal Financial Control system. The on-going amendments to the Public Procurement Law and the complexity in interpreting it besides a limited usage of central procurement tools and delays in the production of guidance have added to the challenge of implementation. The lack of internal procurement guidelines within budget entities, delayed initiation of procurement activities and weak monitoring of contracts characterise most of the budget entities.
- In our view 2010 saw improvements in the development of *Internal Audit Systems*. The Government has focused on building the basic competencies

of internal audit, but a number of challenges remain. The internal audit plans produced are still often insufficiently elaborated and there is a lack of a clear focus related to the business of the organisation in question. The audits that are carried out are still mainly focused on individual transactions and on compliance. Insufficient emphasis is given to a systems oriented, a materiality-driven and risk based approach. To a large extent the internal audit is focused on the previous year. The establishment of the Internal Audit System at smaller budget organisation is lagging behind. A window has been opened for shared services in these cases. In practices though, still used in few cases. In short, the internal audit function still has to prove its practical worth to management.

- In many budget organisations, the *Public Investment Programme* procedures have not been followed to ensure that projects are properly prepared before inclusion in the capital budget submission presented to the Assembly.
- *Human Resource* is an important area in meeting the objectives and developing good governance. Public expectations on service levels will continue to rise. Institutions need to be able to continue to attract talented and committed people, a necessity if they are to deliver value for money. The MPA is responsible for secondary legislation. The delays in the implementation of the LCS and LSCS are related to the delays in the production of secondary legislation. The further development of Human Resource Management throughout the public sector depends on clarifications of the laws, development of appropriate tools, guidance and support to the Budget Organisations’.
- A number of Budget Organisations still *pay salaries from incorrect budget categories* and a part of their salary costs are still paid directly through the Treasury.
- Budget organisations are still *not addressing my recommendations sufficiently*. I am not satisfied with the Budget Organisations’ progress in addressing my recommendations. This is now addressed at all relevant accountability levels. The Assembly push the Government to secure action on external audit recommendations amongst the Budget Organisations. The Government has created a mechanism aimed at fostering a better situation. I will monitor this situation carefully.

Important causes behind these issues are:

- A lack of proper understanding amongst management of the basic features of Financial Management and Control and the responsibilities of management in this area;
- A weak Control Environment that needs to be further strengthened throughout the public sector. Little emphasis is placed on setting the tone at the top and leading by good examples. To some extent managers at all levels to set examples through their decisions, actions and behaviours. A strong message should be sent on the importance of adhering to the principles of good governance and FM/C;
- A lack of adaption of generic control requirements to the specific needs and characteristics of the individual organisation;

- A focus on formalities and input rather than on implementation and results; and
- Laws and regulations are to a certain extent still inconsistent and ambiguous.

The measures taken by the Government with the objective of strengthening FM/C is foreseen to yield results in the near future. There is a need for strong commitment on central level, consistency and coordination. Budget spenders need more guidance, examples of good practice and other forms of support within these areas.

I recommend the Assembly to:

- Actively and closely follow up the execution of the Budget Law so that it is used correctly, rationally, as designated, and in coherence with budget appropriations;
- Ensure that the PPRC carefully follow up and evaluate the implementation of the amended Procurement Law, especially the mechanism in which accountability and control operate. Clear duties and an emphasis on individual responsibilities would ensure efficient use of public money; and
- Reconsider its current requirements for information from the Government. It could be considered to replace the current requirement of a special report the internal audit development with a requirement on a comprehensive report on the progress in the whole FM/C field as a whole. In this way the context will be addressed in a wider way at the same time as a base for reporting to the international partners will be established.

### *Independent Institutions*

Strong, professional and independent institutions are necessary for consolidation of democracy and to drive the country closer to the EU membership. Their independence must be assured at the same time as the managers must be held to account for the way the budget is executed.

The independent institutions face a number of mutual challenges. A better budget dialogue and a de facto independence have to be guaranteed by the Assembly. A more consistent reporting on both finances and results would facilitate this as well as creating better conditions for the Assembly's work.

I recommend the Assembly to consider:

- Strengthening the follow up of actions taken by independent institutions regarding audit recommendations;
- Establishing new reporting requirements combining financial and operational reporting thus paving the way for a more developed budget dialogue; and
- Drafting a legal framework for independent institutions determining criteria guaranteeing independence and specifying accountability requirements.

### *Municipalities*

The audit of the municipalities gives a better picture regarding the quality of external reporting compared with the situation in previous years. At the same time Financial Management and Control leaves room for improvement. Many earlier recommendations have not been properly addressed. The same weaknesses are therefore repeated from year to year; with the result that public financial management is improving at only a very slow rate.

The lack of an Executive Manager in the municipalities seems to be one important factor behind the managerial shortcomings and the inefficiency in carrying out public services and investment in a business wise way.

The new methods and tools introduced by the Government aimed at securing a better external reporting and FM/C in the municipalities are important. Current practices endanger the effectiveness of the delegation of powers.

I recommend the Assembly to consider introducing:

- The post of Executive Manager as the highest civil servant in the municipalities paving the way for a better FM/C; and
- Mechanisms for a close follow up of the Public Financial Reform ensuring better external reporting and financial management.

### *Publically and Socially Owned Enterprises and Privatisation*

The biggest weakness in the operations of these enterprises is that the service to the citizens is not of a sufficient quality. Owners as well as Boards and executive managers have a stake in this.

The enterprises did not establish proper management controls and the quality of the external reporting leave scope for further development. Revenue collection continues to be at a low level. Every year the account of receivables increases. In addition, operational losses are constantly suffered which are continuously covered by subsidies from the owners. These indicators of poor performance of the enterprises endanger the principle of continuity.

During 2010 the owners failed to properly monitor the performance of the enterprises. Neither did they monitor the financial risks, nor undertake the required measures conform to the principles of transparency, governance and accountability.

The pace of the privatisation should be more rapid in securing the set objectives. More attention should be paid to the strengthening of the overall internal control environment as a base for sound and efficient management of the Privatisation process. The current legal framework is foreseen to be revised securing better prerequisites for the process finalising all privatisations in due time.

Time management of the process has still room for improvement. The liquidation process is developing quite slowly. Monitoring activities should be intensified securing better management of commercialised enterprises. Correcting measures against irresponsible contractors should be applied and competition should always be secured.

I recommend the Assembly:

- To tightly follow how the Government respectively PAC fulfils the role as the representative of the owners in POEs and SOEs; and
- Create best possible conditions for and closely follow the implementation of the privatisation process.

Following good European practice I have asked for the Government's comments on the AAR. The Minister of Finance has, on 25 August 2011, given his and the Government's comments. I would like to thank the Minister for these comments and draw the conclusion that we have a shared view on all material facts presented in the final version. We also seem to have a basic consensus on how to address the problems encountered.

# 1 Introduction

The OAG has managed to keep pace with reporting legal requirements during this year. We managed to report all our audits in time, giving the opportunity to the Assembly and Government to close the chain of accountability in accordance with the budget cycle. This has enabled the timely reviewing of reports and addressing of audit results.

We are glad to know that all stakeholders are increasingly interested in the audit results. In particular, the COPF has been very active in reviewing reports and drawing conclusions from the hearing sessions. Moreover, a new spirit of cooperation is established with all audited bodies.

The interim audit approach applied has resulted in the elimination of many errors in the financial statements and an improvement in information quality. The first results have been noticed during this year.

This Annual Audit Report (AAR) is a comprehensive and analytical summary of our audit findings and recommendations on the Financial Year (FY) 2010. The Auditor General expresses in this report an *Audit Opinion* (in accordance with ISSAI 400) on the *Financial Statements of the Government of Kosovo for the FY 2010*. This constitutes a pivotal document in the political as well as the administrative accountability process delivered by the Auditor General to the Assembly. Submitting this report within the statutory time allows the Assembly to hold the Government to account for its political and administrative responsibility in due time.

Primarily in this report we address the Government's KB report, but our findings and conclusions are also drawn from our reports on audits carried out on the Budget Spenders and some other public actor's<sup>4</sup>.

In appendix 2 a table can be found including opinions given and the most significant managerial shortcomings in the individual audited bodies. More specific information regarding the individual audit reports can be found on our web site <http://oag.rks-gov.net>

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<sup>4</sup> The reports on our audit of budget spenders may be find on our website: [www.oag.rks-gov.net](http://www.oag.rks-gov.net)



## 2 External Audit and Accountability

The role of the Auditor General is to give a base for closing the accountability chain between the Assembly and the Government. The Auditor General's role is crucial in promoting the managerial accountability principles in the ministries, municipalities and other public enterprises. The Auditor General fulfils this responsibility through the annual audit of the Government's report on the budget execution and underlying reports. Thus providing assessments on the accountability process of all actors.

This is achieved by conducting mandatory regulatory audits of KB execution and of some institutions outside KB, as well as performance audits on economy, efficiency, and effectiveness of governmental operations and services. An audit is reported to the audited body and the Assembly. The Assembly is continuously informed about the audit findings and conclusions. The Auditor General's reports are made public – so providing to the citizens information regarding the Government's performance.

The Office of the Auditor General (OAG) examines and assesses the financial statements and other records through the regularity audit, providing an opinion on:

- Whether the financial statements give a *true and fair* view of accounts;
- Whether the financial records, systems and transactions comply with the applicable laws and regulations; and
- Appropriateness of internal control and internal audit functions.

The Performance Audit aims to increase the economy, efficiency and effectiveness of government activity in order to maximise value for money for the Kosovan taxpayer. This type of audit is still in its early development stage and has just now started to give the first results.

The scope of the Auditor General's activities is wider than stated above. Parallel to the assessment of the financial reports and operational performance, the office gives advice on the Financial Management and Control (FM/C) related issues to all its stakeholders, thus contributing in building good governance in the Kosova public sector.

### Strengthening Accountability of Top Management

The Public Internal Financial Control (PIFC) Framework is the base for managerial accountability.

The FM/C process aims to ensure that an organisation's objectives are being achieved, within a reasonable limit, by:

- Acting in compliance with laws, secondary legislation, internal regulations, and contracts;
- Providing reliable, comprehensive, and timely information regarding the financial and operational performance;
- Acting with economy, effectiveness, and efficiency; and
- Maintaining assets (including information).

In the structure of accountability and control, the Ministers are the ones responsible for the operations in their respective ministries, for which they are accountable to the Assembly. This is

a principle of crucial importance which ensures that the elected representatives are held to account over the spending of public funds and management of public assets. The Ministers' subordinates are the Civil Servants and other individuals carrying out public operations.

Unlike the Budget Organisations (BO) where the Minister's political role is separate from the CAO's responsibility to administer and run the organisation, the Mayor runs both, the local government and its administration/operations, and is accountable to the people regarding the activities on both areas.

An organisation may be considered as having an effective framework of FM/C when clearly understood and applied by the CAO and downwards in all the levels of organisation. It should include a wide range of preventive control activities which include:

- Authorisation and approval procedures;
- Segregation of duties (authorisation, proceeding, registration, reviewing);
- Control over access to resources and registers;
- Verification;
- Reconciliations;
- Reviewing of operational performance;
- Reviewing of operations, processes, and activities;
- Supervision (duties assignment, reviewing, approval, instruction and training); and
- Controls over development, implementation, operation and maintenance of IT infrastructure and applications.

Every senior manager in the public sector entities is fully responsible for the implementation of PIFC and should be held accountable for the way in which public resources are used in achieving the organisation's objectives. Risk Management is a key element of management, besides taking appropriate measures securing effective operations and combating mismanagement of different forms.

## 3 Annual Financial Report and Government Accountability

### 3.1 Introduction

On 28 March 2011, the Government submitted its Annual Financial Statements (AFS) of the budget of Republic of Kosovo for 2010 to the Assembly and the Auditor General for consideration. Due to a difference on the own source revenues of the Municipalities the Statements were corrected and submitted once again on 4 April 2011.

KB Annual Financial Statements for the FY 2010 should be prepared on the basis of the overall framework established by the LPFMA and in accordance with Cash Basis International Public Sector Accounting Standards (IPSAS).

The preparation of AFS of KB is based on conclusive records of the General Ledger processed by the Kosovo Financial Management Information System (KFMIS), managed by the Treasury.

On the introduction of the Annual Financial Statements it is stated that “These Annual Financial Statements are in full compliance with legal requirements and definitions of the Law on Financial Management and Accountability (03/L-048); and in accordance with Cash Basis International Public Sector Accounting Standards. “We consider and strongly believe that these Annual Financial Statements *give a true and fair view* of the finances, financial situation and financial transactions of the Kosovo Institutions of the Budget of Republic of Kosovo for the financial year 2010”<sup>5</sup>

Altogether, there are three Statements constituting the overall Consolidated Statement:

1. Consolidated Statement of Cash Receipts and Payments
2. Consolidated Statement of Comparison of Budget and Actual Amounts
3. Consolidated Statement of Cash Assets and Fund Balances

The Auditor General is by law (Law on the Auditor General and the Office of the Auditor General and the Law on Public Financial Management and Accountability) required to express an *Audit Opinion*, in line with internationally recognised auditing standards – ISSAI 400, relating to the Financial Statements as a whole. This chapter addresses the Auditor Generals’ Opinion and the main conclusions supporting his opinion.

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5 Statement of the Minister of Finance and the Director of the Treasury, 28 March 2010, page 4.

## 3.2 Audit Approach

The approach to give an audit opinion by the Auditor General is the following:

*First*, an analytical review is carried out by testing and reconciling different sources of information to assess the AFS quality. This involves mainly the different budget appropriation documents and the outcome figures; the balances on the underlying accounting by the Budget Organisations (BO), the payroll system and the General Ledger (Free Balance) at the Kosovo Financial Management Information System (KFMIS) at the Treasury as well as an assessment of the required structure and classification by IPSAS and the applicable laws and regulations.

*Second*, an overall and consolidated conclusion of the outcome of our Regularity Audit of the FY 2010 as well as the outcome of Performance Audits is given.

*Third*, the Auditor General forms his Opinion, in line with internationally recognised standards - the ISSAI 400, on the AFS based on the outcome of the first two steps.

*Fourth*, the Auditor General provides recommendations to the Assembly on the basis of the outcome of the three previous steps.

## 3.3 Analytical Review

The budget 2010 was prepared and approved pursuant to Law no. 03/L-177, whilst the budget review was made in accordance with Law no. 03/L-218 on Budget appropriations for 2010. This law also included mechanisms enabling possible changes during the year.

*Table 2: Overall Budget Appropriations of FY 2010 (in '000€)*

	Budget by Law no: 03/L-177	Budget by Law no. 03/L-218	Budget according to KFMIS
Central Government Budget 2010	825,809	921,002	919,545
General Government Grant for the Municipalities for 2010	234,105	242,442	258,178
Municipalities' own source revenues 2010	50,400	51,981	55,963
Municipalities' own source revenues carried forward from 2009	-	-	21,585
Own source revenues of the central level for 2010	19,200	19,200	21,792
Own source revenues of the central level carried forward from 2009	-	-	2,903
Other	85,000	70,252	70,252
<b>Total of appropriations for 2010</b>	<b>1,214,514</b>	<b>1,304,877</b>	<b>1,350,217</b>

### 3.3.1 The Consolidated Statement of Comparison of Budget and Actual Amounts

We have analysed the execution of the budget comparing to the original, reviewed and final.

The budget executed for the year 2010 is €1,287,523,000.

Out of this, €1,215,639,000 was paid for general budget expenditures. €60,000,000 was loan to Public Enterprises (KEK) and €10,252,000 payments for foreign debts.

The budget spent for 2010 is financed from the following budgetary sources:

- Revenues €1,127,073,000
- Foreign Funding €67,435,000
- Funds Carried Forward €93,015,000

The budget deficit<sup>6</sup> for 2010 was €160,450,000. It was funded by foreign funding<sup>7</sup> and funds carried forward as surplus from previous years.

The budget approved by the assembly is executed around 94%. Actual amounts spent are within the budgetary limits set forth by the Assembly. Actual amounts collected are around 95% of the budgeted amount.

## Conclusion

Consolidated Statement of Comparison of Budget and Actual Amounts is prepared according to the applicable accounting standards and MoE Instructions. Amounts presented in this part are consistent with other parts of AFS of KB. Data presented in this statement is showing a true and fair view. The quality of the management of the transactions is analysed in other chapters of the report.

