



REPUBLIC OF KOSOVO
NATIONAL AUDIT OFFICE

ANNUAL AUDIT REPORT | 2015

**ANNUAL AUDIT REPORT
2015**

For further information, please contact:

Qëndresa Mulaj
qendresa.mulaj@oagks.org
+381 (0) 38 60 60 04 10 12

Zyra Kombëtare e Auditimit
Rr. "Musine Kokalari", nr. 87
10 000 Prishtinë, Kosovë

Prishtina, August 2016



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NATIONAL AUDIT OFFICE**

**ANNUAL AUDIT REPORT
FOR THE YEAR ENDED ON 31 DECEMBER 2015**

Prishtina, August 2016

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LIST OF ABBREVIATIONS

AAR	Annual Audit Report	KAEE	Kosovo Agency for Energy Efficiency
AC	Audit Committee	KC	Kosovo Customs
AFS	Annual Financial Statements	KFMIS	Kosovo Financial Management Information System
AFS/KB	Annual Financial Statements of the Kosovo Budget	KG	Kosovo Government
AG	Auditor General	KRPP	Public Procurement Regulatory Commission
AI	Administrative Instruction	LCS	Law on Civil Services
BD	Board of Directors	LI	Labour Inspectorate
BIPSAS	Board on International Public Sector Accounting Standards	LPFMA	Law on Public Financial Management and Accountabilities
BO	Budget Organization	LPP	Law on Public Procurement
BRK	Budget of Republic of Kosovo	LL	Local Level
CA	Contracting Authority	MED	Municipal Education Department
CAO	Chief Administrative Officer	MESP	Ministry for Environment and Spatial Planning
CBF	Committee on Budget and Finances	MEST	Ministry of Education Science and Technology
CHD	Central Harmonization Department	MF	Ministry of Finance
COPF	Committee on Oversight of Public Finances	MHC	Family Healthcare Centre
CPA	Central Procurement Agency	MPMS	Ministry of Labour and Social Welfare
EE	Energy Efficiency	MRAC	Monitoring Reporting and Assessment Committee
EO	Economic Operator	NAO	National Audit Office
FMC	Financial Management and Control	NCRPWD	National Committee on the Rights of Persons with Disabilities
GDP	Gross Domestic Product	CL	Central Level
GVUM	Governmental Vehicle Use Monitoring Unit	PAK	Privatization Agency of Kosova
HRMIS	Human Resources Management Information System	PI	Performance Indicators
IA	Internal Audit	PIA-AJ	Prishtina International Airport - Adem Jashari
IA	Internal Auditor	PIFC	Public Internal Finance Control
IAU	Internal Audit Unit	PRB	Public Review Body
IB	Independent Bodies	PWD	Persons With Disabilities
IFI	International Financial Institutions	PWFD	Persons With Physical Disabilities
IMF	International Monetary Fund	SOCTGAD	Sector on Oversight of Customs Transit, Guarantee and Accounting/Debt
IPSAS	International Public Sector Accounting Standards	SOE	Socially Owned Enterprises
ISIAPP	International Standards of Internal Audit Professional Practice	TAK	Tax Administration of Kosovo
ISSAI	International Standards of Supreme Audit Institutions	WB	World Bank
KA	Kosovo Assembly		

FOREWORD OF THE AUDITOR GENERAL



Honoured Members of the Assembly,

For the first time as the Supreme Audit Institution in its constitutional and legal capacity entitled to by the Assembly of the Republic of Kosovo, I have the pleasure to introduce you the Annual Audit Report for the Fiscal Year 2015.

The 2015 Annual Financial Report on the Budget of the Republic of Kosovo has been given a Qualified Opinion with Emphasis of Matter due to failure to consolidate the individual financial statements and inadequate disclosure of information in the Explanatory Notes.

Notwithstanding this, there have been identified some significant positive developments, including increased tax revenues collection, financing from domestic borrowing as well as sound budget performance when it comes to payments execution. The budget overspending limit is consistent with legal requirements as well.

In order to produce this Report, we have previously conducted audits and published 90 regularity audit reports and 8 performance audit reports on the efficiency and effectiveness public money was used. We have also produced and published the Report on Financial Performance of Self-Government Institutions.

Our audit work has resulted in recommendations aimed at promoting goods governance and improving the financial management.

I would like to invoke for a greater attention being paid to the planning stage, which would allow the institutions to conduct their business based on their needs and to report truly and fairly.

Public entities should perform according to the law and fulfil their legal obligations whilst public funds users should be fully hold to account on how these funds are managed.

Our constructive support to the audited institution provides for early actions on addressing identified weaknesses and developing good governance any further.

Our goal is to closely cooperate with the Assembly and the Government in order to further develop the current reforms on building Good Governance and better Financial Management and Control systems.

The publication of audit reports of the National Audit Office allows citizens to hold the persons in charge of public resources to account.

The audit recommendations are focused on improving the quality of external financial reporting, enhancing financial management and improving public services.

We continue to firmly stick to the basic principles for qualitative and fully unbiased audit.

In the end, please allow me to express my gratitude to the all the audited institutions, the Ministry of Finance in particular, and to the Committee for Oversight of Public Finances for the good cooperation we had.

I would also like to highly appreciate the National Audit Office's staff for their professional engagement and commitment to conduct the audits in accordance with the international auditing and accounting standards and within the auditing statutory deadline.

Prishtina, August 2016



Besnik Osmani

Auditor General

Executive Summary

Foreword

This Annual Audit Report summarises the key findings from the work undertaken by the Auditor General and the National Audit Office in the 2016/16 Audit Season. Our work includes:

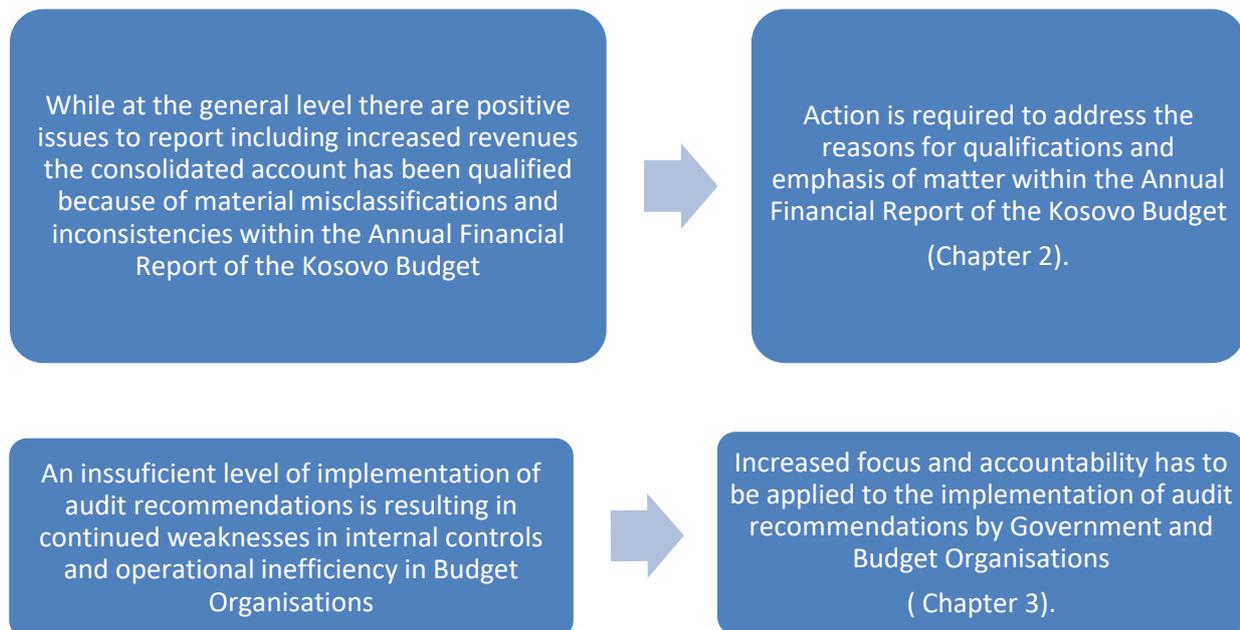
- Regularity audit – the audit of Annual Financial Statements and the audit of compliance with relevant laws and regulations
- Performance audit – reviewing the value for money achieved in the use of resources

Our audits are undertaken in compliance with internationally recognised Public Sector auditing standards (ISSAIs).

A key focus of the Annual Audit Report is the Budget of the Republic of Kosovo which is reported on only in this document.

Overall conclusions

Our key conclusions are:



Although legal frameworks and strategies are in place to support good governance arrangements at BOs, their implementation requires further improvement



More effective use of self assessment questionnaires, enhanced internal audit units and improved risk assessment are some of the key issues that require development to improve governance arrangements in BO's
(Chapter 4)

Procurements improvements are being delayed due to slow implementation of centralised procurement and the e-procurement system



A rigorously monitored timetable should be enforced to ensure no further delays in procurement developments
(Chapter 5)

Performance of BO's is being undermined by the absence of effective strategic and operational management underpinned by an appropriate legal structure



Clearer objective setting and more closely monitored outcomes are key developments required to improve performance management in the Kosova public sector.
(Chapter 6)

Introduction

Users of public funds should be fully held into account on how these funds are managed. While direct responsibility lies with Ministers and Chief Administrative Officers, Mayors, Executive Directors, etc., the financial management process involves other actors such as elected members of the Assembly and Municipal Assemblies, governing bodies and the managers and staff of Budget Organisations. External audit in this process enables closing the accountability chain between the Parliament and the Government.

Within the Kosova Public Sector, external audit is provided by NAO as the Supreme Audit Institution (SAI). Our primary purpose is to help the Assembly to hold Government and executive institutions to account for the way public money is used and reported, thereby safeguarding the interests of citizens. Our work aims to help those working in the public services to improve good governance, performance and service delivery and our constructive support to the audited institutions allows early action to address identified weaknesses and further develop good governance.

We have supported the accountability process by carrying out in 2015/16 audit season:

- 90 statutory Regularity Audits – a combination of Financial Audit (confirming whether financial information in the Annual Financial Statements is accurate and consistent with the financial reporting framework) and Compliance Audit (confirming if processes and transactions are in compliance with relevant laws and regulations); and
- 8 Performance Audits – confirming whether institutions, projects or programmes deliver economy, efficiency and/or effectiveness in the use of resources.

Our reports, including this Annual Audit Report, promote accountability between the Assembly, Government and public institutions as well as at the individual institutional level through their consideration by the Assembly and the Committee for the Oversight of Public Finances. The publication of our reports allows citizens to hold the custodians of public resources accountable.

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

Chapter	Focus	Content
1	The Kosovo Budget Annual Financial Report	The Auditor General's report on the Annual Financial Report reflecting the results of the audit of the underlying Budget Organisation Accounts. Relevant audit findings are highlighted along with mechanisms to improve compliance with accounting standards.
2	Addressing recommendations given earlier years	Audit Recommendations are focused towards better quality in external financial reporting, enhanced Financial Management and Control and improvements in public services. The assessment of actions taken on previous recommendations is an important element of the work of the NAO and reported here.
3	Good Governance	Effective governance underpins good organisational performance and good quality internal controls. The results of our work in this area is summarised here and we have considered governmental initiatives to support governance.
4	Procurement	Procurement processes address significant levels of public expenditure and we report here the results of both our regularity audit and performance audit focused on this issue.
5	Performance in specific areas	The performance of BOs in delivering economic, efficient and effective services has a direct impact on the quality of services provided to individuals and businesses particularly given scarce resources. We report on performance in a number of areas in this chapter.

The report has three additional annexes. The first explains the different opinions given by the Auditor General in the regularity audits. The second specifies the opinions given and the reason behind these. In addition significant audit recommendations made to the audited institutions are summarised. The third specifies how the recommendations given in the Annual Audit Report 2013 have been addressed.

Individual audit reports can be found on our website www.oag-rks.org

The 2014 Annual Audit Report was submitted to the Assembly on the 31st of August 2015 and presented by the Acting Auditor General in the meeting of the Committee for Oversight of Public Finances. We expect that the process this year will be finalised before the Governments budget proposal for 2017 is submitted to the Assembly.

1 Annual Financial Report on the Budget of the Republic of Kosovo

Overall conclusion

The 2015 Annual Financial Report on the Budget of the Republic of Kosovo has been given a Qualified Opinion with Emphases of Matter due to failure to consolidate individual financial statements and inadequate disclosure of information in the Explanatory Notes.

Notwithstanding this, there have been identified some significant positive developments, including increased tax revenues collection, financing from domestic borrowing as well as sound budget performance when it comes to payments execution. The budget overspending limit is consistent with legal requirements as well (within 2% of GDP).

However there is potential to further improve financial reporting of individual Budget Organisations in a number of areas. This mainly related to misclassification of goods and services and subsidies as Capital Investments. In addition the quality of information in disclosures should be enhanced to clarify accounts receivable at state level and the process of identifying and process of recording capital assets in KFMIS.

The Ministry of Finance, i.e. Treasury, needs to be more proactively engaged in ensuring the quality of financial statements which require high standards of reporting and a transparent accountability regime. This is also required due to EU integration aspirations.

Financial management of transactions and accounts needs to be further improved. While there is a significant increase of revenues, which shows a positive development, the increased value of accounts receivable represents a challenge to be addressed in future years. Budget execution is also improved during 2015, but the application of planned capital investments or projects needs to be further improved in order to enable taxpayers and business to benefit from the improved infrastructure and other projects.

1.1 Introduction and Audit Approach

BRK's AFR summarises transactions relating to all activities of the Government except the Central Bank activities, Kosovo Trust Fund and Kosovo Intelligence Agency. The Ministry of Finance (MF), on behalf of the Government, was responsible to prepare BRK's AFR for 2015 by 31st March 2016 and in the format required by the Law on Public Financial Management and Accountability (LPFMA) and by the International Public Sector Accounting Standards (IPSAS) for "Financial Reporting under the Cash Accounting".

Article 47.1 of LPFMA specifies that NAO is responsible for carrying out a Regularity Audit which involves the examination and assessment of BRK's AFR.

Our audit was focused on the Statement of Cash Receipts and Payments, the Consolidated Statement of Comparison of Budget and Execution, the Consolidated Statement of Cash Assets, Fund Balance and explanatory notes.

Our audit objective was to assess whether:

- these financial statements present, in all material respects, a fair and true view of financial situation for the audit period; and
- appropriate measures are taken by the Government to implement the recommendations of the Auditor General for 2014 and previous years’.

We also considered the declaration made by the Minister of Finance and Treasury’s General Director when the draft BRK’s AFR was submitted to the Assembly and AG.

Our approach was based on a thorough understanding of the process through which BRK’s AFR are produced. This has enabled us to develop an audit strategy, which focuses on addressing specific risks. We also reviewed compliance with the budget overspending, the analysis of BRK’s AFR and the underlying financial statements of all BOs including the consolidation of account.

1.2 Audit Opinion

Audit Opinion

We audited the Annual Financial Report of the Budget of the Republic of Kosovo for the year ended in 31st of December 2015, which includes the Statement of Cash Receipts and Payments, the Consolidated Statement of Comparison of Budget and Execution, Consolidated Statement of Cash and Funds Balance, as well as financial statements’ explanatory notes/disclosures.

In our opinion, except the impact of the issues described in section on the Basis for Qualified Opinion, the Annual Financial Report for the year ended in December 31st, 2015 presents a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards (cash based accounting), Law no. 03/L-048 on Public Finance Management and Accountability.

Basis for Opinion

Expenditures of €25,307,551 on goods and services and subsidies and transfers were misclassified as capital investments. Out of this, €23,171,222 were misclassified due to incorrect expenditure budgeting by the Ministry of Finance and €2,136,329 was misclassified by BOs due to errors and incorrect application of the accounting plan.