Revenues collected only from taxes were in the amount €893,603,000. Out of this amount, €99,385,000 were from Customs while €194,218,000 from the Tax Administration (TAK).

### 3.3.2 The Statement of Cash Receipts and Payments

#### a) Analysis of the cash receipts

The amount of the total collected receipts for Kosova budget 2010 were in the amount of €1,178,589,000 or 95.8% compared to final budget. (Non-collection was in the amount of €1,811,000). The receipts collected comprises of:

- Revenues €1,041,496,000 and
- Other receipts €137,093,000

Planned revenues in the final Kosova budget for 2010 were in the amount of €1,020,400,000. The collection was €1,041,496,000 so exceeding the plan by 2%.

Revenues collected only from taxes were in the amount €893,603,000. Out of this amount, €99,385,000 were from Customs while €194,218,000 from the Tax Administration (TAK).

6 Budget deficit is the amount by which a government spending exceeds income over a particular period usually one year.

7 Foreign funding includes: Foreign borrowings, from IMF, World Bank, trust fund and direkt supports to budget.

8 Net revenues are all collected revenues of the recoveries incurred.

Table 3 Budget movements of receipts 2010 (in €000)

Type of Receipts	Final Budget	Actual 2010	%	Actual 2009	Actual 2008
Tax Revenues	890,000	893,603	100	815,805	805,030
Own revenues	78,900	100,480	127	77,950	71,850
Non-tax revenues	51,500	47,412	92	53,062	65,645
<b>Revenues</b>	<b>1,020,400</b>	<b>1,041,496</b>	<b>102</b>	<b>946,817</b>	<b>942,525</b>
Dividends	85,000	85,000	100	200,000	0
Foreign Borrowings	44,000	22,093	50	0	0
Budget Support	81,000	30,000	37	0	0
<b>Other Receipts</b>	<b>210,000</b>	<b>137,093</b>	<b>65</b>	<b>200,000</b>	<b>0</b>
<b>Total Receipts:</b>	<b>1,230,400</b>	<b>1,178,589</b>	<b>96</b>	<b>1,146,817</b>	<b>942,525</b>

### Collection of tax revenues by Customs

Net revenues planned were €700,000,000 while €699,385,000<sup>8</sup> or 99.8% were collected. The revenues compared to 2009 have increased with 9.3%, and compared to 2008 with 13.6%. We have not found any irregularities or errors of material importance which is worth mentioning in this report.

### Collection of tax revenues by TAK

TAK planned to collect revenues in the amount of €190,000,000 and €194,218,000 was collected, thus exceeding the planned amount for 2%.

The TAK Legal Framework foresees that debts older than six years old should be written off if it is assured that they cannot be collected. This framework also requires all the actions that should be undertaken to collect taxes within six years after the tax are evaluated, including the mandatory collection.

As deadline expires, where TAK considers that it will be impossible to collect any tax due, TAK may recommend the MoF to cancel the liability, by transferring it into an inactive debit account.

Despite this request, TAK still has a large amount of unpaid taxes to collect – some of which goes back many years. The total amount of debts is €240,733,701. Out of this, €165,410,140 is less than six years old, while €75,078,573 is older than six years.

By looking at the age of these debts we can see that 95% of the unpaid tax debts have been created before 2010.

All the debts are from taxes, fines and interests. The most important one is VAT, which represents 38% of overall outstanding debt.

The above mentioned data show insufficient efficiency in collection of debts. This has subsequently resulted in a continuous increase of debts over the years. The reason for this is that legal actions have not been implemented properly during the enforced collection of the tax liabilities.

## Dividends

The MoF is the only authorised shareholder for the declared dividends from PTK and Prishtina International Airport (PIA). In 2010 €80,000,000 were received from PTK and €5,000,000 from PIA.

In May 2010, PIA Board declared a dividend in the amount of €10,000,000. Even though this dividend was declared it was not included in the reviewed budget for 2010. Instead the budget included €5,000,000.

One part in the amount of €5,000,000 has been paid in a timely framework in 2010, while the other part of the payment has been delayed until 2011.

MoF should have taken more prompt actions to secure better cash management. These funds could have been used for other purposes or losses of interest rate could have been avoided.

MoF shall be more active in securing timely collection of its dividends.

## Revenues of interest

Revenues from interest are collected from the investments of public money and borrowings. In 2010 the total of revenues from interest was €11,718,000. This was made up of interest from investments €6,346,000 and interest from the loan to KEK €5,372,000.

The revenues from the interest of the loans to KEK in amount of €5,371,000 belong to the period 2008-2010. Further down you may find additional information regarding the handling of these loans.

## Management of Revenues

We have noticed shortcomings in the management of revenues, from the collection over the recording and to the reporting phase. We found the following common themes:

### *Failure to adhere to the Memorandums*

Within the memorandum of understanding between the MoF and BO the terms for use of the Own Source Revenues are defined. Three BOs failed to comply with the terms of agreement and funds were not used as intended.

Licenses were not issued in accordance with the legal framework

The conditions and criteria for granting licenses to Economic Operators (EO) in order for them to exercise their activities are outlined in clear legal basis. We have noticed that in certain cases BOs issued licenses for EOs which did not adhere to the defined legal criteria. Such cases are identified in the Ministry Trade and Industry and Telecommunications Regulatory Authority and one case in the Municipality of Gjilan.

### *Measures for application of penalties in relation to payment of fees were not taken*

In five cases we have noticed that EOs failed to meet their obligations within the specified time. Despite this, BOs did not undertake the required measures for their collection and no penalties in case of delays were applied.

### *Incomplete records of revenues and inadequate reporting*

From individual audit reports, we noticed irregularities from the recording data and reporting phase. Departments which have collected revenues had incomplete records regarding the

collection. In addition, the revenue recordings by Departments of Finance were made only from bank reports and there were no reconciliations with other departments.

*Records not reconciled with Treasury data and not reported under defined economic codes*

In some instances BOs records presented in the financial statements were not reconciled with the records presented in KFMIS. In addition, the recording of revenue is not allocated to the correct economic codes within the ledger. This shows that the information quality in annual financial statements by economic category was not accurate.

## Conclusion

BOs did not secure functional controls over the reporting of own source revenues. Collection in some cases was not in compliance with the relevant legal framework. In addition, the reporting was not made at the correct level. Departments of Finance did not finalise their records with source documents, and in some cases also not with KFMIS. As a result, reporting in some cases was not accurate and fair.

## Recommendation

We recommend the Assembly to follow how the Government ensures that the BOs collecting revenues:

- Adhere to memorandums of understanding entered into with MoF on use of own source revenues;
- Establish and maintain controls over the issuance of licenses. Licenses shall be issued only to those EOs which meet all the relevant criteria;
- All necessary measures for the collection are taken. In cases when there are delays by EOs in paying revenue, applicable penalties should be applied; and
- Establish and maintain complete and accurate evidence for the collection of own source revenues and that the Finance Department reconciles the records with its source records (for those departments which collect revenues).

The handling of revenues in public enterprises will be addressed under chapter 6.

### b) Analysis of payments

The final budget for expenditures was in the amount of €1,350,217,000, Out of this, €1,271,843,000 was spent in total, representing 94% of the budget. At the end of the year €78,375,000 remained unspent.

Analysis of the actual expenditures against the budget and comparing with the previous year's shows as follows.

Table 4: Actual expenditures against the budget for 2010 (in €000)

Description	Final budget	Outcome 2010	%	Outcome 2009	Outcome 2008
Wages and Salaries	315,902	311,417	99	264,396	227,091
Goods and Services	180,534	162,635	90	151,763	139,371
Utilities	22,311	19,516	87	19,225	18,481
Subsidies and Transfers	257,526	252,679	98	256,901	209,769
Capital Expenditures	503,010	455,344	91	400,380	347,103
Reserves	682	0		0	0
<b>Sub total</b>	<b>1,279,965</b>	<b>1,201,591</b>	<b>94</b>	<b>1,092,665</b>	<b>1,073,440</b>
Loan to KEK	60,000	60,000	100	78,829	8,711
Foreign debt	10,252	10,252	100	43,815	
IMF membership	0	0		17,030	0
<b>Sub total</b>	<b>70,252</b>	<b>70,252</b>	<b>100</b>	<b>139,674</b>	<b>8,711</b>
<b>Total:</b>	<b>1,350,217</b>	<b>1,271,842</b>	<b>94</b>	<b>1,232,339</b>	<b>950,526</b>

Besides the above amounts, an additional €15,681,000 was used from designated grants of donors. These donations were used for following purposes:

Wages and Salaries	€4,782,000
Goods and Services	€4,523,000
Utilities	€12,000
Subsidies and Transfers	€805,000
Capital Investments	€3,928,000
Recovery of deposit funds	€1,632,000

### Wages and Salaries

The expenditure on salaries from the Kosova budget for 2010 was €16,199,917 (€11,417,028 from KB and €4,782,889 from donations). €13,412,315 was spent through payroll administered by Ministry of Public Administration (MPA), the remaining €2,787,602 was paid by the BO's through the Treasury.

In addition to this, some organisations were still paying staff's salaries, wages and meal allowances from the budget dedicated for goods and service and subsidies. This raises doubts over the quality of their financial budgeting and reporting (for more see chapter 4).

### Debt Payments

The outstanding debts in 2009 for central and local level were in the amount of €4,197,860 (this does not include the POEs liabilities). During 2010 these debts increased significantly, and by the end of 2010 they amounted to €28,536,329, an increase with 580%.

## Loans to Publicly owned Enterprises

During the period 2005-2010, the Government gave €157 million as a loan to KEK asking principal repayment and interest payments in return. The loan statement is presented in the table below.

**Table 5: Government Loans to KEK (€000)**

Loans per years	2005	2006	2007	2008	2009	2010	Total
Funds given to KEK	10,000	-	-	8,711	78,829	60,000	157,539
Funds Returned <sup>9</sup>	-	-	-	-	-	587 <sup>10</sup>	587
Outstanding loan							156,812

The agreement from 2005 foresees that the loan given in amount of €10,000,000 should have been fully repaid by KEK by the end of the financial year 2008. However, it is not repaid yet.

The Agreements for other loans in the period from 2008 to 2010 foresee that the principal repayments and the interest payments shall start 12 months after the funds are withdrawn by KEK.

Up until the end of 2010, KEK paid interest in the amount of €5,371,311 to MoF and principal repayment in amount of €587,000 related to loans of 2008-2010.

On 22 November 2010, under the request of KEK Management, the agreements related to the 2008-2010 loans were amended. Through this, MoF released KEK from interest payments and postponed the refunding of the principal, to start from 2012.

## Conclusion

Our analysis shows that the data presented in the statement for receipts and payments of the AFS KB correspond to the data presented in the Treasury General Ledger. Furthermore it is prepared in accordance with public accounting standards and MFE instructions.

But at the same time, we express our concern regarding the business efficiency when it comes to the handling of loans to KEK. In fact the situation has lead to hidden subsidies to this organisation.

## Recommendation

We recommend the MoF to ensure:

- that analyses of current policies for loans are made in order to secure a clearer business relationship with KEK in the future and additional actions are taken to collect the principal payment.

<sup>9</sup> Excluding interest paid

<sup>10</sup> The principal payment in the amount of €587,000 is related to the loan of 2008.

### 3.3.3 Consolidated Statement of Cash Assets and Fund Balances

#### Consolidated Statement of Cash Assets

We have analysed consolidated statement of cash assets and fund balances comparing them balances of the previous year.

**Table 6 Cash Assets and Fund Balances (€000)**

Description	Balance in 2010	Balance in 2009
Central Bank of Kosova	48,796	88,311
Securities	84,586	0
Term Deposits	140,000	125,000
Funds in Commercial Banks – PTK Dividend	11,000	163,922
Cash in advances accounts - NLB Prishtina	767	0
Cash in transit	4,278	5,793
Embassies' accounts	526	557
Cash in hand	885	270
<b>Total of assets in cash</b>	<b>290,838</b>	<b>383,853</b>

In 2010 there was an increase in term deposits compared with 2009. There were term deposits of €15,000,000 more from 01 January to 31 December 2010.

Cash consists of funds which are mainly kept in the Central Bank, commercial banks, in cash boxes of budget organisations and cash equivalents. Cash at the beginning of the year 2010 was €383,853,000. Out of this amount, €3,015,000 was spent to cover the deficit of 2010. The balance at end of year 2010 was €290,838,000.

### 3.3.4 Assets and Outstanding Liabilities

#### a) Assets

We have done analytical review of the AFS of the KB for 2010 and compared them with the information presented in the AFS of the BO's. Based on this we have identified inconsistency in assets reporting causing differences between information disclosed in two set of statements.

The issue is that some individual budget organisations are neither properly handling their assets in their accounting records nor reporting them in line with government's accounting policy requirement. In several cases individual BO's in their AFS presented only assets purchased during 2010, not including the value carried forward from previous years.

While the accounting standards and Treasury guidelines direct that the value of assets in the general ledger is carried over from year to year, deducting the depreciation for the year.

The total value of the assets according to the KB AFS is €1,771,766,018, whilst according to the AFS of the BO's the value is €1,516,643,030: a total difference of €255,122,986.

#### Conclusion

There are still challenges in securing consistent reporting of assets between Treasury general ledger and BO's financial statements. The reasons underlying the deficiencies are that the two set of statements are not timely reconciled. This could have led to earlier identification of the

differences and their improvement. Furthermore, finance staff of the respective BO's was not properly trained in implementing government instructions on annual financial reporting. The fact that the e-government asset system introduced by the Ministry of Public Administration to be used by the Budget Organisations and KFMIS used for central KB reporting are not compatible may have had an impact on the differences. Having to record the same assets twice is in itself a risk for errors.

## Recommendation

We recommend the MoF:

- To further analyse the reasons behind the weaknesses in asset reporting and based on conditions diagnosed taking strategic measures for addressing those challenges;
- That in partnership with the MPA analyse the possibility for securing compatibility between the KFMIS and the e-assets systems; and
- To ensure timely reconciliation of information of the assets between General Ledger of the Treasury and AFS of individual BO's.

## b) Outstanding liabilities

We have analysed and compared outstanding liabilities disclosed in the AFS KB with AFS of the individual BO's.

The analysis showed a significant increase in liabilities for 2010, compared with the previous year. The following table shows the level of increase.

*Table7: Outstanding liabilities in 2009 and 2010*

Description	2009	2010	Increase in %
Central Government	3,073,622	15,912,553	417.7%
Municipalities	1,124,238	12,623,776	1,022.9%
<b>Total</b>	<b>4,197,860</b>	<b>28,536,329</b>	<b>579.8%</b>

This shows that for the 2011 budget, the liabilities in the amount of €28,536,329 will be a burden with high financial impact.

We have noticed differences in liabilities presented in AFS of BOs and those presented in the consolidated KB AFS.

The biggest difference is observed between the AFS of the Ministry of Energy and Mines and Government consolidated AFS. According to the ministry's AFS, the outstanding liabilities were €23,483. While according to the KB AFS, outstanding liabilities of the same Ministry were much higher in the amount of €1,123,483.19. The reason for this difference is to be further analysed.

In the AFS of the Ministry of Internal Affairs and the municipality of Mitrovica, the columns of outstanding liabilities had no data at all. While in the consolidated AFS liabilities carried forward were presented.

The total difference between the liabilities presented in the KB AFS and those in the BO's AFS is €3,625,212.

### Conclusion

The analysis shows that the liabilities carried forward from 2010 were significantly higher than the previous year. Such high liabilities reduce the number of freedom degrees in the decision on and in the use of the budget for the coming year.. The above differences between two set of statements are due to fact that BO's have inappropriately disclosed outstanding liabilities in their AFS.

### Recommendation

We recommend MoF to:

- Analyse the situation regarding the outstanding liabilities and take measures to prevent similar recurrence in future.

### Management of outstanding liabilities

The value of foreign debt paid during 2010 was €19,870,000. This payment is made up for inherited debt. The sources of funding were €10,083,000 from KB and €9,787,000 from donors. Individual audit reports disclose the reasons for significant debt increase in organisational level. We have outlined the following:

- Receiving of invoices in late December 2010;
- Entering into contracts without providing the required funds; and
- In some cases, all procedures were carried out but payments were not executed due to the BOs negligence.

### Conclusion

Increase of debts during 2010 shows that there were insufficient controls over payments. The large number of invoices received by the end of the year is an indication of poor budget management. This relates to the fact that the BOs spend the mayor part of their budget in the end of the year. Contracts were entered into without providing sufficient funds to cover them. This indicates that BOs failed to provide operational controls throughout the process of payment execution.

### Recommendation

We recommend the Government to ensure that BOs engage in securing:

- Better implementation of the planning process of expenditures including the time frame and engage in timely execution of payments;
- Sufficient funds are committed before entering into contracts; and
- Effective application of the internal control over payment execution process in practice in order to have consistency with the contract.

### 3.4 Government Actions in addressing prior recommendations

Our last year's audit report for financial statements for the year 2009 resulted in a number of key recommendations for the Government. All these recommendations were given to Assembly, to be addressed by the Assembly or the Government and its agencies.

As far as addressing of recommendations is concerned, progress has been made in practice. However, there is still room for improvement, when it comes to ensuring that deficiencies identified are fully addressed.

The Assembly has developed an approach in increasing the level of accountability, holding public hearings with persons accountable for the organisations audited by the OAG.

In addition, we noticed that results regarding the handling of audit reports within the Committee for Oversight of Public Finance. However, the approach should be developed in terms of essential discussions by the Assembly. Further on, the performance of budget organisations should be followed consistently and appropriate action plans to address the recommendations.

In the following we introduced stages of addressing the recommendations given in the annual audit financial statements for 2009.

Table 8: Addressing of recommendations

Recommendations currently in the addressing stage are:	Recommendations partially addressed are:	Recommendations not addressed are:
Preparation of financial statements and disclosures under IAS, IFRS and the presentation of financial statements in accordance with the requirements of the MEF;	Revenues have also been partially addressed starting from revenue recording into appropriate economic codes. Lack of addressing is related to the low collection of revenue; and regular reconciliation and collection of revenue which is not made through bank accounts;	Procurement processes which are not developed in accordance with applicable laws, main setbacks which have failed to be addressed are linked to supervision of capital investment, certification of payments and increase accountability;
Salary reconciliations with accounting, started to be addressed in the payroll establish appropriate controls that would ensure the functioning of the HR department, and handling of payments to persons working on service contracts;	Proper implementation of the approved budget and eliminating budget deviations Implementation of the legislation regarding the expenditures of public money is still not at the adequate level. Drafting clear guidelines regarding the investment plan, documentation and execution must be improved; and	Effective oversight supervision and management of Publicly Owned Enterprises and management of Socially Owned Enterprises privatisation are not the appropriate level. The legal consistency between the LPFMA and law on POEs is missing;
The recommendation for asset management started to be addressed starting with the disclosure of assets in the financial statements, their recording in the asset register, bar codes, asset depreciation and write off assets when they are outdated; and	The issue of Government (MEF) dividends is still not quite improved. There is no clear explanation on the purpose and proper disclosures in the Financial Statements were not given regarding the results of dividend investment by MEF. Further on, decisions regarding this were not sufficiently documented and transparent functioning.	Monitoring of subsidies given by the Government through the former MEF is not in the appropriate level and there is a room for improvement. Lack of adequate analysis about subsidies, controls and monitoring is weak and transparency is not developed; and
Internal control has started to be implemented when it comes to planning, monitoring, and preparation of internal and accounting policies, regulations and Administrative Instructions. There is also progress in terms of the internal audit.		Level of financial reporting quality regarding municipalities remains very low, and far from the requirements, as well as proper systems of internal financial controls were missing.

### 3.5 Audit Opinion on the KB Financial Statements

The comprehensive consolidated Audit Opinion by the AG in summary concludes that:

‘the Financial Statements in all material aspects give a *true and fair* presentation of the finances and the financial situation of the Annual Financial Report on the Budget of the Republic of Kosovo for the year ending 31 December 2010’.

This is thus an ***Unqualified Audit Opinion*** in line with ISSAI 400 (cf. appendix 1).

Further on, the Financial Statements are compiled in accordance with applicable standards (IPSAS) and applicable laws and regulations.

At the same time the audit has revealed a number of shortcomings related to the implementation of the budget. These shortcomings are related to deficiencies in the Public Financial Management and the Public Internal Financial Control systems and the way they have been implemented both on the central and the budget spender level.

In other chapters of this report these shortcomings are described and analysed and recommendations are given on how they should be addressed.

## 4 Financial Management

The Government make efforts in creating an effective control environment. There is an ongoing process of implementing the Action Plan on Public Finance Management Reform and a new Policy on Public Internal Financial Control (PIFC) is adopted.

The whole area of legislation on public finance management is under a review process and during 2010 important building blocks of this Public Financial Management (PF/M) reform was put in place. Amongst others this included new Treasury's guidelines and financial rules strengthening and clarifying the responsibilities of public sector managers.

FM/C is a comprehensive process which is integrated into the activities of the organisation, and is carried out by management and staff. FM/C goes beyond accountancy and financial functions and includes such things as focus on operative results, efficiency and effectiveness in producing service for citizens. The aim of FM/C is to ensure that resources are being used to achieve organisational objectives.

A number of central systems and tools are designed with the aim to assist the managers in fulfilling their obligations.

It is crucial that management in general understands changes in its context and the requirements on managerial accountability. Further on, the government need to develop its support to the budget spenders focusing on How to do notes, Guidelines, good examples and a dialogue regarding experiences gained.

In this chapter we draw conclusions from our audit in relation to this reform and the systems set up.

### 4.1 PIFC Policy

In 2005 the Government of Kosovo adopted the first PIFC Policy with the aim to establish sound management systems of public financial resources. This policy was then amended in 2007. The PIFC system consists of two subsystems: FM/C and Internal Audit. These two were organised under two Central Harmonisation Units which sought to harmonise these subsystems across the whole Government sector. These are CHU/FMC and CHU/IA.

A basic legal framework on FM/C is in place. An institutional framework on the implementation of the legislation is also in place. Progress has been achieved in determining the internal control and developing the secondary and tertiary related legislation. Nevertheless, the challenge ahead is how to achieve an effective and consistent implementation of the existing regulatory framework.

In this respect and for the purpose of effectively implementing the central regulations, the managers of budget organisations are expected to further elaborate these rules by adapting them to specific circumstances existing in the respective organisation. In practice, it rarely happens. Instead the central Treasury Rules are implemented directly, which often creates challenges during the implementation of financial internal controls.

A number of shortcomings identified in the budget execution indicate that the established internal controls system has not functioned properly in preventing, detecting, and correcting the eventual errors and deficiencies.

In our audit of the FM/C systems, we have identified shortcomings hampering the effectiveness of the PIFC system in practice:

- The Control Environment needs to be further strengthened throughout the Government sector. More emphases should be placed on leading by good example. Managers at all levels need to set more good examples through their decisions, actions and behaviours. Through this, a strong message will be sent to the others in the respective organisations that adhering to the principles of good FM/C is more than important;
- In regard to Control Activities, in principle they are well designed in terms of creating systems, policies and procedures throughout the public sector. But in practice existing controls are not fully effective. Senior managers of most BO's have failed in adopting general control requirements to the specific needs of their individual BO;
- More focus should be put on the following key controls: segregation of duties, verification of transactions, and records reconciliation. Senior Public Managers should devote more time and effort to reviewing the operational results of the activities that they are in charge of. Supervisory activities are not developed sufficiently. Those holding managerial positions should pay greater attention to securing more systematic review of their delegated functions and responsibilities;
- When it comes to the Government Information Systems there is room for further development. This system is overly focused on producing financial information to the detriment of producing operational information. In most BO's such operational reports are not produced at all despite their necessity for quality decision-making, accountability and legal request. Apart of this, there are still challenges faced regarding transaction recording and their proper classification; and
- Senior Managers have not always paid due attention to monitoring internal systems and assessing their quality over time. Better monitoring of the day to day activities can help in the timely identification of improper, inefficient and ineffective practices and can show where measures for improvement can be taken.

These deficiencies show that the approaches and tools used during 2010 did not satisfy PIFC practical expectations. There was a big gap between how the system works in theory according to the standards, good practices and benchmarks, and how it worked in practice. The earlier PIFC policy was not sufficient to achieve intended objectives and results.

In response to such a situation, MoF started updating the PIFC Policy, including new approaches and tools. This process culminated in May 2011 when the Government adopted a new PIFC policy and supplementary legal framework.

## **4.2 Financial Management and Control systems and tools**

### **4.2.1 CHU/FMC**

The CHU/FMC is established within Treasury Department and reports to the General Director of the Treasury, who in turn reports to the Minister. Due to shortages in budget, CHU/FMC was staffed with local staff just by the end of 2009 while in 2010 it was staffed with two additional staff member showing a commitment to develop PIFC infrastructure.

Till this date it was mainly focused on defining financial controls and developing related secondary and tertiary legislation while two other aspects of FM/C nonfinancial control and risk management have not been developed. Even though legislative framework has been set out still implementation of this rules and policies remains a challenge.

CHU/FMC scope of work has been broadened during 2010 as a result of which several important advances have been made:

- a new Treasury Rule has been approved defining senior managers' responsibilities for good financial management and control;
- a desktop FM/C procedures manual is being developed to give senior managers accessible guidance on FM/C practices; and
- a comprehensive set of self assessment checklists and related instructions that managers will complete to evaluate their progress against PIFC objectives, and that internal auditors can use as management's assertions as to its control environment, has been drafted.

The CHU/FMC faces challenges related to developed approaches and methods for FM/C.

## 4.2.2 Budget Management

We have noticed that there is still room for improvement when it comes to the overall level of planning both in general aspects and the planning of specific projects. With the exception to some BOs (which had a good budget execution) the level of individual budgets execution in general is not satisfactory. Failure to execute the budget was a particular problem in the area of capital investments.

The main challenge in the area of budget execution was in the pattern of the expenditure. We saw many cases where spending jumped significantly in the last quarter – an indicator of poor planning at the BOs and a sign that they struggle late in the year to avoid a surplus.

Budget movements across budget categories were common. There were also significant differences between the original budget and final budget.

All these indicate that there were was insufficient control over planning and budget execution in 2010, particularly in the capital investment category.

A special issue related to budget planning and executions is the Danida funded project regarding vocational education.

In this project a decision was taken that all transactions and procurements should be managed within the Kosova system. A contract was signed with the Ministry of Education making it responsible for this administration. The way the Ministry has handled this contract has endangered the project implementation by causing unnecessary bureaucracy and delays. Agreements like this should pave the way for a new financial relation between Kosova and donors. Shortcomings in cooperation like this may endanger the prospects for the future.

## 4.2.3 Reporting

Government reporting system is not yet fully developed. Existent reporting arrangements are not producing comprehensive information of the business for the external needs. According to the applicable legal framework every BO should produce both financial and operational reporting. In practice, production of this information is on different stages of development.

In regard to the financial reporting, the quality of information has improved keeping the trend of continues development. But much work still remains to be done to reach the level requested by professional standards and Government Instructions.

As to the Operational reports situation is the same as in previous year. Most BO's were not producing them at all. Few others did it for other purposes rather than using it as a tool within the budget process and for accountability discharge.

Lack of sufficient information creates difficulties for the Assembly in holding Government to the account for the policies implemented and resources used. As well as it is not in compliance to the legal request.

#### **4.2.4 The system for Public Investment Projects (PIP)**

Under the Law on Public Financial Management and Accountability (Article 20), each budget organisation is responsible for preparing and submitting its proposed budget and appropriations request in accordance with the information and instructions contained in the budget circular(s) issued by the Ministry of Finance.

In recent years, both the budget circulars for central budget organisations and the budget circulars for municipalities instruct budget organisations to use the Public Investment Programme process and procedures to justify and request budget for capital projects. In many budget organisations, the Public Investment Programme procedures have not been followed to ensure that projects are properly prepared before inclusion in the capital budget submission presented to the Municipal Assembly/Assembly of Kosovo.

From 2012, audits at budget organisations will include the review of project proposals included in the approved capital budget to ensure compliance with the budget circular instructions and the Public Investment Programme procedures.

#### **4.2.5 Procurement**

##### **PPRC Report on Public Procurement in 2010**

The Public Procurement Regulatory Commission (PPRC) report stresses some progress made in recent years especially increasing the use of open procurement procedures. In 2008, this procedure was used in 77 cases, or 40%, in 2009 it was used in 84 cases or 85%, while in 2010 the use of open procedures increased up to 85.47%.

The negotiated procedure without publication of the contract declined to 3 - an 80% decrease compared to 2009. This implies a growing trend towards more transparent procurement procedures in general.

Another positive issue worth mentioning is the increase in the number of trained staff during 2010. In 2009, 424 officers were trained and this number increased to 521 in 2010.

We analysed the PPRC report in general. Besides the positive cases, there were also other issues worth mentioning as well challenges in their reporting. We have outlined them as follows:

- In 2010, a slight increase in the use of price quotation procedures compared with 2009 is stated as well as an increase in the use of minimum values procedures. According to our individual audits, these procedures were frequently used for dividing the procurements avoiding thresholds'. This indicates challenges in the procurement planning;

- PPRC in its report concluded that there were many irregularities during the procurement process or breach of the LPP. These were stemming from planning up to evaluation of bids. We will comment on this below;
- Despite our recommendation, PPRC in its report did not disclose the number of complaints from EOs. In our individual audits, we noticed that there was a large number of complaints reviewed by the PRB; and
- PPRC's blacklist does not contain any data yet. Our individual audits revealed that there were significant delays in implementation and executions of works and that some cases were not in line with contracts.

## Conclusion

The PPRC report is stating that the procurement system is becoming more and more transparent every year. The new legal framework is updated and supplemented in several areas. These are regarded as positive developments in the procurement process.

However, from the PPRC report and from our individual reports, we have noticed that the implementation of the procurement legal framework is not yet at a satisfactory level. At the same time the need of amendments to the LPP disclose shortcomings in the legal framework as such.

From this we conclude that the PPRC should continue to promote transparency and to ensure that the legal framework is fully implemented.

## Recommendations

We recommend the Assembly to ensure that the PPRC is further engaged in:

- Continuous procurement monitoring while strengthening awareness among contracting authorities and economic operators regarding the LPP implementation;
- The quality of training provided to training officers covering the whole procurement process stemming up from the procurement planning up to the contract execution;
- Reducing the usage of price quotation procedures as well as minimum value procedures as much as it practically possible. These are to be used in those procurements which cannot be foreseen by the annual procurement plan; and
- Development of the official website to further increase the transparency in the development of the whole procurement process.

## OAG Procurement Audits for 2010

Our individual audit reports indicate that the BOs have still challenges when it comes to the procurement management process. Despite our recommendations given in the Annual Audit Report for 2009, processes were still not conducted fully in compliance with the LPP.

Different challenges were noticed throughout the process, starting from planning and going all the way to project execution. Such challenges in the process could lead to a situation where goods, services or/and capital investments procured are not of the expected quality.

In the following section we outline common weaknesses identified in our individual audit work, such as:

- In some cases the procurement procedures have been conducted outside the plan or have exceeded the planned value. Requests for the purchase were not made by the requesting units. This shows that the BOs still do not pay attention to proper procurement planning process;
- Entering into contracts with an EO prior to the required funding being provided. This increases the risk that the BOs might fail to perform obligations in a timely manner as set out in the contract – such that penalties could be incurred. Indirectly this may damage the trust that EOs have in concluding agreements with the Government sector;
- Tender dossiers were not properly prepared. The criteria set were not measurable as well as technical specifications were not clearly laid out. This makes it difficult to evaluate the bids received and may lead to distortions where a particular EO is unjustly favoured;
- There were insufficient controls during the tender evaluation process; the evaluation committee in some cases did not sign the declaration under oath. Contracts were awarded in spite of a lack of eligible bids, in some cases the winning bid did not provide all required documents;
- EOs which bid at a higher price were awarded with a contract despite the fact that the contract award criterion was specifically for the lowest price. This directly impacts the budget of a BO;
- BOs have entered into contracts without paying special attention to performance security. From individual audits, we have noticed that contracts were signed in an absence of performance security and there were cases when the performance security did not cover the period of execution. In their absence, BOs are subject to the risk that projects are not executed in accordance with contracts;
- Advances payments for November and December are limited (10% of the contract for November and 5% for December). Payment over this limit should be approved by MoF. However, in some cases, advances up to 15% for these months were given without prior approval by the MoF;
- Contract implementation was not sufficiently followed up by project managers. As a result of this lack of follow up, some projects were not conducted in accordance with the terms and conditions specified in the contract (in time and quality). Penalties foreseen in the contract were not applied for delays in project implementation;
- There were insufficient controls over the receipt of goods and services. In some cases they were not received in accordance with the contracts and in several cases they were received by unauthorised persons. This leads to the risk that goods and services received failed to meet the requirements specified in the contract; and
- Contracting of goods and services by avoiding regular procurement procedures. This manner of contracting was not transparent and favoured certain Eos.