Significant data presented in the ‘Consolidated Statement of Comparison of Budget and Execution’ are materially incorrect and are inconsistent with the ‘Statement of Cash Receipts and Payments’. This is due to the MoF/Treasury not applying a comprehensive consolidation process.

Explanatory notes are incomplete. While this does not impact on other parts of the consolidated statements primary statements include the following errors:

- Cash inflow in STA – the initial budget for tax revenues was understated by €104,400,000, final budget financed by loans was underestimated by €20,470,000, and receipts from donations, deposits and loan returns for public enterprises by €17,025,000; and
- Cash outflow in STA –donations’ final budget is understated by €19,870,786, payments from donations by €12,941,000 and deposits’ return by €3,413,000.

We carried out our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Under these standards, our responsibilities are described below under the Auditor’s Responsibilities for the

Audit of Financial Statements section. According to ethical requirements relevant to our audit of the annual financial statements of budget organizations in Kosovo, NAO is independent from the Government of Kosovo/Ministry of Finance and other ethical responsibilities are met in accordance with these requirements. We believe that the audit evidence we obtained is sufficient and appropriate to provide the basis for our opinion.

Emphasis of Matter

We also draw your attention to the fact that:

- In one case, the Municipality¹ has identified assets that had not been recorded until then. The Municipality has disclosed these assets in its Annual Financial Statements for 2015 and their value amounts to €2,468,469,000. But, the Ministry of Finance, i.e. Treasury did not present these assets in the Annual Financial Report of the Kosovo Budget on the grounds that they had not been previously recorded in KFMIS, as a prerequisite on their reporting. Whilst they were not recorded in KFMIS because of lack communication and cooperation between the respective municipality and MoF, i.e. Treasury;
- The capital assets' total value presented in the BRK's AFR cannot be confirmed as 'complete' due to the misclassification of capital investments referred to in the Bases of Opinion above. Assets are understated by €5,167,356² as a result of failure to completely record the assets. The capital assets of Four municipalities³ and one independent institution's were neither recorded in KFMIS nor presented in their financial statements, consequently they were not recorded in the BRK's AFR; and
- The BRK's AFR did not include accounts receivable of €693,861,428 either. Out of which, €463,196,881 relate to Kosovo Tax Administration, €44,750,197 to Kosovo Customs and €185,914,350 to the municipal level.

Management response and those charged with Governance and Annual Financial Statements responsibilities

The Treasury's Director General is responsible for the preparation and fair presentation of financial statements in accordance with the International Public Sector Accounting Standards - modified Cash Based Accounting Financial Reporting and is responsible for such internal controls that management deems necessary to enable the preparation of financial statements free of material misstatement whether due to fraud or error. This includes the implementation of Law no. 03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

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

Auditor General's responsibility for the audit of Annual Financial Statements

Our responsibility is to give an opinion on the Annual Financial Statements based on our audit. We carried out our audit in accordance with the International Audit Standards. These standards require that we adhere to ethical requirements and plan and carry out the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.

¹ Annual Financial Statements of Prishtina Municipality for 2015

² MH, OPM, MAFRD, PPRC, Kamenica, Partesh

³ Zveçan, Zubin Potok, Leposaviq, Mamusha dhe PPRC

Our objectives are to obtain reasonable assurance on whether the Annual Financial Statements as a whole do not contain material misstatements whether due to fraud or error. Reasonable assurance is a high level of assurance, but does not guarantee that an audit performed in accordance with ISSAIs will always identify a material misstatement when it exists. Misstatements can arise due to fraud or error and are considered material if, individually or together, they are expected to affect the decisions taken by users based on these financial statements.

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

The audit also includes assessment of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as an appraisal of the presentation of financial statements.

1.3 Declaration on the budget deficit limit

LPFMA 03/L-048 (as amended and supplemented), includes an assessment of compliance of the budget overspending limit which should not exceed the level of 2% of the estimated Gross Domestic Product (GDP) of €5,879,000,000.

We assessed processes within the MoF to ensure adherence with the requirements of this law and reviewed the actual overspending level at the end of 2015.

The Law on 2015 Budget, adopted by the Assembly of the Republic of Kosovo, was approved with a budget overspending of 2% of GDP. Whilst the current overspending at the end of 2015 was 1.3%.

It is worth mentioning that, during the process of preparing the Draft Law on 2015 Budget Appropriations, the Government ensured that the planned deficit is within the limits set by the LPFMA. This was one of the recommendations in our audit report for the 2014 BRK's AFR.

1.4 Significant risk and other key consolidation issues

Our audit approach was focused on areas with a risk of material misstatement in the consolidated accounts and/or key audit areas and to identify action required to address findings. The identified significant risks resulted in Qualification of Opinion and Emphases of Matter.

In addition to the significant risks presented at the Audit Opinion section, we identified a number of other areas which we do not consider that present a significant risk of material misstatement in the financial statements, but are issues that should be considered by the Government.

- Compared to 2014, the Ministry of Finance has taken concrete action to ensure the recording of third party payments in KFMIS. In addition to written procedures for the grants' management, the

Treasury Director General prepared in October 2015 a circular notification for all BOs through which initiated the recording of all third party payments in KFMIS. Despite the actions taken, third party payments were not fully recorded in KFMIS and therefore not reported in the BRK's AFR. Third party payments of €1,364,684 were reported in BRK's AFR whilst our audit identified that their value was €7,485,061, an understatement of €6,120,377.

Table 1. Summary of issues that affect the BRK's AFR and other consolidation issues

Modification of Opinion			
Issue	Cause	Effect	Action required
Misclassification of expenditure. Significant amounts of appropriations were approved in inadequate economic categories and as such are included in the budget tables.	Preparation of the budget of the Republic of Kosovo by MF without a full review, thus neglecting the bad impact of the budget misclassification on reporting.	Misclassification of expenditure results in understatement or overstatement of expenditures according to categories especially within capital investments	While preparing the 2017 Budget, MoF should provide for the budget allocation in the correct economic category.
Errors in the consolidated statement of the budget and execution.	Lack of effective controls in the consolidation processes.	Incorrect presentation of the budget execution statement to the Assembly	Prior to their submission to the Government and the Assembly, MF should ensure that there's an effective control and oversight consolidation process
Emphasis of Matter			
Issue	Cause	Effect	Action required
BRK's AFR does not reflect all assets recorded by BOs or in their ownership but not recorded in KFMIS	Data consolidation process was partially performed	Incorrect and incomplete presentation of assets to the Assembly will affect decision making on budget appropriations.	Ministry of Finance to address weaknesses in assets management with the objective of presenting the complete balance including the required explanatory notes.
Accounts receivable not presented in the BRK's AFR.	Lack of effective consolidation process resulted in differences when it comes to presentation of these account balances	Incorrect and incomplete presentation of accounts receivable to the Assembly will affect decision making on budget appropriations	Ministry of Finance to address weaknesses in accounts receivable management with the objective of presenting the complete balance including the required explanatory notes
Other significant audit issues			
Issue	Cause	Effect	Action required
Third party payments presented in BRK's AFR are understated by €6,120,377.	BOs still do not apply recording of third parties payments in KFMIS.	Incorrect and incomplete presentation of third party payments to the Assembly will affect decision making - potentially by external donors	Ministry of Finance to hold trainings and provide guidance to ensure that third parties payments are recorded in KFMIS.

1.5 The role of the Ministry of Finance/Treasury in ensuring high quality financial statements

The MoF/Treasury's key role is to adopt and ensure the implementation of relevant international standards of accounting and reporting supported by provisions and to update financial rules. The issues highlighted in Chapter 3.4 above emphasise the need for proactive action in some areas including:

- Updating the Treasury manual (produced in 2007) to reflect developments in KFMIS, in the accounting standards and in the Government's reporting requirements;
- Promoting compliance with Accounting Standards by ensuring all actions taken are in line with standards/best accounting practice;
- Ensuring appropriate training regarding AFS production (none provided for 2015 AFS); and
- Undertaking actions for production and application of financial rules for subsidies and accounts receivable management in order to achieve a more effective and transparent process for their management.

Improvements in these areas require major changes in how the Ministry of Finance and Treasury act/support BOs. The required key actions will include the production of an updated accounting plan with additional instructions or explanations to enable the recording of expenditures in adequate economic codes.

1.6 Analysis of Annual Financial Report of Kosovo Budget

3.2.1 1.6.1 Analysis of the main statements

The final budget for receipts was €1,750,681,000 whilst €1,690,349,000 or 97% of the budget was executed. Compared to 2014, receipts increased by 16.6%. This was as a result of higher collection of taxes, funding through loans, one-off funding by PAK and the collection of own source revenues.

Table 2. Initial budget and actual receipts against payments (000 in €). According to BRK AFR

Description	Initial budget	Final budget	Outturn 2015 ⁴	Outturn 2014	Outturn 2013
Receipts	1,750,681	1,750,681	1,690,349	1,448,957	1,428,704
Payments	1,727,138	1,712,802	1,597,983	1,498,400	1,500,176

Good budget performance was as a result of changes to fiscal policies, application of increased VAT rate and excise for certain products, and strengthened controls over revenue management. It is worth mentioning that both agencies Customs and TAK established adequate mechanisms and developed effective controls over the management of revenues. In their strategic and operational plans they gave specific importance to fight informality and fiscal evasion. In addition they produced action plans to fight these occurrences.

⁴ Receipts, payments from donors and returns on deposits are not included in this column.

Table 3. Initial budget and receipt vs payments according to BRK' AFR (000 in €)

Receipts	Final budget	Outturn 2015	Outturn 2014	Outturn 2013
Tax	1,246,800	1,248,936	1,141,157	1,104,843
Own source revenues	114,240	107,203	97,446	94,953
Funding through loan	206,530	166,719	113,836	83,835
Other	183,111	167,490	96,519	145,073
Total	1,750,681	1,690,349	1,448,957	1,428,704

In 2015, tax revenues were €1,248,936,000, with an excess of the planned by €2,136,000. Out of which, €944,930,000 were collected by Customs and €304,007,000 by Tax Administration of Kosovo (TAK). Compared to 2014, the revenue collection rate in Customs increased around 9%, while in TAK by 11.5%.

The budgeting process was not based on sound and realistic revenue projections - According to Law no. 05/L-001 on the 2015 Budget of the Republic of Kosovo, the initial budget for tax revenues for both agencies (Customs and TAK) was €1,350,300,000, while upon budget review the revenue plan is reduced by €104,400,000. Of these, €87,500,000⁵ relate to cuts in TAK and €16,900,000 in Customs. This budget cut has also resulted in reduced overheads by €49,000,000.

Failure to implement projects financed through loans - At the end of 2015, funding through loans (total debt) was €748,950,000⁶, out of which €377,780,000 is from domestic loans and €371,170,000 from foreign loans.

Domestic loans - €120,000,000 was a funding planned from the domestic loan but this plan was exceeded (€121,262,000 were implemented). The goal of domestic loans was to fund the budget overspending and increase the bank balance⁷. During 2015 the bank balance increased by €93,037,000, amounting to €256,539,000.

Foreign loans – foreign loans are intended for the funding of roads and railway infrastructure, health, energy and water treatment. The total value planned was €107,000,000 while €45,000,000 or 42% of the plan was executed. Out of the total of €45,000,000 received, €6,750,000 or 15% was spent.

Receiving of loans under the planned level and low spending of received loans were due to the setbacks in the implementation of the agreement on certain projects.

The Government had planned to receive a loan of €35,000,000 from IMF by the end of 2015. The loan was conditioned on the timely approval of the Budget 2016 by the Assembly (as of 31st^{of} December 2015). However, due to political developments in the Assembly, the 2016 Budget was approved at the beginning of 2016. This resulted in the loan received at the beginning of 2016 rather than in 2015 as it was planned. Projects to be financed by foreign loans but not executed in time related to the following:

- Construction of the Prishtina - Mitrovica road and rehabilitation of the railway line Hani i Elezit – Leshak of €30,100,000;
- Funding of Health projects of €5,050,000.

⁵ Tax revenues from TAK were projected in the amount of €388,300,000 while the projection upon the budget review was €300,800,000, thus a reduction by €87,500,000 or 22% of the initial plan.

⁶ The total of funding through loans was €748,950,000, €166,719,000 are funding receipt through loans during 2015 (€121,262,000 domestic and €45,458,000 foreign loans).

⁷ The increase in the bank balance is a requirement of the International Monetary Fund (IMF), which by the end of 2016 is planned to be equal to 4.5% of the GDP.

The project "Kosovo Health" worth €2,450,000 was planned to be financed by the World Bank (WB). The implementation of this project started in September 2015 and, by the end of the year, €57,000 were executed. The reasons for the low execution were: political developments in the six months in 2014, suspension of project activities by the Ministry of Health, as well as delays in the development of procurement procedures.

The other part of €2,600,000 was planned by the Government of the Republic of Austria for the cardiac surgery clinic project. The implementation of this project has stagnated due to procedures for the ratification of the project by the Assembly.

Analyses of cash payments

Table 4. Final budget and outturn for 2015 ('000 in €)

DESCRIPTION	Final budget	Outturn 2015	% of outturn	Outturn 2014	Outturn 2013
Wages and salaries	532,682	524,996	98	485,247	417,093
Goods and services	196,717	181,292	92	183,658	193,857
Utilities	25,564	24,164	94	22,099	21,662
Subsidies and transfers	431,914	418,084	96	361,160	312,916
Capital expenditures	480,469	403,851	84	411,360	529,176
Reserves	843	-	-	-	-
Sub total	1,668,189	1,552,387	93	1,463,524	1,474,704
Debt payment	43,895	44,878	102	34,160	25,472
Membership to IFI	717	717	100	717	0,00
Sub total	44,612	45,595	102	34,877	25,472
TOTAL	1,712,801	1,597,982	93	1,498,401	1,500,176

The main issues arising from our analysis are as follows:

Budget planning and execution - with all the advancements made by the Central Level (CL)⁸ and Local Level (LL)⁹ to improve public financial management and controls, there is still a considerable number of shortcomings in the budget process. A number of these have been highlighted in previous years.

Wages and Salaries – the level of spending was 98% of the budget.

There were numerous irregularities in the personnel management at BOs level such as: positions manned with acting officers, Special Service Contracts signed without recruitment procedures, errors in calculation for overtime payments and inconsistencies of job titles between Appointment Acts and Payroll. In certain cases, as a result of exceeding the budget for salaries, a portion of expenditure was covered by Goods and Services budget.

A challenge still faced by the local level is non-inclusion in the Payroll of the education substitute employees. The inability to enter them into the Payroll has resulted in lawsuits and claims filed against the local level by the employees engaged outside the payroll. As a consequence, payments have been made directly from Treasury or through court decisions.

⁸ Central level institutions include central and independent institutions.

⁹ Local level includes all the municipalities of the Republic of Kosovo

The increase of €40,000,000 in expenditures for salaries during 2014 was a result of Government's decisions to pay for the working experience of public sector employees and due to increase on number of employees at the Central level.

Goods and services – The level of spending was 92% of the budget

We identified irregularities in the management of advance payments for official travel, mobile phone expenditures exceeded; 1,029 employees engaged through special service contracts with a total cost of €1,659,843. A part of these expenditures for goods and services were classified as capital investments. This is presented in Opinion subchapter

Subsidies and Transfers – The level of spending was 96% of the budget.

The management of subsidies both at central and local level remains a challenge. The current practice of evaluation, monitoring and reporting of subsidies does not provide sufficient assurance that they are used for the intended purposes or whether the expected results are achieved. According to the data presented in the Government's Annual Financial Report, the increase in expenditure over 2014 of 57,000,000€ is mainly as a result of the increased payments for basic contribution pensions and increased payments for the Agriculture Sector.

Capital investment – The level of spending was 84% of the budget.