## Conclusion

Challenges faced in the overall procurement process leave much space for its further development. They stem from needs assessment as an initial stage where more economical decisions can be secured.

Managerial controls over procurement processes, activities and decisions were not frequently applied. More managerial attention should be paid to the procurement process both in planning and execution stage. This could strengthen compliance with procurement management frame work; bring more transparency and equal treatment in the process leading to better quality and a more efficient budget use.

Central authorities have not taken sufficient measures to secure better functioning of the system. Centralised procurement via PPA is rarely used. This mechanism if used wisely could bring more efficiency in the process and secure value for money.

## Recommendation

We recommend the Assembly to secure that Government increases its commitment in strengthening controls over the procurement process and in particular ensure:

- Greater commitment in monitoring and control of the procurement process in order to ensure good management of public funds;
- That legal framework is applied in full compliance within the entire process from planning up to expenditure;
- Transparency and equal competition for all EOs and fair evaluation of bids based on requirements; and
- Developing further the oversight function for projects. To ensure that goods, services and works are contracted in accordance with the contracts' terms.

However, a new LPP is on the way and will bring some positive changes and will better handle the responsibilities of the actors in the process. Awareness raising is needed.

### 4.2.6 The Certification system

According to the Law on Public Financial Management and Accountability (LPFMA), the BOs are obliged to appoint a Certifying Officer (CO), whose responsibilities are to verify individual payment requests in order to define whether they meet the legal requirements on payment authorisation.

The CO is expected to review the supporting documentation of each and every payment request in order to certify whether all controls stipulated by the legislation have been properly applied. The CO may be deemed to have accomplished the main objectives when payments that have not met the legal requirements are prevented.

Individual audits have identified shortcomings during the processing of payments. The cases of incomplete payment certification often include instances of:

- Incomplete supporting documentation;
- Expenditures which were paid out of the wrong economic codes; and
- The Terms of the Contract were not met.

Furthermore, last year we reported an audit regarding the functioning of the certification process. This resulted in a set of recommendations. Our main recommendation was that “The role of the CO needs to be clarified”. This should include a review of the place of the CO in the accountability chain and the CO’s responsibility for certifying payments, as well as the development of a comprehensive job description with clear objectives and performance criteria”. This recommendation was not addressed at all.

## Conclusion

The payments certifications process was not implemented in an effective manner and did not achieve the prevention of illegal or irregular payments. Therefore, we again conclude that the payment certification process is an ineffective element in the Government financial management system, which leaves a burden of the financial risk to the state.

## Recommendation

We recommend the Government to ensure that Budget Organisations ensure:

- An in depth analyse on effectiveness of the certification system and take adequate measures strengthening the managers responsibility to ensure proper payments;
- Proper control on the processing of payments by the Certifying Officers are in place; and
- The work carried out by the Certifying Officer is documented as a supporting evidence for the signature given.

### 4.2.7 The Asset Management System

The management of fixed assets is an important part of the Financial Management and Control in the Public Sector. The Government has, through laws and instructions on assets, set forth the objectives regarding the handling of assets. These objectives are:

- Safeguarding and effective management of Government assets;
- Keeping accurate records of all assets, through systematic maintenance of an assets register as an integral part of KFMIS, with an intention to evaluate and report their value; and
- Adequate, efficient, and transparent process of the disposal of assets.

According to the Administrative Instruction no. 21/2009 on the Management of government assets, the Budget Organisations are obliged to record their assets and to continuously update the KFMIS Accounting Register and the Assets Register.

The entities in general do not fully adhere to the Administrative Instruction on the Assets’ management and recording. Our audit has found many shortcomings in the assets’ management and recording system. They are the following:

- Registers were incomplete, inaccurate, and in some instances not updated;
- Inventory checks were carried out late - sometimes after the ending of the fiscal year. In some instances checks were not fully carried out;
- The “e-Assets” system, managed by the MPA, was at an early stage of development and is not being used by all entities; and

- There was a lack of internal guidelines within BOs regarding evaluation, disposal, and inventory of assets.

## Conclusion

Notwithstanding the continuous improvements made in the assets management system, its organisation is still insufficient and raises two key questions:

Firstly, the identified weaknesses in assets keeping, in terms of completeness and accuracy of registers, drive us to the conclusion that an effective and efficient management of fixed assets is still lacking.

Secondly, the lack of concrete instructions on alienation is causing uncertainties on how to act in cases when assets are depreciated, damaged, or evaluated as unusable.

## Recommendations

We recommend the Government to ensure that the Budget Organisations:

- Provide efficiency in the process of recording assets into the registers, ensuring that they are complete and accurate.
- Use the e-Assets system as a more advance program on assets registration;
- Secure compatibility with KFMIS, not having the need of double registration;
- Carry out the inventory fully and timely, which would serve for further processes such as updating of registers and assets alienation; and
- Draft internal policies regarding the way to the alienation process and the progress of this process.

## Recommendations to MoF

*We recommend the Minister of MoF to ensure:*

- A study and analysis is made on reasons behind the shortcomings found in assets management, by considering the possibility to amend and supplement the Administrative Instruction on assets management; and
- Consideration is given to the possibility of integrating the Free-Balance and e-Assets systems into a complementary system.

### 4.2.8 The Petty Cash tool

Petty cash is managed pursuant to the Law on Public Finance Management and Accountability and other financial rules, amongst which is the Treasury Financial Rule 02- Expenditure of Public Money.

Budget Organisations keep small amounts of cash in order to cover low value unexpected ad hoc needs.

The amount of petty cash spent in 2010 was €1,018,479. In comparison to 2009 these expenditures have increased by €266,421 or approximately 35%. The amount of petty cash spent varies in budget organisations depending on their agencies and their needs throughout the year.

Our audit work highlighted the following weaknesses in the management and use of petty cash:

- Expenditures that could have been planned and developed through procurement procedures were incurred from the petty cash e.g. fuel, maintenance and vehicle registration payments, office supplies and beverages, translation and language editorship of the documentation;
- Were carried out invoices that exceeded the amount of €100, and we noticed that divided invoices exceeded the permitted limit;
- We noticed cases where wages were paid out by petty cash.

## Conclusion

The increased petty cash expenditures from the previous year, and noticed shortcomings are an indication that the management of petty cash has room for improvement. Exceeding the limit, and expenditures incurred outside the normal procurement process discloses an irrational use of petty cash and non-compliance with the applicable legal framework.

Petty cash in itself is a risk. The strive must be to reduce this tool as much as possible. The possibility to use pay cards should be explored. In doing this all payments will be registered in banks and easier to control.

## Recommendation

We recommend the Government of Kosovo to influence BOs that:

- Petty cash is managed and used rationally, by fully adhering to requirements that flow from Treasury Financial Rule on procedures of petty cash expenditure.

### 4.2.9 The Civil Servant system

One of the main Government priorities embedded in the Government Programme of the Republic of Kosova 2008 – 2011 is the reform of the public administration which is also embedded in the Mid-Term Expenditure Framework (MTEF) and the European Partnership Action Plan (EPAP) 2010.

In mid 2010, the Assembly adopted the new Law on Civil Service (LCS) and the Law on Salaries for Civil Servants (LSCS). New regulations and guidelines are under the development process and are foreseen to be in place one year after the adoption of the same Law.

Following the adoption of the laws the MPA issued several regulations and guidelines regarding different fields of the LCS and the LSCS. However, we have noticed that during 2010 only few regulations were introduced for implementation. The law foresees that regulations will be issued within a year after the adoption of the law in the assembly.

Our analysis show that the LCS must at least be bound to produce more than 30 regulations and up till now MPA issued around 15 regulations. The delays in comparison with the requirements in the laws create a confused situation for the budget organisations and endanger the effective implementation of the LCS and LSCS.

### *Wages and Salaries*

The expenditures for salaries from the Kosova Budget for 2010 were €16,199,917.

According to data from the payroll in 2010, the average number of employees in central and local institutions was 76,182. The average salary in the country's overall level was €343.

After thorough examination of the audit reports and analysis of each report separately, we have identified the following deficiencies:

#### *Big differences in the level of salaries*

We have analysed the level of salaries in budget organisations and come to the conclusion that there is a big difference between various levels. The average monthly salaries in the Kosova budget sector are as follows:

- The Assembly 1,124
- The President Office 491
- The Prime Minister Office 374
- 18 Ministries 395
- 28 Independent Agencies 598
- 36 Municipalities 258

If we go deeper looking into the difference between the same categories of staff it is even more complicated to understand the rationality behind.

#### *Payment of wages and salaries from other economic categories*

During 2010 we noticed that six BOs paid wages and salaries, including meal allowances from other economic categories. In four these payments were made from the category of goods and services, while in two payments were made from the category of subsidies.

#### *Failure to adhere to recruitment procedures*

In 17 BOs we have noticed that recruitment procedures and criteria were not adhered to. We have outlined them the following:

- Lack of working experience;
- Lack of references in relevant fields;
- Interviewing committee was not established;
- Lack of advertisement in the press; and
- Recruitments without advertisements.

#### *Inadequate maintenance and update of personnel file*

In 23 BOs we have noticed that the personnel files were not timely updated. We have noticed that the following documents were missing:

- Identification documents;
- Employment Application;
- Evidence on educational background;
- Evidence on job experience;
- Job descriptions;
- Employment Contracts; and
- Employee appraisal reports.

## Conclusion

In general, both central and local budget organisations and publicly owned enterprises failed to exercise sufficient control in terms of staff recruitment, salary payments according to appropriate category and updating personnel files. The delays in the implementation of the LCS and LSCS hinders is related to the delays in the production of secondary legislation. The further development of Human Resource Management throughout the public sector depends on clarifications of the laws, development of tools and support to the BOs.

Registration of expenditures for salaries and meal allowances from the codes of goods, services and subsidies shows that the information quality in annual financial statements according to economic categories is not accurate.

Failure to comply with procedures and transparency in the staff recruitment does not ensure that selection of candidates was made based on merit and required criteria. This might have an impact on performance of budget organisations in general.

Further on, inadequate update and maintenance of personnel files by budget organisations shows that there are deficiencies regarding internal control in human resources.

## Recommendation

We recommend the Assembly to ensure that:

- The government issues all relating regulations and guidelines as per the requirements of the Law on Civil Service in Kosova and the Law on Salaries for Civil Servants;
- MPA speeds up the implementation of the Salary law in order to make the salary system understandable for the civil servants and other stakeholders;
- Policy planning and monitoring in ministries and in municipalities is strengthened;
- All payments to employees are made from category of salaries through the payroll and not from other economic categories; and
- Control and transparency of institutions in staff recruitment are strengthened, in order that recruited staff meets all requirements.

## 4.3 The Internal Audit system

The internal audit function should be an integral part of government financial management and an instrument for improving performance in the public sector.

The CHU/IA is the node for developing the public internal audit. Currently it focuses on becoming a central resource for the internal auditors, guiding them towards greater effectiveness. This CHU is a part of the MoF and the Director reports directly to the Minister of Finance.

For the third year in a row an annual report on the functioning of the Kosova Public Sector Internal Audit System was published in March 2011. The report outlines developments in the field of internal audit, CHU/IA activities and opinions and recommendations on the functioning of the public sector internal audit system (excluding public enterprises).

The report listed the following achievements and improvements for the year 2010:

- An Administrative Instruction for Establishment and Functioning of Audit Committees (AC) in public sector was issued;
- New Internal Audit Units were established and the number of internal auditors was increased;
- The number of Audit Committees was increased; and
- An international program for training and certificate internal auditors was started.

The CHU/IA report considers the following areas where improvements need to be made: rapid use of data bases, updating of web services to modern standards, reviewing IA Manual to determine if any improvements needed and developing an approach that is more quality-oriented to support the internal auditors. Report emphasis that a number of further improvements that are to be promoted across the government include recruiting more internal auditors, increase the availability and effectiveness of Audit Committees, and better allocation of internal auditors so that all budget organisations have access to internal audit services.

In our view 2010 saw improvements in the development of Internal Audit Systems. However OAG recognises that there are a number of ongoing and emerging challenges for the management of internal audit that public sector entities will need to consider. Some of these are discussed below:

### **Functioning of IAU**

In around 20% of audited entities IA function hasn't been established yet and those are mainly smaller institutions and municipalities, in many cases newly established. As a part of the total budget they represent just a small part. In some entities IA services were performed by MEF internal auditors. The staff shortages in some of the audited entities are explained as mainly due to budget shortage and losses to the private sector. But, in our opinion this also reflects a priority issue. Additional efforts are needed to ensure adequate staffing and that all entities have an Internal Audit function established. MoF recommends the entities that do not meet criteria for establishment of IAU due to small budget to use joint audit services. This possibility still have had limited impact.

### **Audit Committee Oversight**

Most public entities have not recognised the importance of Audit Committees for an effective control, risk management and governance processes. Audit Committees could play a key role in helping the auditors to carry out their responsibilities. They could also contribute towards the integrity of the government's financial information, system of internal control and legal and ethical conduct of management and employees.

Frequently we have met a misunderstanding in the role of the Audit Committees. They are often understood as committees just related to the internal audit. This interpretation has lead to a limited use of the committees in addressing recommendations given by external auditors.

CHU//IA has put several efforts in encouraging management to establish AC and informing them about the role, responsibilities and importance of having AC within institution. Despite this, around 40 % of budget entities still lack audit committees.

A considerable number of existing Audit Committees did not met regularly. They did not meet regularly, nor paid adequate attention to audit recommendations and follow up of how these are addressed in the respective organisation. Two Audit Committees had not approved a charter setting out the responsibility and accountability of the committee and its members.

In some cases the committees are formed by senior managers of the very same entity. In cases as this it can be considered whether or not the committee can be truly independent from management. There can be conflicts of interest, which have to be managed in a transparent manner.

## **Audit Plans**

Since risk management has not been developed in most Kosovar institutions, internal auditors are not able to consider risks identified by management. They have to plan their audits by engaging in a much broader own risk assessment. This process had been adopted so that the IA annual plan, to the extent possible, reflects organisation wide risks and priorities. The internal audit's ability to gain assurance that its risk assessment and annual audit plan is complete and consistent with entities wide priorities is due to this limited.

We noticed that almost all IAUs prepared strategic and annual plans based on risk assessment performed by IAUs. We identified that in some cases the internal audit lack identification of high risk areas and there is a lack of focus on the organisations current challenges. The quality of these plans needs improvement and they need to be applied more specifically to the business which they audit.

We also noticed that not all IAU fulfilled audit plans. The certification program had considerable impact on this issue, but should be looked upon as a strategic investment.

## **The focus of the Internal Audit**

We have reviewed a large number of IA reports. In some cases they mostly covered the year 2009. By focusing at current activities the added value of IA for the management would increase. At the same time this would make the external auditors able to use the work of the IA as an input for their audit of the current year and the opinion. Further on, audits carried out were more of compliance nature and transaction based. System oriented or performance audits are still in very small number.

At the same time we note that in IA reports many issues have been raised and appropriate recommendations are given upon them. Lack of Audit Committees or ineffectiveness within the existent has slowed down the addressing of audit recommendations.

## **Internal auditor's proficiency and continuous professional education (CPE)**

The program of International Training and Certification started to be implemented in 2010 by CHUIA, in cooperation with UK-based CIPFA and Slovenia based CEF. 62 internal auditors, including CHU/IA staff, were selected to participate in the basic certification scheme. At this stage around 32 of the candidates have passed the exams. This mean that a bit more than a quarter of all internal auditors in Kosova have been certified on this level.

In cooperation with the EU-PIFC project, the CHUIA also organised training for internal auditors who were not included in the Program and 11 one-day seminars were organised and delivered twice by international experts.