Around 35% of total payments for capitals made in November and December. Furthermore, after the closing deadline for payment in December, due to the decision of the Minister of Finance, payments of €37,533,272 or 9% of the total payments were executed for capital investments.

The large amount of payments at the year-end increase the risks over making irregular payments and unnecessary purchases. The low rate of budget execution was affected by non-implementation of projects for which the budget was allocated, delays in performing procurement procedures and lack of projects' monitoring processes.

3.2.2 1.6.2 Analysis of disclosures/notes

Assets

Controls over assets management (capital and non-capital) continue to be ineffective. This is considered as an emphasis of matter in the opinion section of this chapter.

Furthermore, there were deficiencies in the physical count and assets valuation. Asset inventory reports were not finalised in a number of cases was not finalized. Deficiencies were identified in the assets categorization, depreciation, alienation and incorrect classification ongoing investments.

A significant number of government vehicles are used by political and managerial staff, who in most cases, do not keep records about their use. In many cases, vehicles are used after regular working hours and there was no reporting on the quantity of fuel spent or mileage either.

Shortcomings were identified in the case of vehicles servicing and maintenance as well as their recording in the register of assets.

The Unit for Monitoring and Use of Government Vehicles (UMUGV) operates within the Ministry of Public Administration, which reports on the use of official vehicles. However, BO's reporting to this unit continues to be deficient. In 2015 only three BOs (Ministry of Agriculture, Ministry of Public Administration and Ministry of Culture) have reported to this unit.

Outstanding liabilities

BOs' outstanding liabilities at the end of 2015 were €207,262,005. Compared with 2014, liabilities increased by €41,874,093. There is a sharp increase of liabilities within central level organisations.

Table 5 Outstanding liabilities (000 €)

Description	2015	2014	2013
Central Level	191,816	148,199	29,940
Local Level	15,445	17,188	23,685
TOTAL	207,262	165,387	53,626

The majority of liabilities at central level relate to:

- €145,571,431 for the Ministry of Environment and Spatial Planning (MESP). The liabilities relate to the expropriation process. The payment of liabilities from coming year budgets may result in budget cuts and reduction of new projects.
- Outstanding liabilities within Ministry of Infrastructure amounting to €13,000,000 relate to "Prishtina - Skopje Highway" project and the remaining part relates to construction of other roads as well as their maintenance and repair.
- Ministry of Agriculture with €9,171,080 of outstanding liabilities within subsidies and transfers. Out of these, €4,000,000 are liabilities approved under the Rural Development Programme for Agriculture, where the execution of payments lasts over two years and considered as legal obligations. The remaining part relates to liabilities for subsidies planned to be paid in 2015.

Other liabilities other than depreciation are as a result of entering into contracting obligations in absence of available funds¹⁰ for their financing as well as untimely receiving and processing of invoices. Furthermore, the quality of reporting was poor.

In specific cases, BOs did not report their obligations regularly to the MF and in a number of other cases, obligations reported were incomplete.

Failure of BOs to pay them a considerable part of them is executed directly by the Treasury or the Courts (see below subchapter direct payments by the Treasury and the Courts). Delays in payment of liabilities cause adverse effects in budget management by overloading the subsequent budgets and prevents the achievement of annual targets against plans.

Non-disclosure of Accounts receivable in AFS

Central level – a more significant increase of receivables is noticed within TAK which compared with 2014 were increased by 185,373,391€¹¹. According to TAK, one of the main factors was the disclosure of passive accounts receivable in AFS 2015, which had not previously been disclosed. The level of accounts receivable was around 60% of revenues generated by TAK for 2015.

¹⁰ This was extracted from analyse of obligations against budget in six BOs with the highest obligations.

¹¹ Accounts receivables in the end of 2015 was €463,196,881, which compared to 2014 increased by €185,373,391 (accounts receivable in 2014 was 277,823,490€).

There was also an increase of accounts receivable in Kosovo Customs which, compared with 2014, were €10,132,409. According to Customs¹² this was as a result of identified receivables dating from earlier years. These accounts were neither presented in the Customs internal records nor presented within the earlier years financial reports. However, they were recorded in the system and reported in the financial statements 2015 afterwards.

With the entering into force of Law no. 05/L-043 on Public Debt Forgiveness, TAK and Customs have prepared and submitted lists for the writing-off debts to MF.

According to them TAK debts written-off were €298,277,872. Out of these, by the end of 2015, €16,943,796 were written off.

Whilst debts against the KC to be written -off amounted to €5,641,168. By the end of 2015, there were no agreements with businesses and individuals on writing-off the debts based on the Law on Debts Forgiveness..

Local level - Accounts receivable at the local level in 2015 were €185,914,350. Compared to 2014, they increased by €2,409,678.

The lack of complete information on receivables may result in wrong budget projections and reduction of new projects. Lack of sufficient action to collect public debt does not encourage other debtors to pay their obligations on time. The age of the debt hinders their collection.

Payments executed directly by Treasury and through court decisions

In 2015, the Treasury executed payments of €11,499,582¹³ according to Article 39.2 and 40.

Table 6: Payments from court decisions

Payments from courts decisions	Local level	Central level	Total 2015	Total 2014
Goods and Services	740,245	834,504	1,574,748	1,391,685
Utilities	71,139	91,421	162,560	79,155
Subsidies and Transfers	148,688	800,872	949,560	335,845
Capital Investment	3,152,057	1,258,344	4,410,401	4,364,151
Total	4,112,129	2,985,141	7,097,269	6,170,836

Table 6: Payments executed directly by Treasury

Payments executed directly by the Treasury	Local level	Central level	Total 2015	Total 2014
Goods and Services	307,446	408,672	716,118	441,412
Utilities	166,580	4,150	170,730	0
Capital Investment	2,476,845	1,038,620	3,515,465	3,037,443
Total	2,950,871	1,451,442	4,402,313	3,478,855

The main causes of direct payment of invoices by the Treasury and the decision of the Court are as follows:

- capital projects started without a sufficient budget for their complete financing;
- liabilities inherited from past governments at the local level;

¹²Debt Management Sector within Customs

¹³ LMFPF Article 39.2 and 40 - According to Article 39.2 when an invoice is not paid by BO for a period longer than 60 days, the operator has the right to ask for the execution of payments directly from MF / Treasury MF / Treasury has the right to the reimbursement directly to the economic operator's account at his request. Also under Article 40 to carry out the payment as a result of court decisions.

- invoices on executed works have not been paid due to failure to accept works and due to disputes about their quality by the supervisory bodies; and
- negligence and irresponsibility of officials responsible for managing the invoices.

Failure to settle liabilities in time has led to costly and complicated court proceedings and additional budget expenditures and has, at the same time, affected the reputation of public institutions. Therefore, the Ministry of Finance together with other relevant institutions and those responsible need to ensure that economic operators' invoices are paid timely and regularly.

3.2.3 1.7 Audit opinions in individual AFS:

NAO carried out a regularity audit of the AFS for 90¹⁴ BOs. Audit findings for individual BO are reflected in the audit opinion of the AFR/RKB. The following table shows opinions given for 2015 listed by type and governance level:

Table 7 Type and number of opinions for individual AFS of BO's

Audited entities / Opinions	Unmodified opinion	Unmodified opinion with EoM	Qualified opinion with EoM	Qualified opinion	Adverse opinion	No. of opinions
Central ¹⁵ level	10	12	1	1	-	24
Local level	1	22	5	6	4	38
Independent agencies	19	7	-	3	-	29
Total	30	41	6	10	4	91

Annex II provides details on the basis of modifications to the opinions and on main recommendations made for each BO.

Adverse opinions were given to four (4) municipalities: Leposavic, Zvecan, Zubin Potok and Northern Mitrovica because no financial statements were produced.

Qualified opinions were given to ten (10) BOs whilst Qualified Opinions with an Emphasis of Matter were given to six (6) BOs. The qualifications of opinion and emphases of matter were given due to capital assets, accounts receivable, irregular payments and misclassification of expenditures. PAK was given a qualified because the expenditures for liquidation of privatised SOEs were paid from the Trust Fund.

1.8 Recommendations

We recommend the Government of Kosovo to ensure that:

- The Minister of Finance in coordination with the Director of Treasury puts in place effective processes to confirm the plan to draft AFR/RKB 2016 addresses all issues related to compliance and financial reporting requirements. In this regard, he should ensure that the budget is spent within adequate economic categories. Moreover, the consolidation process should include supplementary

¹⁴ 90 reports in total and 91 opinions given. In report on PAK two opinions were given, one for PAK and one for Privatization Fund

¹⁵ It includes 19 ministries, Kosovo Customs, Tax Administration of Kosovo, Office of the President, Office of the Prime Minister and Kosovo Assembly.

information on accounts receivable, complete records and reports on capital assets, third party payments and outstanding liabilities;

- The Minister of Finance, while preparing the revenue plan and taking fiscal measures, ensures proactive involvement of the management of both agencies (Customs and TAK) so the budgetary projections are approximate. Budget projections should be supported with reliable data indicating the revenue flows throughout the year;
- The Minister of Finance in coordination with the Committee on Budget and Finance plays a more active role during budget discussions with the BO's. Where there are proofs and necessity for additional budget, it should be incorporated in coming budgets. The capital projects budget should be set only for those projects that are well justified by shifting funds towards more important and feasible goals or priorities;
- The Minister of Finance/Treasury reviews the existing financial reporting arrangements to enable BO's raising the quality of financial reporting. In this respect, the key actions to be taken are as follows: update of the accounting plan associated by appropriate guidelines, update the accounting manual and of financial rules and, and in particular drafting rules on accounts receivable and subsidies management. In addition, he should provide regular training with responsible officers involved in financial reporting;
- The Minister of Finance should increase the accountability to officers involved in the implementation of projects funded by loans. The decision for a loan should be taken only after the establishment of prerequisites such as: well documented and feasible projects. This should be done in order to gain opportunities for development of the economy in terms of public investment;
- Controls over the management and reporting of accounts receivable are more efficient and strengthened and that the causes behind increased accounts receivable are analysed in order to find the causes of failure to pay debts and to use legal actions for their collection; and
- The Treasury/Monitoring Division within the MoF exercises stricter monitoring controls in monthly reporting of outstanding liabilities. A critical review of reports on outstanding liabilities is needed and where the delays and value of outstanding liabilities is material the issue should be addressed to the responsible officials of the relevant organization.

We recommend the Assembly of Kosovo to ensure that:

- The Government of Kosovo has made an assessment to identify the causes that led to inefficient management of processes on financial management and control. Preparation and implementation of action plans to address all recommendations from this report and individual audit reports should be in the focus of oversight by the Assembly.

2 Addressing recommendations given for AFS 2014

Overall Conclusion

The importance of audit reports lies in the identification of practical recommendations to ensure beneficial change and continuous improvement in governance and public finance management. The current level of implementing audit recommendations is not satisfactory. High Priority recommendations are less likely to be implemented than Medium Priority. A significant number of recommendations are being repeated year after year. Although the Assembly has required from the Government an Action Plan for implementing the recommendations arising from the 2014 AAR there was no positive response by the Government in this regard. Similarly, most Budget Organisations do not have a systematic process for monitoring the implementation of recommendations. Non implementation has an impact that control weaknesses and the impact of these such as financial loss continue year after year.

2.1 Introduction

NAO consistently provide recommendations to BOs, the Government and the Assembly for addressing control and other weaknesses identified during audits. These recommendations are intended to assist senior managers of the institutions to improve governance arrangements, support better management of public finances and provide better services to taxpayers. The implementation of recommendations given is annually monitored for regularity audit whilst performance audits recommendations are revisited in specific “follow up” exercises. This chapter contains a description on the extent to which 2014 and 2013 recommendations were implemented at all levels.

2.2 Addressing recommendations given in AAR

There was a wide range of recommendations given in the 2014 AAR which considered the arrangements required to enable a more accurate and complete presentation of information in the financial statements and to address the challenges and issues arising from the audit of the Government’s Consolidated Financial Statements of 2014. Despite recommendations by NAO and the Assembly, the Government of Kosovo did not prepare an Action Plan for implementing the recommendations given in the AAR. Therefore their implementation has been unstructured and the assessment of the true level of implementation is difficult. However, most of the recommendations have not been addressed. From a total of 57 recommendations¹⁶ given, only 10 have been fully implemented, 24 are under implementation and 23 have not been addressed yet. A detailed summary is included in Annex III of this report.

Although there is a slight progress compared with the position of recommendations implementation in AAR of 2013, some of the recommendations are being repeated over the years including:

- Ensuring transparency within the KB/AFS by classifying and recording all expenditures within the appropriate expenditure codes, and complete presentation of third party payments;

¹⁶ 38 recommendations were given to the Government, 15 to the Assembly of Kosovo, 2 Assembly of municipalities and 2 for the Mayor of Prizren Municipality

- Development and implementation of an effective approach by individual BOs for risk management in relation to organizational objectives;
- The introduction of electronic procurement in order to enhance transparency and reduce bureaucratic procedures;
- Finding a sustainable solution when it comes to carrying out internal audit services for small independent institutions directly accountable before the Assembly, which would urge independence and accountability; and

Failure to implement the highlighted recommendations has led to continued: misclassification and wrong reporting of expenditures within the AFS; lack of a comprehensive approach to risk management; lack of transparency in procurement procedures; lack of internal audit services within small independent institutions; and inefficient management of resources in the municipalities within Municipalities.

Similar recommendations are repeated in this report as well and additional measures and greater commitment is required from the Assembly and the Government in handling AG's recommendations to ensure necessary improvement in public sector governance in Kosova.

2.3 Addressing of recommendations given in individual audit report for the year 2014 and 2013

Our individual audit reports raise issues related to the Annual Financial Statements, Governance and Financial Management and Control. A review on the implementation of the recommendations for 2014 and 2013 is presented in the following tables, where recommendations are divided by priority and a comparison between the two years is made.

Audited organizations are divided into: central level institutions¹⁷, independent institutions¹⁸ and municipal level institutions (38 municipalities)

Table 8. Implementation of the AG's recommendations, given to BOs for 2014

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

¹⁷ 19 ministries, Office of the Prime Minister, Tax Administration of Kosova, Kosova Customs and TAMAD and Pooled Fund in education sector which are projects funded by donors. TAMAD is in agriculture sector while Pooled Fund is a joint donation of several donor countries in Ministry of Education, science and Technology. These audits were carried out according to an agreement for paid audit services.

¹⁸ Independent institutions include the Assembly of Kosovo, the Office of the President, the Privatisation Agency of Kosovo and 25 other institutions.

Table 9: Implementation of AG’s recommendations to BOs for 2013

Auditees	No. of recommendations		Priority H/M	Fully addressed		Partially addressed		Not addressed	
	Total	Per priority		No	%	No	%	No	%
Central level institutions	313	197	H	41	21	72	37	84	43
		113	M	55	49	23	20	35	31
Independent institutions	199	107	H	42	39	28	26	37	35
		95	M	62	65	9	9	24	25
Local level institutions	521	423	H	95	22	153	36	175	41
		98	M	41	42	19	19	38	39
High level Recommendations		727	H	178	24	253	35	296	41
Medium level Recommendations		306	M	158	52	51	17	97	32
Total of all recommendations	1033	1033		336	33	304	29	393	38

We categorise the importance of recommendations made. High priority recommendations are given to those issues which if not addressed could result in a material weakness of internal control and where action taken upon opens the possibility to improve the efficiency and effectiveness of internal controls.

The overall position is that there were an increased number of recommendations in 2014 for all types of institutions. A greater proportion of high-priority recommendations given in 2014 have not been addressed and the same conclusion applies to medium-priority recommendations. This is a matter of concern and should be handled with priority

As with our review of AAR recommendations above - many recommendations are being repeated year after year. The main areas where this occur relates to: disclosure of information in the AFS; classification of expenditures; budget execution; procurement and asset management. Failure to address the recommendations made has resulted in continued weaknesses in the internal controls thus reducing the effectiveness of BOs activity, inadequate disclosure information on AFS, value for money not achieved and irregular payments.

This situation will only be addressed if there is increased commitment through regular monitoring of implementation of recommendations by all BOs identifying and addressing barriers to implementation. As an example of how regular monitoring of progress helped in addressing the recommendations can be MEI, MESP and MTI. These Ministries, through regular monitoring of progress, have reached a fairly high level of implementation of recommendations compared to previous years.

2.4 Addressing of recommendations given in performance audit reports

In audit season 2015/2016 NAO carried out a follow up of audit on the International Airport “Adem Jashari” (PIA-AJ). The assessments of this audit indicated that out of 8 recommendations given, PIA-AJ has fully implemented 4 recommendations, 3 were in process of implementation or partially implemented and 1 recommendation has not been implemented. The recommendation not implemented relates to some unfinished works, completion of some remaining work which relate to KFOR area inside the PIA-AJ.

Fully addressed recommendation mainly relate to administrative and documentation issues (such as drafting of the regulation by Public Private Partnership Committee, meeting minutes, etc.; establishment of the permanent project management unit; setting out of reporting deadlines and issuing of construction permits). Whilst, partially addressed recommendations mostly relate to activities stipulated in agreements but have not been fully implemented.

In addition, two other reports were reviewed by the Parliamentary Committee on Oversight of Public Finance (Audit Report on Vehicle Maintenance, and Procurement Audit Report on the Health Sector). The only action impacting implementation of recommendations up to now was a delayed action plan by the Ministry of Health to address recommendations given in the Report on the Procurement System in the Healthcare Sector. In regard to the other report, action plans were required by NAO from Tax Administration of Kosovo, Kosovo Judicial Council, Ministry of Public Administration and Kosovo Police but they were not provided.

2.5 Reasons for low level of implementation of recommendations

The lack of formal processes for proper and systematic monitoring of Action Plans for implementation of the recommendations and the lack of sufficient commitment to implement the recommendations are among the main causes for inadequate addressing of AG's recommendations. Furthermore, lack of effective oversight by the Government and supervisory bodies led Budget Organizations to avoid full and consistent implementation of the guidelines for the management of expenditures resulting in errors and repeated recommendations.

2.6 Overall recommendations

We recommend the Assembly of Kosovo to:

- require a feedback report from the Government on the recommendations given by the AG in AAR 2014 and the recommendations of the Committee for Oversight of Public Finances related to this report (including progress and barriers which hampered to fully implement recommendations); and
- require from the Government to prepare an Action Plan on implementing AG's recommendations arising from AAR 2015 as well as quarterly reports on the progress of implementation of this plan. These reports should clearly explain why recommendations are not being implemented.

We also recommend the Government to:

- Prepare a systematic process for implementation of recommendations given by AG in AAR 2015 and earlier AARs. This process should clearly identify and address barriers in implementation of recommendations;
- Require from all Budget Organizations to implement and report on the systematic process of implementing audit recommendations, with quarterly progress reports submitted to Ministry of Finance and COPF. These reports should clarify why recommendations are not being implemented; and
- Closely monitor the level of implementation of AG's recommendations by inviting the Ministry of Finance to report on the situation of recommendations in one of the Government's meetings.

3 Good Governance

Overall Conclusion

Governance developments have been promoted through the implementation of a framework focused on enhancing internal controls and financial management and developing capacities. These are demonstrated through the 2015-2019 PIFC Strategy and the work of the Central Harmonisation Department (CHD) including support provided to internal audit units. Self-assessment for Financial Management and Control (FMC) returned to the Ministry of Finance each year also provides the basis for monitoring developments in governance. However, while there are some positive developments, these initiatives are not yet fully effective and a large proportion of Budget Organisations (43%) lack effective strategic plans and two thirds lack costed plans. Almost 80% of Budget Organisation lack effective risk management systems despite this being a current requirement set by the Government. Around 27% of internal audit units are understaffed relative to their size and about a quarter (1/4) of their work is not focused on the current year. Little more than half of Internal Audit recommendations are implemented. These findings highlight the need for significantly increased focus on governance issues by public sector managers, the Government and the Assembly.

3.1 Introduction

Good governance is about the implementation of effective policies and processes to ensure that organisational objectives (as set out in annual and strategic plans) are achieved in an economic and efficient manner within expected timescales. Government supports the governance agenda through implementing a framework promoting good practices via an overall PIFC strategy which emphasises:

- Input and resource controls are integrated into PFM system by 2017;
- Management accountability for inputs and resource management is certified through reports prepared by the managers of public funds by 2017-18;
- Risk management in place in all BOs verified through structures and risk management reports by 2017; and
- IA function provides added value by providing assurance based on risk and advisory services certified by economic, efficient and effective indicators by 2019.

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

CHD is responsible for drafting documents and policies for the development and monitoring of FMC and IA. It assists, monitors and conducts external assessments which relate to the quality assurance review of carrying out internal audit in public sector entities. CHD organised seminars for senior managers and internal auditors on importance of self-assessment process and risk management. Further on, it described the FMC processes has in a number of pilot selected organisations (two municipalities and two ministries) with the intention that they will be used as a role model in other Budget Organizations.

Governance developments are being supported by public administration reform. In this regard, the Government intends to integrate Kosovo Tax Administration and Kosovo Customs into a single agency. Its objective will be to provide faster and better services with lower costs for businesses/taxpayers through a modernised revenue collection system, but also to create incentives for business development.

3.3 National Audit Office's support to the governance agenda

3.3.1 Introduction

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

We report below on:

- Specific work undertaken at all audits;
- Common areas of review across audits where the audit planning process highlighted the need to consider individual areas of activity underpinning governance arrangements; and
- Specific issues related to FMC identified in our 2015 audits.

3.3.2 Financial Management and Control

Substantial parts of the governance arrangement areas require significant improvements and we believe that our recommendations will lead to improvements. Handling issues raised in the NAO audit reports and the implementation of recommendations by BOs management will develop processes and existing controls towards a more effective governance.

Lack of accountability and managerial responsibility has affected the effectiveness of budgetary control, financial reporting and management monitoring. Activities that would support the governance development such as addressing of all audit recommendations and development of a high quality financial management and internal controls process should be further enhanced. BO's management commitments during the review of annual audit reports by Parliamentary Committee for Oversight of Public Finances (COPF) that the recommendations will be addressed, have in most cases remained unfulfilled.

Shortcomings have been identified when it comes to setting clear objectives and actions in the strategic plans by both central and local government. There is a lack of link between strategic plans, medium-term expenditure framework (MTEF) and annual programs. In addition, these documents contain no risk assessments for planned activities. Risks or barriers are managed ad-hoc rather than by a structured plan.

Operational activities are not always implemented according to the original plans. Annual work programs undergo changes during the budget year, the annual purchases are not appropriately planned or not sufficiently based on the organizations' real needs. Departures from the plan have often had budgetary effects and in many cases BOs have ended up with considerable financial debts.

Appropriate FMC procedures are still not sufficiently implemented. Except for few cases, guidelines and procedures are not developed in individual budget organizations. Irregularities and management weaknesses are evident in various areas, from budget planning, planning and implementation of capital

projects, contracts management, financial and managerial reporting, staff management, liabilities and public assets management.

3.3.3 Governance Reviews taken in individual audits

FMC self-assessment checklist

MF/CHD has produced a detailed self-assessment checklist which requires Budget Organisations to conduct a self-assessment against 106 questions which address the most important area of governance. This annual exercise allows the MF to assess overall governance developments and identify issues Budget Organisations need further support on.

For the self-assessment questionnaire to be an effective tool for improvement the evidence supporting the individual assessment by each budget organisation must be an accurate reflection of the current situation – that is, evidence based. On all 2015 audits we therefore undertook an exercise to determine the quality of submissions made to the Ministry by assessing 6 key questions across the five component of the checklist to determine if controls were in place and if so if this conclusion was supported by evidence. The table below presents assessments derived from the audit of 89 individual BOs, including Ministries, Municipalities and Independent Institutions (II).

Question	NAO assessment.
Does the BO have a strategic plan structure/ subordinate units’ managers included in the strategic plan? What about third parties?	Only 57% of BO have a strategic plan, or 51 from a total of 89 BOs tested. Lack of planning is especially emphasised in municipalities, where 18 of them still do not have a strategic plan. The involvement of stakeholders in the process of developing plans is very low. In determining the strategic objectives are mainly included department heads.
Is there a strategy cost estimation?	63% of BOs have not estimated the financial cost of the strategy
Are potential risks from external sources considered during the planning process? (i.e., about the supply of services from outside, technology, economic and political conditions, legal requirements, natural events, ownership barrier, etc.)	69 BOs or 78% did not produce the risk management plan and do not take into account potential risks. Municipalities have the biggest setbacks in this regard.
Is there a procurement plan approved vs availability of funds approved? Is it updated during the year in line with changes to the availability of BO’s funds?	86% of BOs have approved procurement plans vs the availability of funds
Does the reporting system supports production of the following operational reports (Eg. Reports on budget execution, communication process and internal reporting), at the time appropriate for decision making.	In 84% of cases the reporting system supports the production of operational reports on time for decision making.
Is the progress towards achievement of objectives monitored regularly and are causes of potential failures analyzed?	In 50% of cases there’s lack of regular monitoring of the progress towards the achievement of objectives or analyses carried out about potential failures. This is especially emphasized in local level organisations.

In the context of the expected controls in place the review demonstrates:

- Poor implementation of strategic plans and a particular concern with the majority of existing strategic plans not being costed – as such it is unclear whether the existing plans are actually achievable;
- The appropriate risk management procedures are not in place in most BOs. Even in the few BOs considered to have initiated this process formal activities undertaken to manage risks are deficient;
- Coordination of activities planned by the procurement program and budget, and analysis and financial reporting, are considered as established by BOs, and the evidence provided somehow support this conclusion but the format and quality of information included in these reports is poor and insufficient. A number of BOs have not yet set in place a proper communication and information system.
- Effective monitoring and evaluation processes of the progress towards achievement of objectives set in the strategic and annual plans are not yet in place in most of BOs. This prevents timely decision-making and timely reaction by management to address the barriers that hinder the achievement of organization's goals and objectives.

Self-assessment checklists did not accurately reflect the current governance arrangements. This is due to insufficient understanding of the content and purpose of the self-assessment questionnaire. Furthermore, the action taken to address the issues identified by the prior year self-assessment is limited because of the lack of focus within BOs on the importance of this checklist and a lack of clarity over accountability over which officer(s) should proactively use the questionnaire to support operational improvements. Training related to self-assessment seemed to be insufficient as several organizations have overstated or neglected scoring across different components. Unlike last year, the FMC assessment by management is more objective in 2015.

3.3.4 Internal Audit System

Internal Audit Units (IAUs) and Audit Committees (ACs) have a key role in supporting and promoting good governance. At a central and local level this is supported by the CHD and in 2015 key initiatives included:

- Organising training for junior auditors in the area of IA, continuous professional education, training on quality assessment program and training on preparation of the risk-based strategic and annual plan, training for IA about new changes in KFMIS; and
- In order to exchange practical experiences, two pilot audits were carried out in the Ministry of Agriculture and the Municipality of Lipjan¹⁹.

PIFC 2015-2019 requires the enhancement of internal audit which assists OBs to strengthen internal controls. The achievement of this objective set by this strategy refers to the existence of a legal framework in line with ISPPIA (International Standards for the Professional Practice of Internal Auditing), the existence of a program for constant professional development and quality assurance supports compliance with ISPPIA. The increase of certified internal auditors number from 32 to 67 and the achievement of the agreement with CIPFA for continuation of a direct certification programme by MF/CHD is a positive development in this regard.

Our focus on internal audit in 2015 included a common assessment of a number of key areas. Results are presented in the following table.

¹⁹ 2015 Report on the functioning of PIFC system in public sector in Kosovo, prepared by MF / CHD.

Question	NAO assessment
Is the number of IA staff in line with the size of the BO	27% of IAUs do not have the sufficient staff, while 9 BOs have not established IAU.
Is there a risk-based audit plan	92 % of IA plans are risk based
What proportion of work relates to the actual year	76% of IA work is focused on current year activities
Is there an effective audit committee that reviews and supports the IA work	20% of BOs have not established an AC. From active committees 80% are effective and support the IA work.
Are the majority of IA recommendations implemented (in %)	54% of recommendations are fully implemented and 26% are in process, while 20% are non-implemented ²⁰ .

These findings indicate some positive development in risk-based auditing (particularly at the central level) but the overall effectiveness of Internal Audit is undermined where the capacity of the unit is less than needed by the organisation in terms of size and where a proportion of work does not relate to the current year. This can negatively impact on the level of assurance provided to management over the effectiveness or otherwise of internal control because of insufficient work being undertaken. As little more than half of internal recommendations are being implemented control weaknesses are not being effectively addressed resulting in ongoing operational inefficiency and potentially financial loss.

Even where work is completed related to the current period - audits remain oriented towards compliance and less focused on systematic changes and improvement. In 16 BOs, mainly in municipalities (13), sufficient number of internal auditors was not employed due to budgetary constraints. In 16 BO's, mainly in municipalities (13), sufficient number of internal auditors was not employed due to budgetary constraints. This may have limited audit plans to be more comprehensible. This could be one of the reasons that internal audit development at the local level has stagnated compared to the central level. Lack of sufficient number of internal auditors is also evident in II's.

In 2 agencies, 16 municipalities and Ministry of Diaspora there is no Audit Committee (AC) established, while about 20% of AC's mainly at local level are not effective and do not provide the expected support. Weaknesses in Audit Committees undermine the potential impact of IA activity in supporting governance improvements.

Government rules for payment of compensations²¹ to audit committee's members and other committees' members has caused uncertainty from one organisation to another. Rules have not clearly defined whether compensation should be made to all members of the committee, whether they are BO's employees or not, or only to external members.

²⁰ CHD: Report on the operation of the Public Finance Internal Control System in Kosovo Public Sector for 2015

²¹ Article 80 of LFMPA prevents additional compensation for officers, which, according to a Government legal provision are required to serve in committees as this services is considered as part of the mandatory duties of their relevant positions.

3.3.5 Common areas reviewed in NAO audits

Risk management

BOs are required to develop a risk management process, implement the necessary procedures and produce a risk²² management plan. In order to support the effective, operational and strategic management, this plan should be completed and integrated into daily plans and activities of the institution. The risk register may highlight risks of different nature such as: financial, technological, social, political, legal, etc. The key requirement is to take action to mitigate or eliminate identified risks.

The risk management process was a common area of review in individual audits undertaken by NAO. The majority of BOs have not introduced formal or documented procedures to identify and manage risks at the organizational level. The quality of activities undertaken in a small number of BOs that started this process was poor and/or the risk management process was unclear. Management still do not understand the role and importance of this process in ensuring efficient governance of organization's activities.

A lack of strategic and annual plans in some BOs reduces the potential benefit of risk management which is intended to support the achievement of organisational objectives. It also reduces the quality of outputs and services, as internal and external issues affecting this cannot be addressed in a timely manner. In a situation as this actions required to prevent or avoid the impact of risks cannot be undertaken in an orderly and systematic manner. In addition to deviation from the expected results, effects of this will also be the increase of financial costs in managing the consequences as a result of delayed action.

3.4 New developments in managing employees in public sector

A well-planned and well-managed public service system helps state institutions to achieve an appropriate level of professionalism, sustainability and quality of public services to citizens and businesses. Reforms to the public service will have a significant impact on establishing an effective public administration and good governance in public service. Some of the developments in this regard are:

- Draft amendment of the Law on Civil Service (LCS) and the Law on Salaries of Civil Servants;
- Approval of the Law on Administrative Procedures;
- Finalisation the process on jobs classification and systematization in BO's;
- Launching of the Human Resources Management Information System for (HRMIS) implementation, that will facilitate the management and collection of employees data for all public bodies' employees; and
- Provision of training to public employees by Kosovo Institute for Public Administration.