## Conclusion:

We make the following general conclusions on IA:

- Whilst we see encouraging signs of progress. Internal audit still needs to be improved.;
- More Audit Committees should be established by the senior managers of the BO's;
- We are not yet able to use the work of the internal audit of the bulk of the IAU's for our annual audit and the audit opinion due to the lack of focus on the current year;
- At several of the municipalities, small budget entities and at the Ministry of European Integration IAUs have not been established;
- In general, internal audit staff capacity within the most entities is still unsatisfactory;; and
- Audits carried out based on Internal Audit Plans do not always prioritise processes with the highest risks and with a system approach. Operational aspects of the institutions need to be addressed in a larger extent following new FM/C approaches.

## Recommendations:

We recommend that the MoF and the CHU/IA:

- Assess, in greater depth, the performance of internal auditors' operations in relation to the conclusions and recommendations of the external audit;
- That besides offering help on individual basis should engage proactively in networking by organising meetings with Directors of IAUs aimed at sharing best practices and presenting solutions to problems within the IA community;
- Develop guidance for a proactive internal audit role in consulting their Management to implement risk management and control systems;
- Further develop generic guidelines as a base for risk analyses tailored to specific businesses risks;
- Develop best practice notes on Action Plans for addressing internal audit recommendations and follow up of management measures; and
- Develop a generic guideline for the production of Audit Plans allowing time for the IA's consultative role and IA training needs as well as the core function of producing helpful and value-adding advice which gives priority to high risk areas within the business.

## 4.4 General Recommendations on Financial Management

Measures should be taken on different levels securing a successful implementation of the new approaches and tools for financial management.

- The management of the Budget Organisations need to change their management philosophy and approaches in order to incorporate FM/C at the core of their activities;
- Programs on developing performance objectives should be established which link strategic plans with financial budgets and which monitor and help to develop operational outcomes;

- MoF should, besides the awareness measures for central politicians and senior managers, introduce induction programme for managers to understand and interpret their responsibilities in relation to the implementation of new FM/C requirements;
- The initiated reform process should continue and a transparent reporting process on the progress achieved for the planned objectives should be developed;
- MoF to establish a task force for FM/C securing local ownership and consistency in the reform agenda and in relation to different support projects; and
- Add a new approach to the current way of rolling out new FM/C requirements by using good examples, best practices, how to do guidelines for the Kosovar context in order to secure a better implementation of the reform;

The Assembly should reconsider its need for information from the Government. It could be considered to take away the requirement on a special report on the internal audit development and instead introduce a requirement on a comprehensive report on the progress in the whole FM/C field. In this way the context will be addressed in a better way at the same time as a base for reporting to the international partners will be established.

## 5 Budget Organisations

### 5.1 Introduction

We have carried out 81<sup>11</sup> full Regularity Audits (including an opinion) for 2010 under our main audit of the KB ASF. Out of them 76 were related to budget organisations:

- Twenty four (24) Central Authorities;
- Fifteen (15) Independent Agencies; and
- Thirty seven (37) Municipalities

For all these organisations we have issued the following audit opinions:

- Fourteen (14) Unqualified;
- Thirty three (33) Unqualified with Emphasis of Matter;
- Seventeen (17) Qualified;
- Nine (9) Disclaimers; and
- Three (3) Adverse Opinions.

### 5.2 Central Authorities

For the financial year 2010, we have audited 24 central authorities ending up in audit opinions on their AFS. These authorities are:

- Assembly, President and Prime Minister Office of the Republic of Kosova;
- 18 Ministries;
- Customs, Tax Administration of Kosova and University of Prishtina

As to the type of opinions given, the situation is as follows:

- Ten (10) Unqualified;
- Twelve (12) Unqualified with Emphasis of Matter;
- One (1) Qualified; and
- One (1) Adverse opinion.

### Conclusions

The information in the AFS is for most of the Central Authorities, in all material aspects, true and fair. At the same time much have to be done getting a better information quality. We conclude that some non material deficiencies are still in place:

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11 The 81 full Regularity Audits carried out includes five organisations *outside* the KB: RTK, Pastrimi, Hidrodrini, Radoniqi and the Danida. These resulted in one Unqualified, two Unqualified with Emphasis of Matter and two Qualified opinions.

- The AFS had shortcomings in the note regarding budget execution report; deficiencies were noticed regarding the data on receipts;
- In some cases payments were not disclosed, especially those made from third parties;
- Quite often the information on receivables and liabilities were not presented fully or at all; and
- Non or limited presentation of assets in its own financial value and their nondisclosure within the Financial Statement.

At the same time the budget execution, the financial management and the internal controls are issues followed by a variety of problem. Even if not material in many cases, shortcomings in this regard generate problems also for the quality of the external reporting besides being indicators on challenges when it comes to compliance as well as the efficiency and effectiveness in executing the budget.

Reporting on results achieved linked to performance indicators, is not accomplished yet, although it is foreseen in the LPFMA. We have given recommendations last year related to this issue.

### Recommendation

- The individual Central Authorities should take the required measures to address deficiencies in order that the requirements in drafting AFS are met; and
- MoF ensures that the AFS submitted by budget organisations, contain information required under the foreseen requirements.

## 5.3 Independent institutions

### Introduction

Independent institutions are established by the Assembly based on the respective laws that regulate their establishment, operation and competencies. Independent institutions exercise their functions independently from any other body or authority in the Republic of Kosovo.

Strong, professional and independent institutions are necessary for consolidation of democracy and to drive the country closer to the EU membership.

Reporting by public institutions to parliament, independence and qualitative selection of Boards or leading bodies of these institutions and financial autonomy are necessary.

We have carried out regularity audit on 15 Independent Institutions' AFS for the year ended in 2010. Our audit opinions issued for these institutions are as follows:

- Four (4) Unqualified;
- Nine (9) Unqualified with Emphasis of Matter; and
- Two (2) Adverse Opinions.

Table 9: Audit opinions given during the three last years

Audited bodies	Audit Opinion 2010	Audit Opinion 2009	Audit Opinion 2008
Kosova Academy of Sciences and Arts	Unqualified	Unqualified	
Civil Aviation Regulatory Office	Unqualified		
Public Procurement Regulatory Committee	Unqualified		
Energy Regulatory Office	Unqualified		
Constitutional Court	Unqualified with emphasis of matter		
Kosova Judicial Council	Unqualified with emphasis of matter	Unqualified	Unqualified with emphasis of matter
Anti Corruption Agency	Unqualified with emphasis of matter	Unqualified	
Ombudsperson	Unqualified with emphasis of matter	Unqualified with emphasis of matter	
Central Elections Commission	Unqualified with emphasis of matter	Qualified	
Privatisation Agency	Unqualified with emphasis of matter	Unqualified with emphasis of matter	Unqualified with emphasis of matter
Water and Waste Regulatory Office	Unqualified with emphasis of matter		
Independent Committee for Mines and Minerals	Unqualified with emphasis of matter		
Telecommunication Regulatory Authority	Unqualified with emphasis of matter		
Independent Media Commission	Adverse		
Privatisation Agency of Kosova - Privatisation Fund	Adverse	Unqualified with emphasis of matter	
Kosova Trust Agency			Unqualified with emphasis of matter
KPC Coordinator Office			Qualified
<b>Number of opinions given</b>	<b>15</b>	<b>7</b>	<b>4</b>

## Audit of 2010

As part of our 2010 interim audit work we applied our “*Financial Management Health Check Questionnaire*” audit tool to all of the Independent Institutions. This tool is not a full audit, but it provides some assurance over such areas as; assessment of the internal control system, the budgeting process, advice given on the financial statements etc.

*Railways Regulatory Office (RRO), Kosovo Competition Commission (KCC) and Kosovo Property Agency (KPA)* were given only a preliminary review by the OAG. This is because:

- RRO and KCC were under the process of being established during 2010, and
- Kosovo Property Agency (KPA) is financed approximately 30% from the Budget, and 70% from external donations (British Government, Swiss Government, Belgian Government etc). KPA was not audited by the OAG since the international donors had engaged a private company to perform the audit.

In 2010 the OAG audited 15 AFS.

The Independent Institutions can be divided into two groups:

- Institutions that carry out regulatory functions (TRA, WWRO, ERO, ICMM, and CAAK) such as issuing licenses, monitoring of issued licenses, setting tariffs, and collecting revenues from licensing fees; and
- Institutions that carry out supervisory functions which do not collect revenues but are financed from the Kosovo budget (OIK, ACA, CEC, KASA, etc.)

The Independent Institutions faces a number of challenges related to their independence (functional, financial and operational), their accountability and their status within the wider budget process. Our audit results indicate that the majority of independent institutions face problems when it comes to proper implementation of Internal Control Systems. We noticed that there are many reasons for this, but the main reason was due to a lack of understanding of the basic concepts behind such systems. This was also compounded by a lack of internal guidelines which would clarify the issues on how things can and should be done. The existence of these internal guidelines or policies would assist in improving the overall systems.

## Challenges in budget implementation

### Budget

Budget constraints and budget limits set by MoF without taking into account independent institutions' budget requirements, is a threat to institutional and financial independence, which is in violation with the Law on Public Financial Management Accountability (Article 66).

After a decision from the Government, the MoF either reduced or withdrew the budget from five independent institutions (WWRO, PAK, CAAK, ICMM, and ERO). This decision took place in the third quarter of 2010 and these funds were transferred to the relevant Ministries. For example – the ERO saw a €72,547 reduction in its budget.

The government should analyse the specific needs of each agency before the budget ceilings are set. Institutions, which do not generate own source revenues, comprise only a small part of the Kosovo budget. They have relatively low costs in comparison to the vital democratic functions which they perform through their oversight of the proper functioning of many other public institutions.

An additional difficulty faced by independent bodies is that they do not currently have institutional mechanisms through which they may protect themselves from interference of the government in their budgets.

The only competent body for discussing the budget proposals for independent institutions is the Assembly of Kosovo. MoF should oversee this process only from a technical standpoint, while the role of the Assembly is to debate and approve the required budgets. In past years, the Assembly has played a small role in the budget process, being involved only in its formal approval.

### Non-reconciliation of the budget with the Treasury

There are examples where MoF did not reconcile the Independent Institutions' budgets. An example is the case with ERO, where according to KFMIS their final budget was €1,268,895 whereas according to ERO it was €856,966, giving a difference of €411,929. This was as a result of double registration of revenues carried forward from 2009 and non-correction by the Treasury.

### **Staff-number of employees and Civil Servants Status**

From a financial point of view the majority of these institutions are not fully independent, given that their employees have the status of a civil servant, and the Government has an impact on setting the budget. The structure and the level of payments are set out by Law on Civil Servants and the Law on Salaries of Civil Servants. Therefore, reducing their budget may harm their sustainability.

The majority of the staff of these institutions is made up of high level professionals. Most of these institutions are facing shortage of professional staff, as many of them leave once they are trained in order to work for institutions with higher salaries.

Most of the agencies did not reconcile the approved staff number with the actual number in the payroll, as set out in the Law on Budget No. 03/L 177. This is as a result of the approval of the number of workers by the MoF and budget constraints for the category of wages and salaries.

Three approved positions in ERO and eight in ICMM were not filled due to insufficient budget. In 2010 there was a shortage of funds in the category of Wages and Salaries which amounted to €4,500 (funds were obtained from the Kosovo Intelligence Agency from the same category).

### **Operational challenges**

#### *Lack of inter-institutional coordination*

Independent institutions suffer from a lack of good coordination. An example is ICMM on the one hand, and the prosecutor-MJ, police, MIA, MESP and municipalities on the other. These organisations have a joint goal of stopping unlicensed EOs from operating and of implementing standards on environmental protection. Unfortunately we saw very little coordination of these objectives between these organisations.

#### **Working environment** (*lacking permanent office building*)

The majority of independent institutions are situated in private rented buildings. Working environment are often inadequate and do not provide basic standards of working conditions.

### **Administrative challenges**

Most of the independent institutions are small. At the same time they meet the same requirements as any other institutions when it comes to financial management and administration. Meeting these requirements whilst keeping the quality of their services is a constant challenge.

### **Independence from appointment**

In order to be truly independent, the appointment of boards and heads of agencies should be transparent and based on merit, while the board members and staff of an institution should be able to work without fear of arbitrary dismissal on political grounds.

### **Independence from interference in decision-making**

Independent institutions should report directly to the Assembly, and not to a Ministry or to the Government. While institutions should be accountable for their spending of public funds, they must be independent from the government when it comes to their function. This means that the primary line of accountability should be to the Assembly, and institutions should be free of any reporting requirements to the ministries, which are not foreseen by law.

The government should have no influence on decisions taken by independent institutions.

## Conclusion

Based on our audits carried out in independent institutions, our conclusion is that the internal control systems did not function at the expected level. In general, internal financial controls were not developed in a systematic manner. As the situation stands now, every independent institution has to design its own internal control system in order to meet their needs and objectives.

Strong, professional and independent institutions are essential for consolidation of democracy and to drive the country closer to the EU membership.

Independent bodies that exercise regulatory and supervisory functions are essential to the building of democracy in Kosovo. Their independence must be assured at the same time as the managers must be held to account for the way the budget is executed.

The impact of the budget process is that independent institutions may not be able to complete program activities as set out by law, and strategic objectives. Budgets are negotiated with the Government and this could endanger the independence. A better budget dialogue and a de facto independence have to be guaranteed by the Assembly of Kosovo. A more consistent reporting on both finances and results would facilitate this as well as creating better conditions for the Assembly's work.

## Recommendations

### Recommendations to the Assembly of Kosovo:

- To strengthening the follow up of actions taken by independent institutions regarding audit recommendations;
- To consider establishing new reporting requirements combining financial and operational reporting thus paving the way for a more developed budget dialogue;
- To assist in inter-institutional cooperation, in order to facilitate in meeting set objectives; and
- Consider drafting a legal framework for independent institutions determining criteria guaranteeing independence and specifying accountability requirements.

### Recommendations for the Minister of Finance:

- To respect the independence of the Independent Institutions by non-interference in their operative priorities and in their budget processes. This implies presenting the budget proposals of these institutions to the Assembly, where the Assembly may exercise budget oversight and hold them accountable;
- To make regular budget reconciliations between the figures of the Treasury and these institutions in order to eliminate presented differences; and
- The return/ keep the level of staff in independent institutions and to allow those institutions to fill in the vacancies as planned level for staff.

## 5.4 Municipalities

### Introduction

We carried out full regularity audits of all 37 municipalities AFS for 2010. Fourteen municipalities were audited by the OAG, whilst the other 23 were contracted out to three private audit firms.

The audit opinions issued for these municipalities are as follows:

- Twelve (12) Unqualified with Emphasis of Matter;
- Sixteen (16) Qualified; and
- Nine (9) Disclaimer of Opinion.

The development of the audit opinions over the three last year's is presented in the table below.