Despite all developments in amending and supplementing the legal framework, there are setbacks in their implementation. Although delayed, the Government has approved the job catalogue and job classification for civil servants, as benchmark to be used by all civil service bodies. The new catalogue and salaries categorisation has been approved but not implemented in practice.

²² Risk management is a process and plan designed to identify potential events or risks that may have a negative effect on the organization. Through this process is assessed the level of risk and actions are planned to eliminate it or keep within the limit of acceptable and towards achieving of organizational objectives.

These developments would enable a more efficient organisation of state administration, levelling of salaries in any level of public service based on the same engagements and responsibilities (same salaries for the same work), standardisation of titles/grades and clear job descriptions, transfer of officers between institutions where appropriate, etc. This would improve the performance of institutions and increase the quality of services to citizens and organizations by institutions.

Despite the Government's efforts towards the advancement of public service system, our individual audits of BO's indicate weaknesses in implementing legal requirements and procedures in personnel management and payment of salaries. This is highlighted in particular in the staff recruitment, acting management positions beyond the legal deadline, involvement of employees in Special Services Agreements without applying procedures, career promotion without promotion procedures, etc.

3.5 Recommendations

We recommend the Government to ensure that:

- Managerial responsibility has been further strengthened throughout budget organisations to ensure a more efficient internal control, to increase the effectiveness of IA and timely addressing the audit recommendations. Whilst the approval of the awaiting PIFC law and completion of accompanying legislation acts will regulate and further develop the system of financial management and controls as a whole;;
- Effective processes of risk management were undertaken by all BO's and they address barriers to improvements in this area. CHD should continue providing management training for self-assessment and risk management, identify good practices from selected BOs and share them with others. Internal Audit to have a more active role in supporting this process;
- BOs produce internal regulations and procedures outlining the necessary instructions on the daily administration of financial and operational activities. Internal information and reporting as well as management reporting should be further developed;
- The self-assessment of financial management and controls process by Bos is further strengthened to enhance the objectivity and quality of the assessment as a whole. In this regard, CHD should continue providing additional training to managers of Bos on importance of self-assessment questionnaire, the process development and the potential it offers to the development of good governance;
- Emphasis is placed on future developments of internal audit, ensuring adequate IAU capacities in line with the size of organizations. Further on, in order to increase the effectiveness of internal audit, the audit work should cover more and more activities in the current year to increase the level of implementation of the recommendations given by IA and enhance the effectiveness of audit committees;
- The issue of additional compensation to members of Audit Committees in BO's is sufficiently considered and clarified;
- Consideration is given to the European Commission recommendation to prepare a concept document which clarifies the scope of the LCS, the status of civil servants in relation to other categories of employees, clarification of the criteria for recruitment in CS, de-politicization and professionalism of employees, regulation of positions in senior management, promotion, disciplinary proceedings and suspension of employment;

- HRMIS is launched completely and in all state institutions. All information necessary for employees of public service to be registered and updated on time in this system; and
- All necessary actions in implementation of a new salary system have been finalized. BO's managements should address all shortcomings encountered in personnel management and additional compensations by addressing the recommendations given by NAO.

We recommend the Assembly of the Republic of Kosovo to ensure that:

- The Government gives priority and monitors the implementation of the action plan on implementation of the strategy for public finance internal control;
- An Internal Audit Unit is established within the Kosovo Assembly for auditing the independent institutions of the Republic of Kosovo; and
- The heads of BOs are obliged through COPF to report on the level of addressing recommendations given in audit reports on a timely basis.

4 Procurement

Overall conclusion

Progress in the public procurement system has been limited in 2015. Centralised procurement is not fully effective yet, whilst e-procurement is currently in the piloting phase.

Our individual reports highlight that implementation of the procurement legal framework is not yet at a satisfactory level as numerous weaknesses were identified ranging from procurement planning, the implementation of procurement requirements and contract management. Performance audit reports highlighted that the current design of contracts does not provide value for money, there is no research of market prices, major differences in prices of same items obtained by various BOs etc.

However with the amendments to the PPL in 2016 such as publication of quotations, limitation of planned quantities etc. and implementation of electronic procurement, which is currently in the pilot phase, improvements are expected in the public procurement area. In addition, centralized contracts signed by CPA are expected to yield of value for money and real cost savings to BOs.

4.1 Introduction

In 2015 public institutions signed 10,895 procurement contracts valued at around 402 million euro. This amount highlights the importance of a well-managed procurement framework to ensure that the benefits to the taxpayer are maximised. The framework currently in place reflects:

- Statutory organisations with specific roles related to functionalization of procurement; and
- Procurement law that places specific requirements of BOs when undertaking procurement.

To develop existing processes further – it has been an objective of the Government to effectively implement centralised procurement and an e-procurement system.

4.2 Role of organizations responsible for public procurement

The organizations responsible for the functioning of public procurement are: Public Procurement Regulatory Commission (PPRC), Procurement Review Body (PRB) and the Central Procurement Agency (CPA).

PPRC is an independent regulatory agency responsible for the development, functioning and oversight of the public procurement system.

During 2015 the Supervising and Monitoring Department within PPRC monitored, as planned, 38 budget organizations with a total of 285 procurement activities, as well as 8 procurement activities as requested by the Contracting Authorities, Economic Operators or other interested parties. All these monitoring included samples of procurement activities since 2014. No monitoring or oversight was carried out during the procurement activity but after the procedures were finalized. So the monitoring is overdue and recommendations are mainly technical, hence the impact is minimal.

PRB is an independent agency responsible for implementing procedures and reviewing complaints on procurement. According to the 2015 PRB's annual report, 592 complaints were received:

- No final decision was taken for 25 of them or 4% due to the absence of three (3) members of the board;
- In 166 cases or 28% of total complaints, the CA's decision was approved;
- 196 cases or 33% were returned for reassessment;
- In 129 cases or 22% the decision was to cancel procurement procedures by ordering re-tendering;
- 53 cases or 9% of complaints were withdrawn by EOs; and
- 23 cases or 4% were not reviewed for various reasons such as: incomplete complaints, no competence on matter by PRB and etc.

The review process highlighted that CA are not fully applying the PPL and the secondary legislation. Most frequent violations are related to: Article 6 - Economy and Efficiency, Article 7 – Equal treatment/non-discrimination, Article 10 - Means to promote Transparency, Article 27- Tender Dossier, Article 28- Technical specifications, Article 59 - Examination, Evaluation and Comparison of Tenders, Article 60 - Contract Award Criteria. Violations of abovementioned articles by CAs negatively affect the value for money and provision of equal treatment of EOs. The large number of complaints results in repetition of tendering or parts of tendering procedures which in effect postpones signing of contracts and delays in receiving benefits from services or capital investment.

CPA operates under the Ministry of Finance and is responsible for the development of joint procurements on behalf of CAs, carrying out procurements at the CA's request and assists CAs in carrying out procurement activities.

CPA has successfully completed four (4) centralized procurement activities; "Wood Supply", "Coal supply", "Oil Fuel Supply" and "Pellet supply". Meanwhile, four (4) other procurement activities "Fuel Supply", "Air transport services", "Paper Supply" and "Stationary Supply" have been signed and are in the initial stage of implementation.

4.3 Value for money in procurement

Recognising the importance of procurement, NAO has carried out one performance audit on the Implementation of the Contract on E-procurement System. The purpose of this audit was to assess the implementation of a new IT system of support for Kosovo Government's procurement processes. This system is intended to increase the decision-making ability by providing information, enhancing transparency, efficiency in development of procedures etc. Initially it was expected to begin with its implementation by the end of 2015.

A considerable part of the e-procurement system is not yet fully operational and expected results have not been achieved due to lack of management, human and technical capacity of responsible government agencies. The benefits of developing procurement software and investing in IT hardware have not been achieved and the Government needs to take proactive actions to achieve the full benefits of e-procurement in the near future.

4.4 Key regularity issues on procurement

The 2015 individual audit reports showed that there are still common shortcomings in the procurement management many of which were highlighted in the 2014 annual audit report. Many processes applied by BOs processes are not fully in compliance with the PPL framework.

The following table presents the main issues arising in most institutions at central and local level.

Issue	Cause	Impact	Required action
Delays in implementation of capital projects.	Lack of controls to ensure that procurement procedures are initiated on time and implementation of contract timescale not monitored effectively. Failure to match projects' cash flow requirements with available funds	Delays in obtaining project benefits and pressure on next year budget due to timing of required payments.	Timely procurement procedures supported by ongoing management of cash requirements against payments schedule. Application of penalties for every delay.
Non adherence to the PPL requirements	Systematic weaknesses in procurement occurred because relevant officers avoided procurement procedures and guidelines	Potential favouring of or discrimination against Eos. Poor Value for money achieved and/or specified services not received	Clear accountability processes applied with appropriate supervisory review applied. Any non-application of procedures and guidelines to be formally justified and approved. Disciplinary action to be applied where appropriate where incorrect procedures/processes applied
Purchases without procurement procedures, in cases when procurement is required. Avoidance of open procurement procedures, application of price quotation or minimal value procedures.	Lack of controls ensuring that procurement requirements applied relative to contract size	Reduced competition and transparency result in failure to achieve value for money or potential financial loss.	As above
Lack of projects for capital investments.	Lack of staff knowledgeable on project design and management's negligence to appropriate funds for contracting these services.	Lack of projects risks the quality of works and value for money and there is a risk that construction will cost more than planning.	Each capital investment procurement procedures should be preceded by a detailed project plan.
Lack of bill of quantities	Lack of responsibility and sufficient controls by high levels of control.	This indicates weaknesses in needs identification, causes additional costs, budget changes and leads to delays in contracts execution.	The accountability of persons responsible should be raised, either of those of the requesting unit, procurement officers or contract managers.

4.5 Amendments to the Law on Public Procurement

In early 2016 Assembly of the Republic of Kosovo approved amendments to the Public Procurement Law. The main amendments are as follows:

- For independent agencies with less than 50 employees who report to the Assembly, procurement procedures are carried out by the CPA;
- Public contracts can be divided into homogenous or heterogeneous lots;
- When the Ministry of Finance appoints the CPA to carry out a procurement activity, the persons authorized to sign or close the contract are the responsible Procurement Officer and CAO of the CPA;
- Publication of the contract notice for price quotations
- Duration of the framework contract shall be determined at the initiation of the procurement process.
- The contracting authority shall specify in the tender dossier the amount or quantity of the contract as a threshold or a ceiling and allow derivations from it by also stating the tolerable percentage of discrepancy. The tolerated discrepancy cannot be higher than plus/minus thirty per cent (30%).

These changes are expected to increase competition, to facilitate the conclusion of centralized contracts, to enhance transparency and increase value for money by setting an threshold of +/- 30% which requires BOs to do a more accurate needs assessment.

4.6 Recommendations

We recommend the Government to ensure that:

- Procurement activities concluded and signed by the CPA enable the achievement of benefits from the current centralised purchasing and the application of a systematic approach in order to ensure a planned increase of CPA contracts in the coming years;
- E-procurement system is implemented in practice by all BOs;
- PRB board members are proposed in time in order not to undermine the functioning of the Board and avoid situations where the complaints by the EO remain unhandled;
- Necessary developments in BOs in addressing AG's recommendations, referred to in Chapter 3, put a special emphasis on procurement issues and with a consolidated response covering the addressing of procurement issues in performance audits.

We recommend Assembly to ensure that:

- Procurement monitoring activities in PPRC are regulated in order to ensure the identification, prevention and elimination of potential errors by CA in advance rather than after the procurement process is due;
- it exercises its influence over the Government to ensure that our recommendations for the current year and previous years are fully addressed, by establishing effective controls over the development of procurement procedures and ensuring value for money.

5 Areas of particular relevance– Performance

Overall conclusion

Effective strategic and operational management underpinned by any appropriate legal structure and supported by effective monitoring processes is key to maximising the benefit of public expenditure and ensuring the best quality of services to citizens and businesses.

There are efforts from institutions to place a structured organization followed by legal basis, strategy and implementing and monitoring mechanisms.

However, there is a lack of consistency between the legislation, strategic plans and implementing mechanisms and the monitoring mechanisms have not been sufficiently developed. In audited areas during 2015, we have identified the following weaknesses:

- weak responses to contractual commitments not being delivered – SOE privatisation;
- lack of clear municipal plans and objectives in agricultural sector, a consequent failure to implement effective monitoring processes;
- incomplete activation of mechanism to ensure the health and safety of construction workers;
- a failure to implement the National Strategy for People With Physical Disabilities;
- poor implementation of effective measures on Energy Efficiency; and
- poor arrangements text books planning, distribution and return.

5.1 Introduction

NAO, in several cases, has undertaken performance audit to assess how public money was used and results achieved. The applied approach reflects the framework incorporated in INTOSAI standards, based upon the ‘three E’s’:

- **Economy**, minimizing the cost of resources used for an activity while taking into account the appropriate quality;
- **Efficiency**, the relationship between outputs in terms of goods, services, results and resources used to produce them; and
- **Effectiveness**, the extent of achievement of objectives and the relation between the intended impact and the actual impact of an activity.

5.2 Summary of specific reports

This Chapter summarises the performance audits. These were selected for review as a result of an extensive planning process which involved discussions and have been considered as relevant for the country and general public.

5.2.1 Monitoring of commitments for Socially Owned Enterprises (SOE) privatization through special spin-off

The goal of privatization is to increase the efficiency of public enterprises by transferring these to the private sector. Since 2015, and 26 SOEs were privatized through special spin-off in Kosovo, where purchasers have contractual obligations for capital investment and employment. These obligations/commitment are to be monitored by PAK and if not met, penalties are to be applied, including the return of the SOE's ownership to PAK.

Out of the 26 privatised SOEs:

- PAK released of their commitments 20 enterprises/buyers.
- enterprises have been returned to PAK ownership;
- enterprises are still under monitoring.

And at the time of the audit 9 enterprises of 26 privatised SOE's through special spin-off were under investigation. These SOE's are not part of this audit.

Fulfilment rate of investment commitments by purchasers was under 50% increased. After the extension of the timeline about 70% of investments were implemented and employment commitments reached up to 96% of the "Commitment Agreement".

The failure to meet the contractual commitments has been identified by PAK monitoring. However, the PAK Board of Directors has not approved penalties for these cases, and , moreover, the Board released them of their commitments even when those were not met in full.

Fulfilment of commitments is in a low level. To meet the objectives of SOEs, the PAK Board of Directors need to manage the spin off process and entire privatization process more proactively.

5.2.2 Municipal agriculture grants

The agricultural sector provides 25% of total employment and accounts for about 12% of GDP²³. Municipalities support this sector via the provision of grants, which has to be effectively managed to maximise the benefits of money spent. We assessed this provision of agriculture grants in Gjakova Municipality in 2014 of €316,786, and Fushë Kosova, €277,407.

Both municipalities failed to set out clear objectives for the development of agriculture. This has complicated the braking down of strategic objectives operational objectives.

There was a lack of performance indicators and subsequently there was no basis for monitoring and assessment of results

With the lack of monitoring, there was no qualitative reporting and municipalities do not have information on the grants effects/outcomes.

Communication with farmers is not good. In Gjakova, the evaluation criteria applied to grants bids were not transparent whils in Fushë Kosova the contract criteria did not specify the target group of farmers.

²³ Gross Domestic Production

Consequently grants may not reach groups/farmers who can support the most effective agricultural development.

To ensure an effective use of available funds, municipalities should clarify objectives, apply fair criteria and consolidate the monitoring system.

5.2.3 Safety at work for labours in construction sector

In 2014, the construction sector was the 4th largest employer in Kosovo with about 39,000 workers or 9.5% of the total workforce. This sector is accompanied by lack of safety at work and leads to cases of injuries and deaths of workers. 63 cases of injuries and 9 deaths have been reported in 2014 and 44 injuries and 8 deaths in 2015. We have verified if Labour Inspection (LI) control systems are operational/effective.

Ministry of Labour and Social Welfare (MLSW) has prepared a draft Strategic/Development Plan on Safety and Health at Work outlining the purposes of Lis. But, this strategy has not yet been approved by the Minister. LI has not developed a clear operational plan, decisions for inspections are random. LI also has not established a formal reporting process on the state of application of the law. It lacks technical and professional capacities which contributed to not carrying out appropriate inspections.

The National Council for Safety and Health at Work is not yet operational either. This is a Government advising body that design policies and gives recommendations and monitors the situation with safety at work.

Safety and health at work mechanism should be fully operational to increase safety at work and reduce/eliminate tragic events and injuries in construction sector.

5.2.4 Access for Persons With Physical Disabilities

The total number of people with disabilities (PWDs) in Kosovo is around 150,000 or 7% of the population. Equal access and conditions to society's activities such as education, health, work are a problem for these persons. The Progress Report on Kosova 2015 highlighted the lack of support for persons with disabilities. We have therefore verified whether the Government activities were effective to improve the conditions for these persons.

The National Strategy for PWDs is approved by the Government but little is it applied by the central and local level. Two mechanisms of the central level, responsible for implementation of the strategy do not have clear duties and responsibilities and have no communication with the local level²⁴.

The majority of audited municipalities did not identify/assess needs of persons with disabilities and have not included them into the municipal operational plans. They have not secured any internal or external forms of financing. During the process of licensing new buildings the Urban Planning they have taken into consideration legal framework requirements related to PWDs. Construction permit matter is linked between the local and central level (MESp).

²⁴ National Council for Persons With Disabilities (NCPWD) and Monitoring, Reporting and Assessment Committee (MRAC).

The Strategy for PWD should be better implemented and to avoid unplanned and random actions taken by institutions. An appropriate funding for PWD and their needs should be considered in new constructions should be ensured.

5.2.5 Energy Efficiency System

Energy Efficiency (EE) means using less energy to provide/perform the same service. After implementing measures/investment on EE, 9% saving of energy is planned to be achieved by 2018. Improvement of EE in Kosovo remains a significant challenge²⁵.

The EE legal framework is not yet consolidated and the Action Plan is unclear while institutions such as MH, MI and MESP²⁶ are not included in follow up plan (the second medium term plan). The Kosovo Agency for Energy Efficiency currently lacks the financial and human resources to ensure implementation and monitoring of EE Action Plan. EE measures mainly rely on external funding but this is not well coordinated or planned. Consequently actions by government institutions to improve EE in the country are not appropriate.

Three audited municipalities have unclear and no specific Municipal Plans for EE. These don't contain a clear list of measures to be taken/implemented. Municipal Energy Offices have not been established. The number of officials dealing with the implementation of EE measures is limited and the number of implemented measures is relatively low.

EE development helps energetic system in Kosova. For this, clear plans and their implementation are required and a coordination between central and local level.

5.2.6 Management of students supply with textbooks

The Government of Kosovo finances textbooks for about 275,000 students. In the last three years total costs were €22.7 mil, or €7.5 million/annually or €27.5 per student. Theoretically textbook costs should have reduced since each year these are required to be returned for use for at least two further years. However costs have not reduced and for the academic year 2015/16 it was planned to spend €4 million on textbooks but spend was €7.5 million. We have assessed if textbooks planning, distribution, return and recycling is efficient²⁷.

Delays in the appointment of a Commission to negotiate the price and distribution of textbooks have caused weaknesses in planning and distribution. Furthermore The wording used in AI 16/2012 caused uncertainty/confusion in the process of textbooks' distribution, since it is stated that textbooks are given free of charge but also requires them to be returned for reuse.

There is no analysis on the number of texts received at the start of the school year nor of the ones returned at the end of the year. There are considerable stocks created in Municipalities and schools and

²⁵ Entities included in this audit are: Kosovo Energy Efficiency Agency (KEEA), MED, MPA, MLGA, MESP and the Municipality of Drenas, Gjakova and Prizren.

²⁶ Ministry of Health, Ministry of Infrastructure and Ministry of Environment and Spatial Planning.

²⁷ Entities included in this audit are: MEST and municipalities: Prizren, Pejë e Gjakovë.

there is no coordination/good communication between MEST and MEDs²⁸. Consequently, the number of returned textbooks is low and there is unnecessary spend on new textbooks.

Recycling of textbooks is practiced only by a small number of schools. Based on two cases, recycling is expected to bring financial gain²⁹. Therefore, this process is to be addressed.

The process of textbooks distribution should be improved to maximize the benefits of the money spent on this. Stockpiling should be eliminated and return process should be enforced.

5.3 Performance Indicators in Municipalities

NAO has produced reports on the financial and non-financial performance in certain areas of municipalities since 2013. The performance indicators presented provide an opportunity for individual municipalities to benchmark their performance against peers with the reported indicators being refined each year.

The key areas of review are capital investment, own source revenues, funding from donors, representation costs, mobile phone and oil expenditures, service contracts, liabilities and receivables, building permits and students subsidies.

More details are in the NAO report on "Financial performance and services provided in municipalities in 2015 - Comparative data and performance indicators".

The key findings and recommendations from this project are:

Issue	Response Required
Performance Indicator variations exist between municipalities of similar size exist but there is insufficient attention directed by Mayors and other stakeholders to reviewing such information to drive positive change	Municipality Management to make appropriate comparisons with other municipalities, to analyse the findings of this report and take appropriate measures to improve performance in areas where indicators demonstrate the potential to improve (once quality of data input has been confirmed and critically assessed e.g. fuel usage may reflect geographical disposition of a municipality) Other stakeholders such as MLGA and the Association of Municipalities should support this process including work focused to improve data quality where appropriate. An online PI database to provide greater transparency over PI Include PI in Annual Reports
While the response to PIs should be tailored as appropriate in each municipality a number of common issues should be considered by all municipalities including representation expenditures, business lunches, mobile phone costs and special service contracts – where the expenditure is a reputational risk for public sector organisations – and the use of own source revenues;	Use of PIs to set standards/ highlight good practice – consider the potential to provide incentives (as implemented currently by DEMOS in a limited range of activity) Develop common standards for the use of representation expenses etc.
The handling and collection of accounts receivable requires particular action	More systematic review of accounts receivable linked to budget process

²⁸ Municipal Education Department

²⁹ Financial gain from recycling process is estimated to be €33 thousand/year in the country at minimum

5.4 Recommendations

We recommend the Kosovo Assembly to:

- Require a strategy from the Government to ensure that the performance of budget organisations is maximised through the implementation of appropriate legal and operational structures – using the results of the AGs 2015 performance audit reports to highlight common areas to be developed;
- Require the Board of PAK to demonstrate how the approach to SOEs privatized through special spin off is maximising revenue to the consolidated fund and generating expected capital investment and employment opportunities;
- Require a strategy from the Government which demonstrates a co-ordinated approach to maximising the performance of municipalities and recognises the role of all relevant stakeholder including MLGA, USAID etc.

We recommend the Government to involve both central and local institutions to:

- Ensure that agricultural grants paid to municipalities are used based on clearly set objectives broken down into operational activities by applying a results-based system;
- Ensure that the National Council for Health and Safety at Work is fully operational and ensure approval of LI Development Strategy;
- Ensure implementation of the national strategy for PWDs and seek a report on how central bodies, MESP and municipalities are addressing this, such as in construction permits;
- Review the capacity of the Kosovo Energy Efficiency Agency to match aspirations and plans and to ensure funding sources are maximised
- Ensure that MEST reviews and updates AI 16/2012 for Student Supply with Textbooks, to ensure value for money in planning, distribution and return of text books.

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

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex II: Audit Opinions and Key Recommendations

Table 1. Audit opinions and key recommendations for State Institutions –

1.1. Unmodified opinions		
Entity	Budget (in mil.€)	Summary of key recommendations
Ministry of Internal Affairs	112.06	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Ensure that budget planning for the coming years includes the salaries of all employees. End the practice of entering into contracts without procurement procedures and employment without recruitment procedures; Ensure coverage of positions with acting officers do not go beyond the legal deadline; Increase controls over the management of Police Vehicles.
Ministry of Kosovo Security Force	45.07	Ensure application of a formal process of monitoring over the implementation of AG's recommendations; Assess reasons for poor budget planning with an emphasis on capital projects; Increase controls over contract management including payments execution.
Ministry of Finance	31.15	Ensure application of a formal process of monitoring over the implementation of AG's recommendations; Develop a comprehensive strategy for the institution.
Ministry of Economic Development	26.40	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Ensure the production of a risk register and action plan for the management of this; Ensure a fully operational AB; Address control weaknesses in the area of subsidies; Correctly classify capital investments.
Ministry of Public Administration	20.80	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and proactively manage the risk assessment process; Assess weaknesses identified in specific and produce an action plan to address them; Enhance controls over the timely processing of payments; Assess capital projects based on real needs prior to initiation of procurement procedures.
Kosovo Assembly	8.64	Produce a risk management action plan; Ensure application of a formal process of monitoring over the implementation of AG's recommendations
Tax Administration	8.15	Ensure application of a formal process of monitoring over the implementation of AG's recommendations; Carry out analysis on causes of differences between TAK and Treasury records regarding refunds; Enhance efficiency in collecting public money.
Ministry of Trade and Industry	5.18	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Produce a risk register; Assess weaknesses identified and produce an action plan to address them.
Ministry of European Integrations	1.66	Ensure that the 2016 AFS production plan addresses all issues related to 2015 non-compliance with the reporting framework; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Produce a risk management action plan; Ensure that purchases, except where set by legislation, are made through public procurement procedures.

Office of the President	1.65	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Address control weaknesses in the procurement process.
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1.2 Unmodified opinion with emphases of matter			
Entity	Budget (in mil.€)	Reason for emphases of matter	Summary of key recommendations
Ministry of Labour and Social Affairs	307.25	Inaccurate disclosure of assets and obligations in AFS	Analyse the causes of the Emphases of Matter and ensure complete and correct recording of all non-capital assets and fair disclosure of obligations; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Address control weaknesses in subsidies and transfers, procurement and recruitment.
Ministry of Infrastructure	175.50	Maintenance costs are paid from capital investments; failure to record assets of joint projects with municipalities; Incorrect presentation of other assets	Implement systematic AFS production process; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Produce an action plan for risk management; Address control weaknesses in the procurement process and ensure correct classification of expenditure, fully record co-financing, and their capitalization and accurate recording of assets.
Ministry of Agriculture, Forestry and Rural Development	55.66	The process of subsidy payments is accompanied by irregularities (double payments to beneficiaries).	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Address subsidies' irregular payments; Ensure a risk management action plan; Ensure appropriate management of revenue system.
Ministry of Education, Science and Technology	46.34	Misclassification of expenditures between categories and underestimation of assets in AFS disclosures.	Analyse and address the causes for Emphasis of Matter; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Ensure an operational Audit Committee; Address control weaknesses in the procurement process, subsidies, and recruitment and remuneration of academic staff.
Ministry of Environment and Spatial Planning	39.09	Misclassification of capital projects built for repatriation and co-financed project with municipalities are recorded as assets	Ensure that the 2016 AFS production plan addresses all issues related to 2015 non-compliance with the reporting framework; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Implement a

			risk register and an action plan for its management; Address control weaknesses in the procurement process recruitment and payments execution. Ensure that expenditures are recorded in relevant categories and record assets if proven that they are owned by MEST.
Ministry of Health	37.98	Misclassification of expenditures between categories and underestimation of assets in AFS disclosures.	Analyse and address the causes of the Emphasis of Matter and present true and fair information in the financial statements; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Implement a risk register and an action plan for its management ; Address control weaknesses in the procurement process, human resource management and the management of subsidies; Activate the revenue module within the Health Information System;
Ministry of Justice	19.11	In AFS disclosures assets are not fully accurate and reliable.	Address AG's and IA recommendations in full; Ensure a risk management action plan; Assess the reasons for the low level of budget execution; Apply appropriate depreciation of assets.
Ministry of Foreign Affairs	18.71	Expenditure for goods and services were not approved in prior years and a portion of them were unrecorded expenditure; a non tangible asset not recorded in KFMIS	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Implement a risk management action plan; Ensure that the AFS presents complete and accurate information; Execute contractual payments only after progress of the project is verified; Ensure no under/overestimation of expenditure and revenue as a result of exchange rate movements; Ensure full application of specific criteria for officers' promotions and appointments to the Foreign Service; Ensure that assets are recorded and their values reported.
Office of the Prime Minister	12.17	Misclassification of capital investments; lack of reports by subsidy beneficiaries and failure to present FVA assets in AFS.	Consistently apply rules for granting and monitoring subsidies and ensure that beneficiaries verify their spending in line with the subsidy purpose; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Address control weaknesses in the procurement process, classification of capital investments and assets reporting.
Customs	8.63	Incomplete disclosure of accounts receivable in AFS and	Analyse the causes of the Emphases of Matter and develop an action plan to address; Ensure application of a formal process of monitoring

		underestimation of assets' depreciation.	over the implementation of AG's recommendations and implement the self-assessment process proactively; Ensure the update of TARIK; Implement additional controls over the valuation of imports to minimize complaints by parties. Address control weaknesses related to contract management, payments' processing and , management of human resources.
Ministry for Returns and Communities	8.32	Misclassification of expenditures and underestimation of assets	Analyse the causes of the Emphases of Matter and develop an action plan to address; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Ensure accurate and complete recording and reporting of assets; Implement a risk management action plan; Through the Audit Committee ensure enhancement of the quality of IAU's reports; Implement regular reporting of obligations to MF.
Ministry of Diaspora	1.57	Presentation of incorrect values of non-financial assets and stocks in AFS disclosures.	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Implement a risk management action plan; Ensure that all contracted purchases or services procured in accordance with the LPP requirements; Ensure that subsidies are paid only in accordance with defined criteria and enhance controls over their monitoring; Ensure accurate and complete reporting of assets.

1.3 Qualified opinion			
Entity	Budget (in mil.€)	Reason for qualifying the opinion	Summary of key recommendations
Ministry of Administration and Local Governance	4.49	Capital assets registry overstated by municipalities assets; inaccurate depreciation of assets;	Analyse reasons for the Qualified Opinion and identify actions required to ensure a true and fair presentation of assets; Ensure application of a formal process of monitoring over the implementation of AG's recommendations; Apply detailed assessment on the level of budget execution and address control weaknesses in , procurement and other areas of expenditure?.

1.4 Qualified opinion with emphases of matter			
Entity	Budget (in mil.€)	Reason for the qualified opinion/emphases of matter	Summary of key recommendations
Ministry of Culture, Youth and Sports	22.44	Misclassification of assets in AFS Misclassification of expenditure between categories; inaccurate presentation of financial and nonfinancial assets in AFS	Ensure true and fair presentation of expenditure and assets in AFS; Ensure that the 2016 AFS production plan addresses all issues related to 2015 non-compliance with the reporting framework; Ensure application of a formal process of monitoring over the implementation of AG's recommendations. Implement a risk management action plan; Address control weaknesses in procurement; Ensure that subsidy beneficiaries are paid in line with the rules for granting subsidies and the money spent is subject to monitoring.

Table 2. Audit opinions and key recommendations for Municipalities

2.1. Unmodified opinion		
Entity	Budget (in mil.€)	Summary of key recommendations
Lipjan	12,40	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively ; Improve management accountability and reporting; Analyse and address control weaknesses in procurement and other expenditure areas; Monitor budget performance more rigorously and identify and address barriers to planned levels of budget execution,.