*Table 10: Opinions on Municipalities AFS given for the three latest years*

Audited bodies	Audit Opinion 2010	Audit Opinion 2009	Audit Opinion 2008
Ferizaj	Unqualified with Emphasis of matter	Disclaimer of opinion	Disclaimer of opinion
Gjilan	Unqualified with Emphasis of matter	Disclaimer of opinion	Disclaimer of opinion
Prishtinë	Unqualified with Emphasis of matter	Unqualified with Emphasis of matter	Emphasis of matter
Vushtri	Unqualified with Emphasis of matter	Disclaimer of opinion	Disclaimer of opinion
Graçanicë	Unqualified with Emphasis of matter		
Klllokot	Unqualified with Emphasis of matter		
Ranillug	Unqualified with Emphasis of matter		
Gjakovë	Unqualified with Emphasis of matter	Disclaimer of opinion	Disclaimer of opinion
Glllogoc	Unqualified with Emphasis of matter	Disclaimer of opinion	Disclaimer of opinion
Pejë	Unqualified with Emphasis of matter	Disclaimer of opinion	Disclaimer of opinion
Prizren	Unqualified with Emphasis of matter	Unqualified with Emphasis of matter	Disclaimer of opinion
Skenderaj	Unqualified with Emphasis of matter	Disclaimer of opinion	Disclaimer of opinion
Junik	Qualified	Qualified	Disclaimer of opinion
Klinë	Qualified	Disclaimer of opinion	Disclaimer of opinion
Leposaviq	Qualified	Disclaimer of opinion	Disclaimer of opinion
Mitrovicë	Qualified	Disclaimer of opinion	Disclaimer of opinion
Dragash	Qualified	Disclaimer of opinion	Disclaimer of opinion
Shtërpcë	Qualified	Disclaimer of opinion	Disclaimer of opinion

Shtime	Qualified	Disclaimer of opinion	Disclaimer of opinion
Viti	Qualified	Disclaimer of opinion	Disclaimer of opinion
Hani i Elezit	Qualified	Qualified	Disclaimer of opinion
Kaçanik	Qualified	Disclaimer of opinion	Disclaimer of opinion
Kamenicë	Qualified	Disclaimer of opinion	Disclaimer of opinion
Fushë Kosovë	Qualified	Disclaimer of opinion	Disclaimer of opinion
Novo Bërdë	Qualified	Disclaimer of opinion	Disclaimer of opinion
Podujevë	Qualified	Disclaimer of opinion	Disclaimer of opinion
Suharekë	Qualified	Disclaimer of opinion	Disclaimer of opinion
Zveçan	Qualified	Disclaimer of opinion	Disclaimer of opinion
Lipjan	Disclaimer of opinion	Disclaimer of opinion	Disclaimer of opinion
Obiliq	Disclaimer of opinion	Disclaimer of opinion	Disclaimer of opinion
Zubin Potok	Disclaimer of opinion	Disclaimer of opinion	Disclaimer of opinion
Deçan	Disclaimer of opinion	Disclaimer of opinion	Disclaimer of opinion
Istog	Disclaimer of opinion	Disclaimer of opinion	Disclaimer of opinion
Malishevë	Disclaimer of opinion	Disclaimer of opinion	Disclaimer of opinion
Mamusha	Disclaimer of opinion	Disclaimer of opinion	Disclaimer of opinion
Rahovec	Disclaimer of opinion	Disclaimer of opinion	Disclaimer of opinion
Partesh	Disclaimer of opinion		

If we make a comparison with the two earlier years we may notice that there is an improvement in terms of information quality in the AFS.

Despite this the municipalities in general should further commit themselves to provide better quality of financial reporting. The key audit findings below discuss these areas in more detail.

### Local Self-government and responsibilities

The annual budget of the Municipality is approved according to the Law on budget appropriations. In appropriation and in the managing of funds, the municipalities are required to adhere to the Law on annual budget and the LPFMA. The Municipality and its executive officers are authorised to independently arrange and manage the municipality's revenues and operation grants. The Municipal financial resources – besides grants from the central level - consist of revenues from taxes, operation grants, grants for extended competencies, emergency grants, financial assistance from the Republic of Serbia and benefits of municipal loans.

MoF is responsible for assisting the municipalities in fulfilling their budget-related obligations.

### Quarterly reports and final report for the municipal budget

Each Mayor is required to prepare quarterly reports and submit them to the Municipal Assembly throughout the financial year. Such reports are submitted to the Municipal Assembly, with a copy being sent to the Government. These reports are published on the municipality's web site. Each quarterly report must contain a report of revenues and expenditures, information on investments and debts, and a summary of the situation of all projects for capital expenditures.

The Mayor prepares and submits to the Municipal Assembly a final budget report for the previous financial year as well as for the two previous financial years as comparators.

## Funding of Municipalities

The total expenditure of the municipalities of the Republic of Kosova for 2010 was €304,589,889 or 25% of the total expenditures of the KB. Municipality funding from own source revenues was at €52,027,377, or 17% of total municipal expenditures. Revenues collected in 2010 vary from one municipality to another, and range from municipalities collecting 0% up to those with the highest percentage of 39%. If we compare the expenditures of municipalities, we see an increase in 2010 to 25% while in 2009 Municipalities accounted for 21% of the total KB expenditures. Own Source Revenues dropped by 1% compared with 2009.

## Implementation of prior year recommendations

Amongst the municipalities, the record of addressing OAG prior year recommendations is poor. The OAG's 2009 municipality's audits generated 179 recommendations amongst 33 municipalities (not including Leposaviq). However, during 2009 only 35 of these recommendations or 20 % were addressed, whilst 144 or 80 % were not addressed. The recommendations were mainly related to preparation of AFS, property and equipment management, revenues and expenditures.

Many of the problems found in 2009 also persist into 2010. The lack of action from the Municipalities on prior year recommendations indicates poor financial management. The MLGA should take measures to address this issue. The MLGA should together with the MoF analyse the reasons why prior year recommendations are not being addressed and together prepare a comprehensive program which will address these issues.

## Key audit findings

The key audit findings were generated from substantial deficiencies in the preparation of the consolidated Financial Statements. These deficiencies impacted the audit opinion in many cases. For example:

- Some Municipalities did not maintain complete accounting records, so that their Financial Statements had to be constructed using Treasury records;
- There was extensive non-disclosure of, or non-presentation of the financial values of assets;
- Some municipalities reported little or no Own Source Revenues in their accounting records;
- Many of the expected reconciliations between collected revenues and those figures for collected revenues recorded in the accounts were not conducted;
- In general, Municipalities did not keep the records of payments from third parties;
- In most Municipalities, the handling of non-financial assets is not in compliance with the standards set in Administrative Instruction no. 20/2009 on Recording and managing of government assets;
- In the handling of the procurement process most Municipalities had substantial room for improvement; and
- Most of the Municipalities have not established audit committees.

### *Legal requirements on financial reporting*

The Municipalities have not met important requirements in the area of financial reporting. For example:

- 11 Municipalities did not submit their quarterly Financial Statements to the MoF; and
- Only eight Municipalities prepared their FS in both official languages.

### *Fulfilment of the criteria on the certification of municipalities*

- For three municipalities it has not been confirmed that the Goods Receiving Officer, the Expenditures Officer, and the Certifying Officer are certified by MoF;
- Three municipalities have not confirmed the management and organisational structure related to the payments; (Leposaviq, Zveçan and Zubin Potok); and
- In three municipalities, the relevant officers have not attended the training by the MoF on delegation of expenditures management to the Budget organisations.

## **Conclusions**

Our audit reports include recommendations relating to the audit findings.

Recommendations are supposed to help the Municipalities improve. Unfortunately, many earlier recommendations have not been addressed properly. The same weaknesses are therefore repeated from year to year; with the result that public financial management is improving at only a very slow rate.

In addition to these management weaknesses, there are also numerous deficiencies in the area of reporting by Municipalities.

A number of development projects are currently implemented within the municipalities with a direct or indirect impact on FM/C. Different donors are funding them. It is important to secure that these projects addresses FM/C in a consistent way, reducing the risk for misunderstandings or confusion.

The MoF have during the latest month taken a number of steps paving the way for a better FM/C and reporting. Other methods and tools should be considered securing this. Best practice notes, handbooks on how to develop internal reporting and internal customised administrative procedures together with sufficient information regarding third part payments are examples on this.

The lack of an Executive Manager in the municipalities seems to be one important factor behind the managerial shortcomings and the inefficiency in carrying out public services and investment in a business wise way.

## Recommendations

I recommend the Minister of MoF to assist the municipalities by:

- Establish a function securing consistency in the on-going projects with impact on financial management in the municipalities;
- Produce and roll out Good practices/ How to do notes on FM/C and external reporting;
- Establish arenas where the municipalities financial officers can discuss mutual challenges and experiences in implementing the new FM/C requirements;
- assisting in the setting up of a uniform system to handle the registration, evaluation, depreciation, loan and disposal of assets; and
- Organising training regarding preparation of financial statements.

In order to bring about a general improvement of local public service, the Assembly might consider introducing the post of Executive Manager as the highest civil servant in the municipalities paving the way for a better FM/C.

## 5.5 The implementation of the budget for 2010

The governing policies and budget projections developed by the Government in compliance with LPFMA set forth the basic document for review and approval of appropriations of public funds for public institutions.

The approval of the Law on Budget opens a legal path of budgeted expenditures according to the Law and other applicable legal acts.

The Law permits limited movements of funds in certain lines and within budget programs according to the criteria and certain procedures and amendments – supplements under the mid-year budget review process.

Public money should be only used for the intentions they are approved for, and from the appropriated and allocated funds according to the procedures of LPFMA and other secondary legislation in implementing this Law.

The regularity audits conducted for the financial year 2010, revealed discrepancies with the Law on Budget occurred during the Budget Organisation's financial management. The most notable discrepancies are:

- Planning and efficient use of budget, since this has significantly impacted on the level of implementation as per the final appropriations (from 54 budget spenders at the central level four have executed the budget at a level of 87%);
- Execution of criteria and legal procedures for transferring means from various budget categories, in order that the spending is made under relevant regulations;
- Payment procedures where a significant number of budget organisations has made payments of salaries from the category of goods through special services agreements;
- Payments for Diplomatic Missions by avoiding relevant procedures;

- Implementation of rules for giving and closing advances;
- Execution of capital projects, namely failure to adhere to the dynamic plan for finalisation of works and payment of means regardless of the fact that works were not completed; and
- Insufficient monitoring when it comes to subsidies for Publicly Owned Enterprises and other institutions. At the same time, lack of criteria and failure to justify some expenditures in the category of subsidies.

Incomplete execution and non-reconciliation with Budget Law provisions on financial management by the budget organisations is an indication of irrational use of public money and ineffectiveness in fulfilling public services.

## Recommendations

I recommend the Assembly to:

- Actively and closely follow up the execution of the Budget Law so that it is used correctly, rationally, as designated, and in coherence with budget appropriations;
- Require higher responsibility from the supervisory institutions of budget organisations in implementation of legislation for management of public money;
- Request that MoF drafts clear guidelines for inclusion of capital investment plans in the institutions' budgets only if these provide documented and sufficient security in order to have the opportunity to execute programs in timely manner;
- Request from the Government to draft clear policy regarding the management of funds given through subsidies and their monitoring up to the end of the subsidised projects; and
- Request from the Government to undertake measures so that the internal control systems are implemented more effectively.

## 6. Publicly and Socially Owned Enterprises

Publicly and socially owned enterprises are managed by the MoF, representing the owner. From 2011 the representative is the Ministry of Economic Development.

PAK is representing the owner in the Socially Owned Enterprises (SOEs).

We have carried out audits in four such companies plus in RTK which is accountable directly before the Assembly. The audit resulted in the following:

*Table 11: Regularity Audit in Publicly Owned Enterprises*

Audited Organisation	Audit Opinion 2010	Audit Opinion 2009	Audit Opinion 2008
Regional Waste Company Pastrimi – Prishtina	Unqualified with Emphasis of Matter		
Radio Television of Kosovo (RTK).	Unqualified with Emphasis of Matter		
Regional Water Company Hidrodrini – Peja	Qualified Opinion		
Regional Water Company Radoniqi – Gjakove	Qualified Opinion		
<i>Regional Water Company – Prishtina</i>		Unqualified with Emphasis of Matter	
<b>Total</b>	<b>4</b>	<b>1</b>	<b>0</b>

Besides this we have carried out management audit in KEK, KOSST, Termokos and Trepca focusing on different aspects of financial management and governance. Further on, we have tested the FM/C in nine Central and Regional POE's.

### 6.1 Publicly Owned Enterprises

The Law on Publicly Owned Enterprises no. 03/L-087 has established a legal framework regarding the operation and ownership of Publicly Owned Enterprises.

According to this Law, POEs are categorised as either:

- Central and Regional Publicly Owned Enterprises; and
- Local Publicly Owned Enterprises.

*The Central and Regional Publicly Owned Enterprises* are owned by the Republic of Kosovo with 100% of the shares. This includes seven Central POEs, two Regional Irrigation Companies, and six Regional Water Companies.

The POE Policy and Monitoring Unit were established for the purpose of supporting MoF and the Government in exercising their responsibilities over the POEs. This Unit reports to the Minister on the performance of the Central POEs.

The government is accountable before the Assembly for competencies and responsibilities towards POE's, and to report to the public and the Assembly on how they are managed.

Financial reporting of POE's is done in compliance with Law on Business Organisations. The POE's also must comply with the Administrative Instructions issued by Treasury for the preparation of financial reports.

*Local Publicly Owned Enterprises* are owned by the municipality or municipalities. Pursuant to Law on POEs, every Municipality shall introduce an ownership policy which presents Municipality's general objectives regarding the ownership of Local POEs and its role in the corporate governance.

## Actions taken on earlier recommendations

Last year we have given recommendations to the Assembly and the Government related to performance improvement by the POEs.

Previous year recommendations to the Assembly were:

- To tightly follow how the Governments, i.e. the MoF fulfils the role as the representative of the owners in the POEs;
- To consider measures securing consistency between the requirements in the LPFMA and the Law on Public Enterprises; and
- To consider an amendment in the Law on POEs securing that a representative from the owner shall appoint external auditors in the individual enterprises.

Previous year recommendations to the Minister of MoF were:

- To monitor the POEs in compliance with the current legal framework and to undertake remedial actions which would assist POEs in achieving their objectives;
- Conduct a review of the POEs in those areas of significant weakness and to issue the required regulations and guidance to assist the POEs in their business – including operating adequate internal controls such as an internal audit function;
- To resolve the current POE issues on the treatment of receivables, VAT, and assets valuation – working together with the PAK to find a solution for these issues; and
- Producing consistent policies across POEs on the issue of subsidies – treating all POEs in a transparent and equitable manner.

These recommendations are not addressed yet by the Assembly and Kosovo Government; therefore we express our concern regarding how the ownership in the public enterprises is addressed.

## Challenges in budget implementation

We have identified severe management shortcomings during our audit. A number of POEs did not establish adequate controls in order for them to function. In addition, the Government failed to properly monitor their performance. These shortcomings undermine the credibility and confidence on how these POEs are managed.

Weaknesses were noticed in the following cases:

- POEs did not hold their Annual General Meeting as required by Law and the status of POEs. *Company's General Meeting of Shareholders* is the highest decision-making body in the company. Decisions arrived at in this meeting are compulsory to the Company, shareholders, other bodies and to Company's officials;
- A good process of business planning is missing. Procedures on how data is data obtained during planning were unclear. For that reason, budget plans are not implemented properly, and in some cases even unplanned projects were executed;
- A number of POEs have constantly operated by suffering financial losses. Their permanent dependence from Government subsidies (assistance) indicates of uncertainty that the business is going to continue existing;
- Financial reporting is not at the proper level. The Statements of Disclosure do not provide appropriate explanatory notes. There are no clear policies and accounting norms as regards to proper assessments on accounts receivable or the liabilities of the Enterprise;
- Water companies face huge losses of produced water. In some companies water losses reach up to 70%. On the other hand, the revenue collection is low even for the water produced. Concerning this was not taken sufficient action to analyse the cause of losses or measures to reduce them;
- All POEs face the funds collection problem. This has an impact on the improper handling of debts, writing off high values of debt. Such treatment does not comply with International Accounting Standards (IAS) and local applicable laws;
- Depreciation and asset management is an issue follows some POE. PAK contracted out external audit firms to evaluate the assets. But after this evaluation, some of POEs failed to set clear norms for d assets depreciation. As a result, their value presented in the financial statements is not correct;
- Many shortcomings were noticed in the management of expenditures. Apart from weaknesses in the procurement process, POEs have deficiencies in management of contracts they are entered into. The management of Personnel is not in the appropriate level. There is a lack of transparency in staff recruitment. Personnel files are incomplete; and
- The assets management is a serious problem. There is no Assets Officer and assets have not been evaluated and recorded.

## Conclusion

The biggest flaw is that the service to the citizens is not of a sufficient quality. Owners as well as Boards and executive managers have a stake in this.

During 2010, the Government had failed to properly monitor the performance of POEs. Neither did monitor the financial risks of all POEs, nor undertake required measures conform to the principles of transparency, governance and accountability and in compliance with the relative responsibilities towards POEs.

POEs did not establish functional controls, and their reporting was not of a good quality. Revenue collection continues to be at a low level. Every year the account of receivables increases. Further on, operational losses are constantly suffered which are continuously covered by the Government subsidies. All these indicate of poor performance of POEs that endanger the principle of continuity.