2.2. Unmodified opinions with emphases of matter			
Entity	Budget (in mil.€)	Reason for emphases of matter	Summary of key recommendations
Prishtina	62.11	Payment under the co-financing memorandum in donors /implementers accounts despite an absence of reports on physical and financial progress of projects. Incomplete registration of assets in KFMIS; capital investments and goods and services were wrongly classified; and some AFS disclosures were not accurate.	Analyse control weaknesses in the assets registration process, reasons for misclassification of expenditure and the method of co-payments and identify actions required to enable a fair and true presentation of these in AFS; Ensure a systematic AFS production plan , including disclosures; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively ; Improve accountability and management reporting; Analyse control weaknesses in procurement and take necessary actions to address theses.
Prizren	39.37	Misclassification of capital investments into goods and services; Failure to present the full value of the assets.	Ensure accurate recording of capital assets, Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Improve accountability and management reporting;

			Analyse and address control weaknesses in procurement.
Ferizaj	25.25	Misclassification of capital investments on Municipality funded home health care services and assets purchases not recorded.	Analyse the causes of the Emphases of Matter and develop an action plan to enable appropriate presentation of investments and assets in the AFS; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Improve accountability and management reporting; Ensure more effective oversight of budget execution , recording of expenditure in appropriate codes and avoid annex contracts; Ensure full implementation of procurement rules and, in cases of co-funding, payments should only be made after services are provided; Ensure the collection of uncollected rents; Record all municipal properties.
Gjilan	21.84	Incomplete and inaccurate Asset Register; Payments made before services are receipt and in line with the agreement.	Ensure complete recording of capital assets. Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Enhance accountability arrangements and the quality of management reporting; Analyse and address control weaknesses in procurement.
Peja	21.13	Misclassifications between economic categories; Incomplete recording of assets in KFMIS.	Classify expenditures and record capital assets correctly; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Enhance accountability arrangements and the quality of management reporting; Analyse and address control weaknesses in procurement
Gjakova	20.29	Inaccurate accounts receivable balances in AFS.	Ensure that the 2016 AFS production plan addresses all issues related to 2015 non compliance with the reporting framework including a review of the draft AFS by management; Review the procurement process and improve controls so that the work is monitored and payments are made only after the execution of works; Ensure enhanced oversight of co-funding agreements including the implementation of clear reporting requirements.
Podujeva	18.31	Incomplete presentation of net asset values in AFS disclosures.	Ensure that the AFS production plan includes a formal and effective management review of the draft AFS; Classify expenditures and record capital assets correctly; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Enhance accountability arrangements and the quality of management reporting; Ensure continuous monitoring over the leasing of municipal property.
Vushtrri	14.63	Municipal assets were overstated. Capital expenditure reported in AFS before any benefit received.	Ensure that the AFS production plan includes a formal and effective management review of the draft AFS; Ensure application of a formal process of monitoring over the implementation of AG's recommendations;

			Ensure that internal audit services operate to ensure continuous improvement of the internal control system; Analyse and address control weaknesses in procurement; Ensure more effective management of revenues and assets.
Suhareka	13.56	Misclassification between economic categories; Incomplete presentation of accounts receivable; Third party Payments not presented in AFS.	Ensure correct classification of expenditures, accurate recording of capital assets and third party payments Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively;; Enhance accountability arrangements and the quality of management reporting; Analyse control weaknesses in procurement and take necessary actions to address these..
Drenas	12.12	Misclassification between economic categories	Ensure accurate classification of expenditures and recording of third party payments; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Enhance accountability arrangements and the quality of management reporting; Analyse and address shortcomings in procurement.
Malisheva	11.87	Misclassification between economic categories; Caritas Kosovo is paid from the Capital investments category for home care services for the community.	Ensure accurate classification of expenditures; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Enhance accountability arrangements and the quality of management reporting; Analyse control weaknesses in procurement and take necessary actions to address these.
Rahovec	11.45	Incomplete and inaccurate Registration of assets; From the capital investments category is paid for goods and services, subsidies and co-funding planned by budget.	Ensure that the AFS production plan includes a formal and effective management review of the draft AFS; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Ensure that IA's services focus on identifying and improving current internal control weaknesses; Activate an Audit Committee; Analyse and address control weaknesses in procurement.
Istog	8.58	Incomplete and inaccurate Registration of assets; Accounts receivable are understated and third party payments not recorded in KFMIS.	Ensure that the AFS production plan addresses includes a formal and effective management review of the draft AFS; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Enhance accountability arrangements and the quality of management reporting; Analyse control weaknesses in procurement and take necessary actions to address these . Organize public auctions when leasing municipal property.
Klina	8.35	Accounts receivable are understated, misclassification between economic categories	Ensure that the 2016 AFS production plan addresses all issues related to 2015 non compliance with the reporting framework;; Ensure application of a formal process of monitoring over the implementation of AG's

			recommendations; Analyse and address control weaknesses in procurement; Implement enhanced oversight of co-funding agreements including clear reporting requirements; Stop the practice of transferring funds to other accounts for payments .
Kamenica	7.73	Incorrect assets presentation in the asset accounting registry and accounts receivable were underestimated	Ensure that the 2016 AFS production plan addresses all issues related to 2015 non-compliance with the reporting framework including reviewing the draft AFS by management. Ensure application of a formal process of monitoring over the implementation of AG's recommendations; Address barriers to improved budget execution; Establish a committee for the correct and complete recording of all non-financial assets and recording of all ongoing investments .
Shtime	5.87	Incomplete and inaccurate Registration of assets.	Ensure that the AFS production plan includes a formal and effective management review of the draft AFS; Monitor the action plan for addressing recommendations; Ensure that in co-financing cases active parties are equally involved in projects' monitoring, implementation and oversight; Ensure a proper registration process of assets with projects under construction recorded as ongoing investments.
Obiliq	5.05	Misclassification of expenditure; Third party payments not presented; and errors in assets recording CI paid from G&S and vice versa	Analyse the causes of the Emphases of Matter and develop an action plan to enable appropriate presentation of assets and third party in the AFS; Ensure application of a formal process of monitoring over the implementation of AG's recommendations; Enhance accountability arrangements and the quality of management reporting; Analyse control weaknesses in procurement and take necessary actions to address these.
Han i Elezit	2.05	Incomplete presentation of assets in KFMIS	Ensure accurate recording of assets Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Enhance accountability arrangements and the quality of management reporting; Analyse control weaknesses in procurement and take necessary actions to address these
Novo Bërdë	2.01	The municipality paid from the education budget employees who are not teachers; incomplete and inaccurate disclosure of assets in AFS	Analyse existing weaknesses related to AFS production and ensure that the AFS production process includes a formal and effective review by management and full disclosure of assets; Ensure the application of a formal process of monitoring over the implementation of AG's recommendations. In particular – consider reasons for not addressing the previous recommendation to terminate salaries for education employees who do not teach. This issue should be addressed with priority and progress reported to the Municipal Assembly. Enhance accountability arrangements and the quality of management reporting; Analyse control weaknesses in procurement and take necessary actions to address

Mamusha	1.40	Misclassification between economic categories; Incomplete recording of assets in KFMIS. CI paid G&S	these Ensure accurate recording of capital assets; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Enhance accountability arrangements and the quality of management reporting; Analyse control weaknesses in procurement and take necessary actions to address these.
Ranillug	1.27	Payments made for unfinished capital work; Lack of evidence regarding the increase in assets value.	Analyse reasons for Qualified Opinion and Emphasis of Matter and ensure all payments for capital investments reflect the application of expected controls ; Clearly document the basis for changes in asset balances. Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Enhance accountability arrangements and the quality of management reporting; Strengthen controls over financial systems to ensure better planning of expenditure and revenues.
Kllokot	0.79	Incomplete assets presented.	Ensure that the AFS production plan includes a formal and effective management review of the draft AFS; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Enhance accountability arrangements and the quality of management reporting;

2.3. Qualified opinion			
Entity	Budget (in mil)	Reason for qualifying the opinion	Summary of key recommendations
Skenderaj	11.09	Limitation of scope about the capital assets balance	Analyse reasons for Modification of Opinion; Ensure that the AFS production plan includes a formal and effective management review of the draft AFS; Ensure self-assessment is undertaken as required by the MoF; Ensure application of a formal process of monitoring over the implementation of AG's recommendations; Review existing overall governance arrangements and the quality of internal reporting; Ensure that the capital and non-capital assets registry is complete and accurate; Perform a full assets inventory.
Viti	9.96	Limitation of Scope about the non-financial capital assets balance	Analyse reasons for Modification of Opinion; Ensure application of a formal process of monitoring over the implementation of AG's recommendations; Review the existing overall governance arrangements and the quality of internal reporting in the Municipality; Ensure that the capital and non-capital assets registry is complete and accurate; Perform a full assets inventory.
Deçan	7.31	Limitation of scope about capital asset balances, accounts receivable;	Analyse reasons for Modification of Opinion; Ensure that the AFS production process includes a formal and effective management review of the draft AFS; Ensure

		categorization of expenses; Discrepancies regarding the balance presented in the financial statements	self-assessment is undertaken as required by MoF; Ensure application of a formal process of monitoring over the implementation of AG's recommendations; Review the existing overall governance arrangements and the quality of internal reporting in Municipality; Ensure that the capital and non-capital assets registry is complete and accurate; Perform full assets inventory.
Dragash	7.16	Limitation of scope about capital asset balance and discrepancies in the balance of donations presented in AFS.	Analyse reasons for Modification of Opinion; Ensure that the AFS production process includes a formal and effective management review of the draft AFS; Ensure self-assessment is undertaken as required by MF; Ensure application of a formal process of monitoring over the implementation of AG's recommendations; Review the existing overall governance arrangements and the quality of internal reporting; Ensure that the capital and non-capital assets registry is complete and accurate; Perform a full assets inventory.
Kaçanik	6.86	Limitation of Scope about the balance of non-financial capital assets, categorization of expenses and	Analyse reasons for Modification of Opinion; Ensure that the AFS production process includes a formal and effective management review of the draft AFS; Review the existing overall governance arrangements and the quality of internal reporting; Ensure that the capital and non-capital assets registry is complete and accurate; Perform a full assets inventory.
Junik	1.35	Limitation of scope about the capital assets balance, non-compliance related to presentation of third party payment and discrepancies regarding the balance presented in AFS	Analyse reasons for Modification of Opinion; Ensure that the AFS production process includes a formal and effective management review of the draft AFS; Ensure self-assessment is undertaken as required by MF; Ensure application of a formal process of monitoring over the implementation of AG's recommendations; Review the existing overall governance arrangements and the quality of internal reporting; Ensure that the capital and non-capital assets registry is complete and accurate; Perform a current legislation based assets inventory.

2.4. Qualified opinion with emphases of matter

Entity	Budget (in mil)	Reasons for Qualified Opinion/Emphases of Matter	Summary of key recommendations
Mitrovica	15.73	Capital investments made on behalf of co-funders without any received benefits; incomplete recording of land and buildings; payment for goods and services from capital investments	Ensure that the AFS production process includes a formal and effective management review of the draft AFS; Ensure application of a formal process of monitoring over the implementation of AG's recommendations; ensure realistic assessment of reasons for poor execution of the capital investments budget and take actions to address these; ensure that all public procurement procedures are adhered to; ensure that the process of valuation and registration of assets is finalized in 2016.
Fushë	8.01	Misclassification of capital	Ensure that the AFS production process includes a

Kosova		expenditure and goods and services; overstated assets.	formal and effective management review of the draft AFS; Ensure application of a formal process of monitoring over the implementation of AG's recommendations; Ensure governance processes incorporate strategic planning, risk management and implementation of procedures for measuring outcomes against objectives; Ensure that internal audit reports are regular, effective and address operational challenges of the municipality; Ensure systematic budget monitoring by addressing barriers to improved budget execution.
Graçanica	6.08	Under co-funding arrangements payments are made without a clear legal basis; Incomplete registration of land and buildings in the into the assets registry; accounts receivable from expropriation were understated; goods and service are paid from capital expenditure budget.	Analyse reasons for Qualification of Opinion and Emphases of Matter and identify actions required to enable the AFS to present a true and fair view and full disclosure of assets; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Improve management accountability and reporting; analyse and address control weaknesses in procurement.
Shtërpce	3.01	Irregular payments. Capital investments paid from goods and services; failure to record third party payments in KFMIS; land is not recorded in KFMIS and not presented in AFS.	Ensure correct recording of capital assets and third party payments; Ensure that self-assessment is more substantial; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Analyse and address control weaknesses in procurement.
Partesh	0.81	Incorrect presentation of budget execution in AFS; incomplete presentation of assets, accounts receivable and own source revenues	Ensure that the AFS production process includes a formal and effective management review of the draft AFS; ; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Improve management accountability and reporting; analyse and address control weaknesses in expenditure and revenue systems and take necessary action to address them.

2.5. Adverse Opinion

Entity	Budget (in mil.€)	The reason for adverse opinion	Summary of Key Recommendations
North Mitrovica	6.62	AFS do not present a fair and true view do to material misstatements of budget and expenditure items. Lack of registration and disclosure of assets.	Analyse reasons for presenting AFS with errors, why external reporting requirements were not implemented and why there was no complete registration of assets, and ensure that future AFS address all these requirements;. Ensure application of a formal process of monitoring over the implementation of AG's

Leposavic	4.43	AFS do not present a fair and true view; There is a lack of assets registration and disclosure.	recommendations and implement the self-assessment process proactively; Improve management accountability and reporting; analyse and address control weaknesses in procurement Analyse the reasons for the shortcomings identified and take the required actions to enable a true and fair presentation of the AFS; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Improve management accountability and reporting; analyse and address control weaknesses in procurement
Zubin Potok	2.80	AFS do not present a fair and true view; There is a lack of assets registration and disclosure	Analyse the reasons for errors in AFS and failure to meet reporting requirements and identify necessary actions to enable a true and fair presentation of the AFS; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Improve management accountability and reporting; analyse and address control weaknesses in procurement.
Zveçan	2.72	AFS do not present a fair and true view because of material misstatement of budget and expenditure items	Analyse reasons for modification of opinion and Emphasize of Matter identify necessary actions to enable a of true and fair presentation of the AFS; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Improve management accountability and reporting; analyse and address control weaknesses in procurement.

Table 3. Audit Opinions and Key Recommendations in Independent Institutions

3.1 Unmodified Opinions		
Entity	Budget (in mil.€)	Summary of Key Recommendations
State Prosecutor	7.14	Address AG recommendations on IA; Ensure that direct responsibility for risk management is delegated to a relevant director and provide monthly reports about meeting requirements in this area and about the risks being managed.
Constitution Court of Kosova	1.46	No recommendations
Independent Media Commission	1.27	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Ensure efficient mechanisms to collect revenues from operators that have not met their obligations on time.
Independent Commission on Mines and Minerals	1.19	Fully address AG's recommendations. Implement a risk register and action plan for risk management; Ensure concrete measures to improve the reporting process by the bearers of the licenses, ensure complete banking guarantees are provided and prevention of illegal operations; Ensure appropriate actions to increase the efficiency in collection of public money.
Academy of Arts and	1.14	Implement the self-assessment process pro-actively; Ensure an action plan for risk

Science Energy Regulatory	0.57	management; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Implement a risk register and action plan for risk management; Ensure adherence with recruitment procedures in compliance with legal requirements.
Kosova Judicial Institute	0.56	Implement a risk register and action plan for risk management.
Anti-corruption Agency	0.49	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Implement a risk register and action plan for risk management; Ensure that the budget is planned upon real needs and ensure correct categorization of expenditures.
National Agency for Personal Data Protection	0.35	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively;; Ensure that salaries are budgeted for and paid through the payroll system.
Procurement Review Body	0.31	Take more effective action to address AG's recommendations; Introduce more effective risk management and improve financial and operational reporting; Strengthen internal control mechanisms to address weaknesses in procurement.
A. for Free Legal Aid	0.29	Implement a risk register and action plan for risk management; Ensure that salaries are budgeted for and paid through the payroll system.
Independent Oversight Board for the Civil Service	0.28	No recommendations
Railways Regulatory Authority	0.25	Implement an action plan for risk management; Enhance controls over asset management.
Election Complaints and Appeals Panel	0.21	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Implement an action plan for risk management;
Kosova Competition Authority	0.16	Ensure application of a formal process of monitoring over the implementation of AG's recommendations; ensure that Government arrangements are critically reviewed to ensure appropriate changes to improve managerial accountability and reporting arrangements.
Kosova Council for Cultural Heritage	0.14	Implement the self-assessment process pro-actively; Implement an action plan for risk management; Address control weaknesses in recruitment and payment of wages and salaries.
Ombudsperson	0.98	Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Implement an action plan for risk management; Ensure clear segregation of duties and responsibilities and clear reporting and accountability lines.
Civil Aviation Authority	0.82	Implement an action plan for risk management.
Regulatory Authority of Electronic and Postal Communication	0.66	Implement the self-assessment process proactively; Implement an action plan for risk management; Ensure that staff remuneration requirements are in compliance with legal regulations; Ensure the functioning of the programme on revenues and of the existing software on automatic calculation of frequencies and the granting of authorizations.

3.2. Unmodified Opinions with Emphasis of Matter			
Entity	Budget (in mil.€)	The reason for Emphasis of Matter	Summary of Key Recommendations
Kosova Judicial	19.31	Misclassification of	Analyse and address the causes of the Emphasis of Matter. ,

Council		expenditures and underestimation of assets	Ensure application of a formal process of monitoring over the implementation of AG's and IA's recommendations and implement the self-assessment process proactively; Implement a risk register and action plan for risk management.
Central Election Commission	5.37	Contingent liabilities in estimated value of €115,000 are not presented in AFS	Ensure that the 2016 AFS production plan addresses all issues related to 2015 non compliance with the reporting framework ; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Implement an action plan on risk management; Ensure that the organizational structure is in compliance with the applicable regulation; Assess and address weaknesses identified in contract management and wages and salaries.
Agency on Management of Memorial Complexes /Independent agency on protection of memorial complex "Adem Jashari"	2.35	Misclassifications between capital investments and goods and services	Ensure correct classification of expenditures in budget preparation and budget execution; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Implement a risk register and an action plan for risk management.
Kosova Property Agency	1.88	Lack reconciliation of data on deposit funds in trust in KFMS and bank accounts for deposits.	Analyse and address causes for Emphasis of Matter and implement an action plan to address these; Ensure that the 2016 AFS production plan addresses all issues related to 2015 non compliance with the reporting framework; Implement a risk register and action plan for risk management. Ensure that the e-asset system is operational.
Public Procurement Regulatory Commission	0.88	Misclassification in AFS and inaccurate presentation of asset value.	Ensure accurate classification of expenditures and assets registration; Ensure application of a rigorous process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Enhance management accountability and reporting; Produce a correct planning and expenditure codes.
Hospital and University Clinic service of Kosova	86.45	Inaccurate presentation of fixed assets and drugs stocks.	Analyse and address the causes of the Emphasis of Matter; Ensure that the 2016 AFS production plan addresses all issues related to 2015 non-compliance with the reporting framework; Ensure application of a rigorous process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Implement an action plan for risk management; Ensure enhanced internal audit activities and IAC and ensure IA recommendations are implemented by management; Address systematic control weaknesses in procurement and recruitment.
Prishtina University	30.64	Incomplete presentation of fixed assets	analyse and address the causes for the Emphasis of Matter; Ensure that the 2016 AFS production plan

			addresses all issues related to 2015 non compliance with the reporting framework; Ensure application of a rigorous process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively; Implement an efficient governance and accountability framework; Activate IAC and maximize the benefit of IA work; Address systemic control weaknesses in procurement and recruitment.
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3.3 Qualified Opinion			
Entity	Budget (in mil.€)	The reason for a Qualified Opinion	Summary of Key Recommendations
Privatization Fund		Professional expenditures for the liquidation of privatized SOE's were paid from the Trust Fund when they should have been paid for by the Privatization Agency.	A solution is required to enable Agency's budget to include finance liquidation expenditures.
Privatization Agency of Kosova	8.66	Professional expenditures for the liquidation of privatized SOE's were paid from the Trust Fund when they should have been paid for by the Privatization Agency.	Ensure analyses of causes for the modification of opinion and an action plan for their elimination; Ensure that the 2016 AFS production plan addresses all issues related to 2015 non-compliance with the reporting framework; Ensure application of a rigorous process of monitoring over the implementation of AG's and IA's recommendations; Draft a strategic plan and set strategic objectives; Activate IAC; Implement mechanisms so the liquidation process is completed within the timeline set in the contract; Address control weaknesses in procurement and invoice receipting.
Water and Waste Water Regulatory Office	0.31	Double payment for printing the "Annual Performance Report 2014"; misclassification of expenditures from goods and services in capital investment.	Analyse the causes for the qualification and produce an action plan to address these; Ensure that the 2016 AFS production plan addresses all issues related to 2015 non-compliance with the reporting framework; Ensure application of a formal process of monitoring over the implementation of AG's recommendations and implement the self-assessment process proactively. Implement a risk register and action plan for risk management; Address the control weaknesses in procurement, other expenditures and asset management.

Annex III: 2014 AAR Recommendations

Responsible institution	Fully addressed recommendations	Partially addressed recommendations	Unaddressed recommendations
Assembly of Kosovo	<p>Chapter 4</p> <ul style="list-style-type: none"> The reasons behind failure to address earlier recommendations are analysed and find the barriers that led to their repetition <p>Chapter 6</p> <ul style="list-style-type: none"> The Government continues supplementing the legal basis in order to support the introduction of e-procurement system; and Ask the Government to enhance controls over the quality of reporting and other external reporting requirements; 	<p>Chapter 4</p> <ul style="list-style-type: none"> The Government will lead and coordinate the development of an Action Plan for addressing the Auditor General's recommendations, and report on progress achieved; <p>Chapter 5</p> <ul style="list-style-type: none"> Government will give priority to the effective implementation off of FMC requirements arising from the new PIFC Strategy and that IAUs and Audit Committees in BOs will operate effectively; <p>Chapter 6</p> <ul style="list-style-type: none"> The Assembly exercises its impact on the Government to ensure that our current and previous recommendations are fully addressed by establishing effective controls over the development of procurement procedures, thus obtaining value for money 	<p>Chapter 4</p> <ul style="list-style-type: none"> The Government will take action to address the shortcomings in asset management. The issue of merging the two systems, KFMIS and e-assets should be prioritised by the MoF and MPA; <p>Chapter 5</p> <ul style="list-style-type: none"> A sustainable solution is found for joint institutional organization of internal audit to provide audit services for IIs, in particular for those characterized with low staffing and budget. Establish, a unit for providing common services to IIs in the areas of finances as well as procurement, internal audit etc.;
Chapter 8	<ul style="list-style-type: none"> Review and Approve the Agriculture and Rural Development Programme 2014 - 2020; Board of Directors in RTK implements the decisions and 	<ul style="list-style-type: none"> PAK management secures effectiveness in financial and operational management, regular recruitment and personnel management process and better management of receivables; 	

	<p>recommendations of the Assembly in time, increases accountability of the Director General towards the Board, and reduces high risk costs;</p> <ul style="list-style-type: none"> • Exercise effective oversight on the RTK within the mandate, without threatening editorial independence and establish the ad hoc committee for proposal of the permanent solution for RTK, such as digitalisation, funding, and accommodation • Recruit the PAK Board of Directors, which should urgently complete vacant positions at the senior Management level: and 		
<p>The Government (Chapter 3)</p>	<p>Chapter 3</p> <ul style="list-style-type: none"> • MoF holds KEK into account when it comes to adhering to new agreement when re-programming debt in order to comply with the loan plan for paying the principal and interest in line with new conditions; and <p>Chapter 5:</p> <ul style="list-style-type: none"> • CHU continues to support in and monitor the implementation of FMC requirements and 	<p>Chapter 3</p> <ul style="list-style-type: none"> • Budget performance monitoring mechanisms are strengthened by identifying and addressing potential barriers to achieving planned receipts and budget execution. To carry through an effective process of managing capital projects securing proactive monitoring by BOs. In addition to this, concrete actions to address the causes behind failure to start implementing projects in order to eliminate the barriers of timely execution of contracts in line with 	<p>Chapter 3</p> <ul style="list-style-type: none"> • When preparing the Law on Appropriations for 2016 secure that MoF has thoroughly analysed the way the current budget is classified and adjust the budget in line with International Accounting Standards. Further on, controls when it comes to maintaining budget overspending ceiling should be strengthened in order to secure that the law on budget appropriations does not include a budget overspending that exceeds the ceiling allowed by the LPFMA; • The process of consolidating Annual Financial Statements of the Kosovo Budget should

	<p>implementation of internal audit system throughout BOs</p> <ul style="list-style-type: none"> • CHU continues to keep contact with BOs' Managements in order to put forward the importance and role the self-assessment process; <p>Chapter 6: We recommend the Government to ensure that:</p> <ul style="list-style-type: none"> • The Government, through MoF, approves the list of items to be purchased through centralised procurement and the Central Procurement Agency should develop those procedures in order to ensure that the public sectors gets the benefits of the economy of scales; 	<p>dynamic plans;</p> <ul style="list-style-type: none"> • The age and validity of individual debts is reviewed and a systematic process of handling those debts considered as non-collectable is applied. All available means should be used, including legal actions. Further on, an analysis should be carried through in order to find the causes why business fail to pay debts; <p>Chapter 4:</p> <ul style="list-style-type: none"> • MoF requires by individual BOs to present information on the progress achieved in addressing the AG's recommendations in their individual draft AFS 2015. The AFS of BOs that do not contain the information regarding the situation of recommendations, or when the information is insufficient, should be returned to the respective BOs to complete them. <p>Chapter 5</p> <ul style="list-style-type: none"> • Shortcomings in individual internal audit reports are analysed and corrective measures are taken to further strengthen FMC system and public accountability. Action plans should set forth the priorities and deadlines for these improvements; • The actions taken so far in relation to enhancing management awareness and responsibility for effective implementation of PIFC including FMC 	<p>include additional information for domestic debts, accounts receivables and payables at the state level. Further on, to enhance the effectiveness of financial reporting, the Government should secure consolidation of intergovernmental transactions, improving the process of recording third party payments and fair presentation of payments into KB/AFS. In order to ensure this, MoF should instruct BOs to record the third party payments and other proper transactions in their individual AFS. The AFS of BOs that do not contain the required information, thus leading to non-reconciliation with the AFS/KB, should be returned to the BOs to complete them;</p> <ul style="list-style-type: none"> • A mechanism is in place which would analyse the causes of increased liabilities from year to year in the Budget Organisation, in order to reduce outstanding liabilities at an acceptable level; • BOs' Chief Administrative Officers are required to ensure that the suppliers' invoices are managed with more care and paid in time in order to avoid situations that direct payments from MoF and payments under court decisions may cause. <p>Chapter 4</p> <ul style="list-style-type: none"> • An effective analysis of the cases behind the low level of implementation of AG's previous years recommendations given in the AAR and at individual BOs level is made and that measures and actions need to enhance this level are taken;
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		<p>procedures, the role of IA and the potential contribution of audit committees in the development of systems and processes will further continue. In this regard, the addressing of IA recommendations should be handled with priority;</p> <ul style="list-style-type: none"> • BO managers secure effective implementation of the basic FMC requirements related to self-assessment, risk management, internal reporting (financial and operational) and internal audit system. Providing them trainings on this area would be useful; • Issues raised in this report in terms of good governance are analysed and need actions are identified to timely address the current shortcomings and eventual barriers; • BOs develop and implement specific policies and plans on risk identification and assessment and the form of responding to them, thus improving the likelihood of achieving the organisation’s mission and objectives; • BOs Managements develops and applies formal communication with due attention on the form and quality of internal reporting in order to create a good basis for systematic monitoring of the achievement of objectives and quality in operational 	<ul style="list-style-type: none"> • All ministries apply an effective process for monitoring the implementation of actions plans on the implementation of AG recommendations in order to enable the identification and addressing of barriers resulting in poor implementation of recommendations; and Chapter 5 • BO draft rules, instructions and written internal FMC procedures regulating the daily operational and financial activities; • Reforms in the civil service and in the functionalization of the new salaries system are fulfilled in the shortest time and that control and transparency in recruitment procedures and additional remuneration are enhanced; • A comprehensive assessment is initiated regarding the reasons for Emphasis of Matter in given the Audit Opinions due to lack of assets registers and incorrect reporting of assets and that an effective solution is provided as of the end of 2015; • BOs, municipalities in particular, carry out an assessment of assets management officers’ skills and provide adequate trainings in practice in order to ensure that they understand the importance of a proper assets management and their roles in this process; • Rules or administrative instructions the implementation of which leads to unreasonable financial costs and do not properly regulate certain operation and control issues are amended or new rules are drafted. Chapter 7
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		<p>activities;</p> <ul style="list-style-type: none"> • The e-assets program is implemented by all government institutions. The present weaknesses should be reviewed and additional controls should be applied in order to ensure a complete recording and adequate management of assets. MPA and MoF should find a practical solution to enable the interaction between KFMIS an e-assets systems; • An effective vehicles management process is put in place for all BOs by ensuring a continuous monitoring and timely response to the existing factors and barriers hampering the implementation of legal requirements; Chapter 7 • Controls over payment certification are strengthened in order to ensure that guidelines and legal requirements are fully implemented; • Guidelines or rules on the management of co-financing with external parties are drafted; and • Efficiency in the collection of revenues and accounts receivables according to the plan is enhanced in order to support the projections at an overall budget level. Chapter 8 • The Ministry of Agriculture ensures complete functioning of AAD and MC, 	<ul style="list-style-type: none"> • Barriers having a negative impact on overcoming the current challenges are analysed. Actions plans should be based on the recommendations given in individual audit reports; • The budget planning process is preceded by a proper financial analysis, by reconciling real needs with current budget capacities; Chapter 8 • The Ministry of Health issues a guideline on the management of devices and provides for appropriate functioning of Computed Tomography and other equipment. • Commissions for oversight of devices should be established and patients' lists should be maintained and reported; • The Inter-Ministerial Committee for Rural Development is established and the National Authorising Officer appointed;
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		<p>implementation and quality reporting of programme implementation, and an independent process for handling farmers' complaints;</p> <ul style="list-style-type: none"> • The Minister of MPA functionalises the AIS, increases the coherence between projects and give priority to the development/creation of conditions for e-governance; • AIS provides equal opportunities to citizens on e-governance and that the EG strategy is monitored, assessed or reviewed periodically; • The Director General of Kosovo Police makes the information system effective with a comprehensive database, and that the traffic police focuses on preventing accidents and focused on other drivers' behaviours other than that of speeding and the system of fines is improved, and the "negative points" system applied 	
Mayors			<p>I recommend the Mayor to ensure that:</p> <ul style="list-style-type: none"> • Prizren Municipality produces plans with SMART objectives and in line with strategic objectives and puts in place effective methods of informing the farmers; • Grants results are monitored and assessed and that the progress on the achievement of objectives is reported.
Municipal Assemblies	<p>I recommend the Municipal Assemblies to:</p> <ul style="list-style-type: none"> • Analyse the causes behind the 		

	<p>repetition of shortcomings together with the Mayor and identify barriers affecting the organisation and financial system; and</p> <ul style="list-style-type: none"> • Analyse the budget performance of the current year before submitting the budget requests, particularly focusing on capital investments. 		
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