## Recommendation

We recommend the Minister of Economic Development to ensure that:

- Understandable accountability lines;
- Monitor oversight boards and executive managers and hold them to account;
- Take up the owner role in a different way growing best possible prerequisites for the enterprises;
- Better executive managers (beef them up or change them out);
- The owner must analyse the reasons behind the shortcomings in the service to the citizens;
- A program with clear instructions is developed, in order to improve the current state of the POEs, and to provide adequate reporting for the Assembly conform authorisations and responsibilities that the Government has towards the POEs;
- POEs legal structure is reviewed and that all models of regulations are issued which would facilitate them to function better, including proper reporting;
- Current issues of POEs in relation to how receivables are handled, assets management, and increase of the reporting level are solved; and
- Operations of POEs are fully analysed, and to subsidise those enterprises which can not cover their business activities.

## 6.2 Socially Owned Enterprises

The PAK's job is to administer and privatise the SOEs, including authorisation for sale, transfer, and liquidation of enterprises and assets.

The Administration, privatisation and timely liquidation of Socially Owned Enterprises has an impact in rebuilding and Kosovo's economic development, and *welfare* improvement for its citizens.

The number of Socially Owned Enterprises that were not privatised on December 31<sup>st</sup> 2010 is 303. We have audited the financial management, control system and reporting lines on the Trepca enterprise under the PAK.

Audit of Trepca enterprise resulted in the following shortcomings:

- The reporting process in Trepca does not function as a whole. It is separated in two parts. Both these parts manage with their budget and have no reporting line in common, with exception to the cash flow;
- The northern part of SOE Trepca did not submit reports at PAK for her operational activities. They have only submitted the statement of cash flow in order to receive the subsidies. We could not audit financial statements of the northern part, since the management of that part has not agreed to. According to them the reasons are the political problems;
- Trepca still does not have a final defined status. Therefore, the legal base was missing on some areas. This was particularly noticed in the management of revenues and Human Resources.

- According to the Financial Statements, it is noticed that both parts have a positive financial outcome and that the balance has been improved compared to the past. However, the major part of revenues is generated from the sale of lead and zinc. There was no adequate control over the purchases through procurement. Irregularities have been noticed from the planning up to the execution of procurement procedures; and
- The assets management is a serious problem. There is no Assets Officer and assets have not been evaluated and recorded.

## Conclusion

Board of PAK did not manage to fully administer and monitor the enterprise. Only the southern part of it is administered, while the northern part does not report on its general activities.

Management of Trepca did not yet manage to put a functioning control system in place, for an effective management of the enterprise. The fact that it is separated in two parts drives us to the conclusion that there is a lack of responsibility and accountability.

## Recommendations

We recommend the Assembly of Kosovo to ensure that Board of PAK and the Management of SOE Trepca ensure that:

- The possibility to strengthen the cooperation between two parts is considered, so that they are integrated and operate as one.
- The status of the enterprise is defined and issuance of internal regulations and policies; and
- Areas with emphasised weaknesses are analysed, and further actions are undertaken in improving the internal control.



## 7. Some specific areas

### 7.1 Privatisation Process

#### Description

The privatisation process is under the responsibility of PAK. The Law on Privatisation gives the prerequisites for the PAK Board and the PAK in implementing this process. The PAK Board of Directors consists of eight Directors; five appointed by the Assembly of Republic of Kosovo and three international members appointed by the International Civilian Representative.

The PAK's preferred method to privatise Socially Owned Enterprises (SOEs) that have sustainable business is the Spin-off method whereby the assets and limited liabilities of a SOE are transferred to the newly established unit of SOE (NewCo).

NewCo will be sold to an investor and the revenues from the sale will be deposited in a trust account to be used for fulfilling the outstanding liabilities of SOE and to deal with other complaints, including complaints about ownership. SOE will then be liquidated or bankrupted.

Despite this method, PAK in several cases uses the sale through liquidation, if it considers that such procedure is in the interests of creditors or respective owners.

The following we outlined the privatisation fund accounts.

*Table 12: Description of Accounts by Category*

Description of Accounts	Active accounts in the end of the period	Balance of accounts as of 31 December 2010	Balance of accounts as of 31 December 2009	Difference
Privatisation Trust Accounts	690	278,534,309	259,719,544	18,814,765
Liquidation Trust Accounts	145	214,480,470	175,188,793	39,291,677
SOE Trust Accounts (Money)	124	5,691,148	3,388,895	2,302,253
SOE Commercialisation Money in Trust	16	3,520,026	3,567,460	-47,434
Employee entitlement in Trust	69	9,662,836	132,986	9,529,850
Privatisation Bids Deposits	1	3,139,227	3,391,091	-251,864
Privatisation Tender Submission Fee	1	1,892,396	1,428,339	464,057
Liquidation Bids Deposits	1	1,371,067	638,468	732,599
Liquidation Bids Submission Fee	1	195,846	49,642	146,204
Liquidation Registration Fee	1	8,519	0	8,519
PAK Charter Capital	1	1,095,678	1,094,207	1,471
PAK Reserve Fund	1	2,591,945	2,433,523	158,422
Donor's Money	1	8,359	8,347	12
Time Deposit Accounts	6	1696.12	0	1,696
<b>Total:</b>	<b>1,058</b>	<b>522,193,297</b>	<b>451,041,295</b>	<b>71,152,227</b>

The table above shows the balance of all accounts at the end of reporting period, including the number of active accounts. The PF funds during the January-December period are increased for €7,152,227 as a result of the privatisation process.

## Observations

PAK has carried out its work adhering to the business plan for 2010 approved by the board of directors. During 2010 Board of Directors has held its regular monthly meetings exercising its functions under the present law.

We have also observed certain challenges which have followed both contracting procedures and privatisation process of individual companies.

The process used for “ Contracting out Counselling Services for Transactions related to Sharr Cem Privatisation” has not secured sufficient competition in the market. Instead of open procedures, PAK had sent invitations to five companies regarding the Bid submission. The contract awarded was in the amount of €80,000. This Company had to set the sale value for the “Sharr Cem” Enterprise.

When it comes to Sale of Sharr Cem, Cement Factory in Hani i Elezit, the sale was done through direct negotiations for price together with other respective terms and conditions. To this end, PAC negotiated only with one company which was already using that enterprise up to the moment of privatisation. In the absence of an open competition the company was sold for €30,100,000.

Regarding the management of “Sharr Salloniti enterprises which was under direct PAC administration, we have noticed some shortcomings in the process. “Sharr Salloniti” built a Business and Hotel Premise in the amount of €93,256 without prior approval from the PAK which was required by its policies. Furthermore the PAK Board decided to privatise this enterprise being still under construction process.. Half of the payment in the amount of €346,628 remained as contingent liabilities in the PAK financial statements.

PAK’s Monitoring Unit of Commercialised SOEs was not always effective in securing that these enterprises were managed in line with contracted conditions regarding the investment and employment commitments. In the cases we have examined we have noticed that PAC had rarely taken appropriate measures against irresponsible contractors who deviated from contracted terms and conditions.

In some individual cases the Board of Directors had imposed penalties against such companies, in other cases it had extended the period for capital investments and employment. While, in certain cases they were given pre-purchase right.

Moreover, the process of signing the contracts was not efficient enough. According to the PAK operating policies signing of contracts should be made within 30 days from notifying the winning bidder, while according to the tender rules this should be made within 90 days.

Such inconsistency was causing challenges in practice. Besides this, some contracts were signed with a significant delay. According to PAC officials’ justification it is as a result of inherited contracts from KTA. However, the setbacks are a result of PAK negligence towards this process.

## Conclusions

The PAK Board should pay more attention to strengthening the overall internal control environment as a base for sound and efficient management of the Privatisation process. Current legal framework is foreseen to be revised securing better prerequisites for the process finalising all privatisations in due time. .

Time management of the process has still room for improvement. Liquidation process is developing quite slowly. PAC monitoring activities should be intensified securing better management of commercialised enterprises. Correcting measures against irresponsible contractors should be applied and competition should always be secured.

**We recommend the Assembly of Kosovo to secure that PAK Board ensures:**

- Timely administration and privatisation of Socially owned Enterprises;
- Control and transparency during the privatisation process in order to create an open environment providing equal competition opportunities from all investors;
- Greater engagement in development of SOEs liquidation process;
- Monitoring in line with agreements. Otherwise, contracts with commercialists of enterprises should be terminated for all those which fail to adhere to the terms specified in the agreement; and
- Functional control in PAK in order that contract finalisation is in line with the specified time limits.

## 7.2 Management of subsidies and grants in Agriculture

In recognition of the importance of this sector the Government in recent years has started to allocate financial resources in the form of subsidies and grants to aid this sector. In 2008 the Government allocated €1.2 million; in 2009 €5.27 million; in 2010 €5.18 million; and in 2011 the Government has allocated an amount of €7.4 million.

In view of this increasing trend and weaknesses identified by regularity audits, OAG carried performance audit with the objective to verify whether the systems put in place by the MAFRD for managing the provision of subsidies and grants are effective.

### Audit conclusion

The OAG noticed that the Ministry has introduced systems for managing the provision of subsidies and grants based on IPARD requirements. Nevertheless, not all activities have been satisfactorily introduced. Further improvements are required to secure effectiveness in the provision of subsidies and grants.

Despite the progress being made the OAG has three main concerns:

*First*, policies and objectives have been formulated in the absence of key information and comprehensive registers of land and animal holdings;

*Second*, structures in place for managing subsidies and grants still are not completed and have problems in organisation, segregation of duties and responsibilities; and;

*Third*, the monitoring and evaluation system is at early stage of its development. This means that management is not able to have a clear picture regarding the effectiveness of the subsidies and grants.

# **Appendicies**

- 1. Different types of Audit Opinions (ISSAI 400)**
- 2. Audit Opinions and main managerial shortcomings**



We recommend the Government to ensure that the MAFRD ensures that:

- Actions are taken improving the overall situation with regard to agricultural statistics. Moving forward the project to establish an integrated system of farms register would be a good step in this direction;
- The establishment of all components of the IPARD principles within the current administrative structure is finalised with the aim of creating a better basis for better management of subsidies and grants;
- Functionalising all sectors within the existing structures as a prerequisite for further development of PU which is foreseen to be a Payment Agency up to 2015;
- The monitoring and evaluation system is designed and implemented in accordance with IPARD benchmarks in order to be able to evaluate efficiency and effectiveness of the programmes.

## Appendix 1

# Different types of Audit Opinions (ISSAI 400) applied by OAG in the Annual Audit Report on the FY 2008

### (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 judgment, 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.

## Appendix 2

**Table: Audit Opinions and key managerial shortcomings**

Audited entities	Budget in mil. Euro	Types of opinion	Reason for the qualification of opinion	Key managerial shortcomings
Ministry of Finance and Economy (Incl. Customs and Tax)	86.72	<i>Unqualified Opinion</i>		Noncompliance with LPP; Poor management of expenditures; Inadequate monitoring of subsidies and capital projects.
Ministry of Health	75.54	<i>Unqualified Opinion</i>		Weaknesses in recording revenues at different centres of the MH; Noncompliance with LPP; Poor management of subsidies. Non-disclosure of liabilities; poor management of pharmaceutical stock.
Ministry of Education, Science and Technology	43.46	<i>Unqualified Opinion</i>		Noncompliance with LPP; Deficiencies on the payment of committees (contractual works); poor monitoring of subsidies.
Ministry of Public Administration	17.93	<i>Unqualified Opinion</i>		Noncompliance with LPP; within MPA and SOK; Avoidance of recruitment procedures; Poor asset management; Inadequate planning and control on tracking liabilities.
Ministry of Culture, Youth and Sports	12.36	<i>Unqualified Opinion</i>		Managerial shortcomings on resolving the definition of the position for the employees with service contracts; Poor management of expenditures related to the use of fuel for official vehicles.
Customs	9.29	<i>Unqualified Opinion</i>		Shortcomings on the supervision of businesses using the Procedures with Economic Impact; Poor management and the control on the warehouse and confiscated goods; Nondisclosure of all financial liabilities in the AFS; Inefficient planning and use of the budget.
Office of the Prime Minister	9.14	<i>Unqualified Opinion</i>		Noncompliance with LPP; within OPM and FVA; Weaknesses on asset management; Payments processed within OPM and FVA with inadequate economic codes; Poor management of revenues and subsidies; Irregular certification of payments within FVA; Signing of purchase order by incompetent persons in the GEA.

Assembly	8.85	<i>Unqualified Opinion</i>		Noncompliance with LPP; Poor asset management; Irregular certification of payments.
Ministry of Communities and Returns	8.04	<i>Unqualified Opinion</i>		Noncompliance with LPP; irregular certification of payments; Poor monitoring of capital projects and subsidies, cash management shortcomings; Shortcomings in recording the assets.
Office of the President	1.68	<i>Unqualified Opinion</i>		Failure to fully address the OAG recommendations; Inadequate budget planning and budget execution; incomplete disclosure of Assets in the AFS
Regulatory offices of Energy	1.27	<i>Unqualified Opinion</i>		Lack of reconciliations and records on revenues; Noncompliance with LPP; Lack of evidences for goods; Incomplete personnel files; Irregular certification of payments.
DANIDA	1.14	<i>Unqualified Opinion</i>		
Civil Aviation Regulatory Office	0.73	<i>Unqualified Opinion</i>	-	Cooperation with the IAU of any other institution is not established and no budget is determined for this issue.
Academy of Science and Arts	0.46	<i>Unqualified Opinion</i>		Noncompliance with LPP.
Public Procurement Regulatory Commission	0.29	<i>Unqualified Opinion</i>		Poor management of expenditures, in the area of personnel as well
Ministry of Transport and Communications	207.73	<i>Unqualified with an Emphasis of Matter</i>	Incomplete disclosure of revenues.	Registration of revenues with inadequate codes; Noncompliance with LPP; deficiencies on the management of co-financing projects; Failure to implement approved projects according to reviewed budget. Irregular certification of payments.
Ministry of Labour and Social Welfare	177.05	<i>Unqualified with an Emphasis of Matter</i>	Fixed assets register not fully reliable yet	Shortcomings in human resource management; Non-closure of advances for official travels; Lack of controls on expenditures of fixed telephony and the use of official vehicles; Poor monitoring of subsidies; Poor asset management.

Prishtina	65.24	<i>Unqualified with an Emphasis of Matter</i>	Nondisclosure of assets and accounts receivable in the AFS	Noncompliance with LPP; non-reconciliation of own source revenues; Poor internal control system.
Ministry of Kosovo Security Force	29.38	<i>Unqualified with an Emphasis of Matter</i>	Fixed assets are not adequately disclosed.	Failure to fully address the OAG recommendations; Failure to record the evaluated fixed assets in KFMIS; Poor monitoring on the implementation of capital projects; Irregular certification of payments.
Prizren	27.57	<i>Unqualified with an Emphasis of Matter</i>	Incomplete asset register in the AFS.	Non-reconciliation of revenues; Poor asset management; Noncompliance with LPP.
Ministry of Justice	22.94	<i>Unqualified with an Emphasis of Matter</i>	Inadequate disclosure of Fixed assets and own source revenues.	Failure to fully address the OAG recommendations; Poor control system in the area of procurement; Improper segregation of duties; Poor monitoring of capital projects; Irregular certification of payments.
Gjilan	19.43	<i>Unqualified with an Emphasis of Matter</i>	Incomplete and inaccurate disclosure of fixed assets and accounts receivable.	Failure to fully address the OAG recommendations; Poor asset management; Noncompliance with LPP; Poor management of subsidies.
Ferizaj	17.49	<i>Unqualified with an Emphasis of Matter</i>	Inaccurate and incomplete disclosure of asset register and third party payments.	Noncompliance with LPP; No audit committee Failure to record revenues in respective economic codes and their reconciliation; Nondisclosure of contingent liabilities.
Peja	16.33	<i>Unqualified with an Emphasis of Matter</i>	Lack of comprehensive asset register.	Non-functioning of IAU; Complete asset register; Preparation of F/S not in compliance with AI.
Gjakova	15.55	<i>Unqualified with an Emphasis of Matter</i>	Incomplete disclosure of fixed assets, accounts receivable and nondisclosure of payments from third parties	Failure to fully address the OAG recommendations; non-reconciliation of own source revenues; Noncompliance with LPP.
Kosovo Judicial Council	15.17	<i>Unqualified with an Emphasis of Matter</i>	Inadequate disclosure of Fixed assets	Failure to fully address the OAG recommendations; Noncompliance with LPP; Weaknesses in the payment control system.

Ministry of Foreign Affairs	14.23	<i>Unqualified with an Emphasis of Matter</i>	Failure to record the expenditures of goods and services in amount of €409,621; Kosova legal framework on the expenditure of budget was not followed by the HOM.	Failure to fully address the OAG recommendations; Inadequate budget planning; Internal Control not adequately designed; Failure to timely report the expenditures incurred by the Heads of Overseas missions; IAU and Audit Committee are not functionalised.
Ministry of Environment and Spatial Planning	12.55	<i>Unqualified with an Emphasis of Matter</i>	Incomplete disclosure of fixed assets and receivables.	Inaccurate records on revenues; Noncompliance with LPP; Irregular certification of payments.
Privatisation Agency of Kosovo	12.43	<i>Unqualified with an Emphasis of Matter</i>	Information in the Annual Financial Statements regarding subsidies to the SOE Trepca North are not based on monitored reports consistent with the Monitoring and Control Agreement between the two parties.	Poor monitoring of subsidies and capital projects in compliance with MCA; Non compliance with LPP; Recruitment procedures were not adhered to; Improper management of expenditures in order to avoid the increase of financial liabilities;
Radio Television of Kosova (RTK).	12.06	<i>Unqualified with an Emphasis of Matter</i>	Statement of Disclosure was not clear enough and some items did not match with other Financial Statements.	Non-compliance with LPP; Improper monitoring of commercials; payments were not carried out conform the contract; Lack of audit Committee.
Ministry of Agriculture, Forestry and Rural Development	11.99	<i>Unqualified with an Emphasis of Matter</i>	Incomplete and inaccurate disclosure of fixed assets receivables	Increase of expenditures for capital investments in the end of the year; Inadequate classification of revenues; Noncompliance with LPP; Avoidance of recruitment procedures; Failure to report subsidies.

Vushtrri	10.67	<i>Unqualified with an Emphasis of Matter</i>	Incomplete disclosure of fixed assets and accounts receivable	Failure to fully address the OAG recommendations; Poor asset management; Noncompliance with LPP; failure to functionalise the Audit Committee; Poor management of subsidies.
Ministry of Trade and Industry	9.66	<i>Unqualified with an Emphasis of Matter</i>	Incomplete disclosure of fixed assets and revenues.	Noncompliance with LPP; Inadequate classification of revenues; Avoidance of recruitment procedures; Expenditures before signing the contract for subsidies.
Skenderaj	9.50	<i>Unqualified with an Emphasis of Matter</i>	Lack of comprehensive fixed asset register.	Lack of an efficient tax collection system; Non-reconciliation of revenues between departments; Noncompliance with LPP.
Ministry of Local Government	9.48	<i>Unqualified with an Emphasis of Matter</i>	Inadequate disclosure of fixed assets and third party payments	Failure to fully address the OAG recommendations; Poor control on the planning, monitoring and the use of budget.
Central Electoral Commission	8.72	<i>Unqualified with an Emphasis of Matter</i>	Incomplete and inaccurate presentation of fixed assets, revenues and deposits.	Failure to fully address the OAG recommendations; Weaknesses in internal control, especially in the procurement process; Noncompliance with LPP; Inadequate segregation of duties on the supply processes.
Glogoc	8.07	<i>Unqualified with an Emphasis of Matter</i>	Incomplete disclosure of fixed assets and accounts receivable.	Failure to fully address the OAG recommendations; Noncompliance with LPP; Poor management of subsidies.
Regional Waste Company Pastrimi J.S.C, Prishtina	7.61	<i>Unqualified with an Emphasis of Matter</i>	Nondisclosure of receivables and assessment of bad debts.	Noncompliance with LPP; Lack of non-financial asset register; Non-functioning of IAU; Lack of policies on the assessments of bad debts and writing-off.
Tax Administration	6.67	<i>Unqualified with an Emphasis of Matter</i>	Assurance and the accuracy of information presented in the Database (SIGTAS) are not complete; the amount of account receivables is not reliable; Revenues from penalties imposed have not been presented in their respective codes.	Failure to fully address the OAG recommendations; Weaknesses in collection of revenues; Weaknesses on the management and functioning of SIGTAS system. Poor management of confiscated goods and their sale; Failure to pay invoices no later than 30 days from the day they are received; IAU operates merged with professional standard unit and it is not independent.

Gračanica	6.44	<i>Unqualified with an Emphasis of Matter</i>	Incomplete disclosure of fixed assets and accounts receivable	Noncompliance with LPP; failure to functionalise the Audit Committee; Failure to establish Audit Committee.
Ministry of Energy and Mining	2.37	<i>Unqualified with an Emphasis of Matter</i>	Incomplete and inaccurate disclosure of fixed assets.	Noncompliance with LPP; Avoidance of recruitment procedures; Decisions on subsidies after completion of the project; Irregular certification of payments.
Ranillug	1.51	<i>Unqualified with an Emphasis of Matter</i>	Incomplete disclosure of fixed assets	Noncompliance with LPP; Failure to maintain asset registers; Non-functioning of internal control; Failure to establish an IAU.
Independent Commission for Mines and Minerals	1.46	<i>Unqualified with an Emphasis of Matter</i>	Incomplete disclosure of fixed assets and accounts receivables.	Unfair reporting of revenues; Noncompliance with LPP; Avoidance of recruitment procedures.
Constitutional Court of Kosovo	1.27	<i>Unqualified with an Emphasis of Matter</i>	Inadequate disclosure of Fixed assets.	Noncompliance with LPP; Lack of constant supervision on the staff recruitment processes.
Klllokot	1.12	<i>Unqualified with an Emphasis of Matter</i>	Registration of revenues and fixed assets do not provide sufficient information	Noncompliance with LPP; Lack of complete registers on revenues; Avoiding recruitment procedures; Irregular certification of payments; Failure to establish an IAU.
Telecommunications Regulatory Authority	0.94	<i>Unqualified with an Emphasis of Matter</i>	Incomplete and inaccurate disclosure of assets.	Failure to apply penalties for the users of licenses; provision of licences without completion of all documents and approval without legal basis; Avoidance of recruitment procedures; Irregular certification of payments.
Ministry of European Integration	0.59	<i>Unqualified with an Emphasis of Matter</i>	Asset register not completed with accurate data	Noncompliance with LPP; Meal allowances of the employees were paid from the category of goods and services; Tax liabilities not withheld and paid for rent; The decision for the transfer of the official in contravention with rules.
Ombudsperson	0.51	<i>Unqualified with an Emphasis of Matter</i>	Inadequate disclosure of Fixed assets.	Failure to fully address the OAG recommendations; Poor control on the planning, monitoring and the use of budget; There is no functional controls in the area of procurements; Incomplete accounting register.

Anticorruption Agency	0.50	<i>Unqualified with an Emphasis of Matter</i>	Disclosed information within AFS for note 2 – incorrect budget appropriations.	Failure to fully address the OAG recommendations; Poor controls on the planning, monitoring and the use of budget; Noncompliance with LPP; Avoidance of recruitment procedures; Irregular certification of payments.
Water and Waste Regulatory Office	0.34	<i>Unqualified with an Emphasis of Matter</i>	Incomplete and inaccurate disclosure of fixed assets.	Low collection of revenues; Lack of evidences for goods; Incomplete personnel files; Low performance of relevant committees; Irregular certification of payments.
University of Prishtina	24.49	<i>Qualified Opinion</i>	Presentation of central heating expenditures	Improper segregation of duties and responsibilities; non-reconciliation of own source revenues; non-functioning of IAU and Audit Committee; Failure to record expenditures in respective economic codes; Poor asset management.
Mitrovica	15.42	<i>Qualified Opinion</i>	Failure to disclose the government grants; Lack of asset register.	Nondisclosure of assets in the AFS, Poor asset management; Poor internal control system.
Podujevo	14.17	<i>Qualified Opinion</i>	Statement of outstanding invoices is incomplete; F/S article 28 is not presented fairly.	AFS were not prepared in accordance with AI; Lack of comprehensive asset register; lack of an efficient tax collection system; Noncompliance with LPP; Failure to establish Audit Committee.
Suhareka	10.07	<i>Qualified Opinion</i>	Lack of listings of payments from third parties; Nondisclosure of accounts receivable.	Non-reconciliation of revenues; Poor asset management; non-functioning of internal audit; Preparation of AFS not in compliance with AI.
Viti	7.00	<i>Qualified Opinion</i>	Nondisclosure of grants and fixed asset register in the F/S.	AFS were not prepared in accordance with AI; Poor asset management; Poor system of internal control; Non-reconciliation of revenues; Noncompliance with LPP.
Klina	6.45	<i>Qualified Opinion</i>	Lack of listings of payments from third parties and failure to accurately and fully present the AFS.	Failure to disclose fixed assets in the AFS; Non-reconciliation of revenues; Lack of listings of payments from third parties; Failure to establish Audit Committee.

Kamenicë	6.30	<i>Qualified Opinion</i>	Non-reconciliation of revenues and lack of asset register.	AFS were not prepared in accordance with AI; Non-reconciliation of revenues and lack of comprehensive asset register
Fushë Kosovë	5.93	<i>Qualified Opinion</i>	Nondisclosure of accounts receivable and listings of payments from third parties.	Preparation of AFS not in accordance with A/I, poor asset management, non-reconciliation of revenues; Noncompliance with LPP.
Dragash	4.67	<i>Qualified Opinion</i>	Lack of comprehensive register of properties, plants and equipment.	Nondisclosure of accounts receivable; Payments from third parties, non-reconciliation of revenues; Poor internal control system; Poor functioning of internal audit.
Kaçanik	4.65	<i>Qualified Opinion</i>	Disclosure of the asset register in F/S and lack of listings of payments from third parties.	AFS were not prepared in accordance with AI; Noncompliance with LPP; lack of an efficient tax collection system; Lack of audit Committee.
Shtime	4.02	<i>Qualified Opinion</i>	Lack of asset register and of data on the depreciation of property.	Noncompliance with LPP; Incomplete disclosure of accounts receivable; there is no consistency of disclosure in relation to the previous year.
Shtërpcë	3.88	<i>Qualified Opinion</i>	Failure to disclose grants in F/S; Incomplete register of fixed assets.	Non-reconciliation of revenues; Noncompliance with LPP; Poor internal control system.
Regional Water Company Hidrodrini J.S.C, Peja	2.63	<i>Qualified Opinion</i>	Failure to put assets in the amount of €3,610,098 under the company's ownership, and improper presentation of stocks in the balance sheet;	Failure to fully address Auditor's recommendations; Failure to justify huge water losses, poor expenditure management and in revenue collection; Non-compliance with the LPP; Recruitment procedures were not adhered to;
Leposaviq	2.23	<i>Qualified Opinion</i>	The Municipality was not able to provide us the personnel files such as list of employees	OAG did not carry out the audit in Municipality of Leposaviq for 2009 due to the fact that the Municipality failed to prepare AFS

Regional Water Company Radoniqi J.S.C, Gjakova	2.11	<i>Qualified Opinion</i>	Depreciation of assets is unclear; Unfair presentation of investments in amount of €88,500; The lack of source documents for the liabilities in amount of €142,031, and improper presentation of the amount €15,732.	Negative business results; Only 30% of invoiced water is invoiced; Financial reporting is not at the proper level. Lack of policies on proper evaluation on accounts receivable and liabilities. Lack of controls over expenditures; Non-compliance with the LPP; Poor personnel management.
Novo Bërdë	1.85	<i>Qualified Opinion</i>	Nondisclosure of comparative amounts in the statement of budget execution and assets; noncompliance with LPP.	Non-reconciliation of revenues; Poor internal control on the personnel.
Zveçan	1.53	<i>Qualified Opinion</i>	No personnel files provided for audit	Poor asset management; Noncompliance with LPP; Poor functioning of internal audit; poor internal control systems.
Hani i Elezit	1.52	<i>Qualified Opinion</i>	Lack of comprehensive asset register and listings of payments from third parties.	AFS were not prepared in accordance with AI; Non-reconciliation of revenues and lack of an efficient tax collection system; Lack of audit Committee.
Junik	1.43	<i>Qualified Opinion</i>	Incomplete disclosure of assets.	Failure to fully address the OAG recommendations; Poor asset management; Noncompliance with LPP; Lack of Audit Committee.
Lipjan	10.02	<i>Disclaimer of Opinion</i>	Nondisclosure pursuant to reporting requirements; non-presentation of payments from third parties.	Lack of comprehensive asset register; Noncompliance with LPP.

Rahovec	8.50	<i>Disclaimer of Opinion</i>	Lack of comprehensive asset register.	Non-reconciliation of revenues between departments; Poor asset management; Noncompliance with LPP; Non-functioning of internal audit. AFS have not been prepared in accordance with AI.
Malisheva	7.96	<i>Disclaimer of Opinion</i>	Lack of comprehensive asset register.	Non-reconciliation of revenues; Poor asset management; Noncompliance with LPP.
Istog	6.40	<i>Disclaimer of Opinion</i>	Incomplete disclosure of fixed assets; nondisclosure of accounts receivable and nondisclosure of payments from third parties.	Failure to fully address the OAG recommendations; Poor asset management; Noncompliance with LPP; Lack of Audit Committee.
Deçan	6.06	<i>Disclaimer of Opinion</i>	Lack of listings of payments from third parties and AFS were not timely prepared.	AFS were not prepared in accordance with AI and IPSAS; Lack of comprehensive asset register; Non-reconciliation and the system of collected revenues; Failure to establish Audit Committee.
Obiliq	4.22	<i>Disclaimer of Opinion</i>	Failure to disclose the government grants received by KB in the F/S; failure to explain un-reconciled differences in article 9 and 10 of AFS.	Non-reconciliations between dep. of revenues; Noncompliance with LPP; Lack of comprehensive asset register.
Zubin Potok	1.66	<i>Disclaimer of Opinion</i>	Lack of statement of budget execution and management representation letter.	Poor asset management; Noncompliance with LPP; Poor functioning of IAU; Poor internal control system.
Mamusha	0.87	<i>Disclaimer of Opinion</i>	Lack of comprehensive asset register.	Non-reconciliation of revenues; Lack of an efficient tax collection system; Poor asset management; Failure to establish Audit Committee.
Partesh		<i>Disclaimer of Opinion</i>		No AFS produced

<p>Ministry of Internal Affairs</p>	<p>81.97</p>	<p><i>Adverse Opinion</i></p>	<p>FS were not prepared in accordance with AI no. 16/2010;                  • At the budget execution report – under the column of final budget there is a difference of €1,423,808 compared to Treasury report; Initial and final budget appropriations were not presented; Non-financial assets in a value of €2,621,269 were not recorded; Subsidies have been understated at €63,961.</p>	<p>Failure to fully address the OAG recommendations; Lack of budget planning policies. Lack of competence for the preparation of FS and reconciliation of revenues; Lack of guidelines for subsidies; Irregular certification of payments; Lack of recording and reporting assets.</p>
<p>Independent Media Commission</p>	<p>1.12</p>	<p><i>Adverse Opinion</i></p>	<p>Non-disclosure of funds by the European Commission in amount of €1,000,000; Compensation of Wages and Salaries in contradiction with the Memorandum of Understanding in amount of €118,080; Fixed assets were undervalued for €259,205.</p>	<p>ICM did not manage to properly segregate duties and responsibilities, therefore accountability was absent in numerous cases. Weaknesses in revenue management, expenditures and assets.</p>

Privatisation Agency of Kosovo-Privatisation Fund	0.00	<i>Adverse Opinion</i>	Lacking a regular process for counselling Services, and discrepancies with the Legal framework for privatisation of the Enterprise “Sharr Cem”; Enterprise The enterprise “Sharr Salloniti” built a Business and Hotel Premise in amount of €693,256 without prior approval from PAK.	Privatisation was not transparent. Poor monitoring of commercialised enterprises; Although, the agreements were not fulfilled in accordance with the contract, PAK never applied penalties or terminated contracts. PAK in one case did not provide the relevant documentation which would prove the legitimacy of the employees in the list when it comes to distribution of 20% of employee entitlement.
Total	1,290.6			15 Unqualified Opinions, 35 unqualified with emphasis of matter, 19qualified opinions 8 Disclaimer of opinions and 3 adverse opinions