



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

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AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF THE MINISTRY OF
EDUCATION, SCIENCE AND TECHNOLOGY FOR THE YEAR
ENDED 31 DECEMBER 2015

Prishtina, June 2016

The Auditor General of the Republic of Kosovo is the highest institution of economic and financial control which, according to the Constitution and domestic laws, enjoys functional, financial and operational independence. The Office of the Auditor General undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

Our Mission is to contribute to sound financial management in public administration. We perform audits in line with internationally recognized public sector auditing standards and good European practices.

The reports produced by the Office of the Auditor General directly promote accountability as they provide a base for holding managers' of individual budget organisations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability.

The Auditor General has decided on the audit opinion and report on the Annual Financial Statements of the Ministry of Education, Science and Technology in consultation with the Assistant Auditor General, Ibrahim Gjylderen, who supervised the audit.

The opinion and report issued are a result of the audit carried out under the management of the Audit Director Bujar Bajraktari, supported by Evetar Zeqiri (Team Leader), Ariana Berisha-Rexhëbeqaj, Nora Rashiti, Igballe Halili and Arnisa Aliu (Team members).

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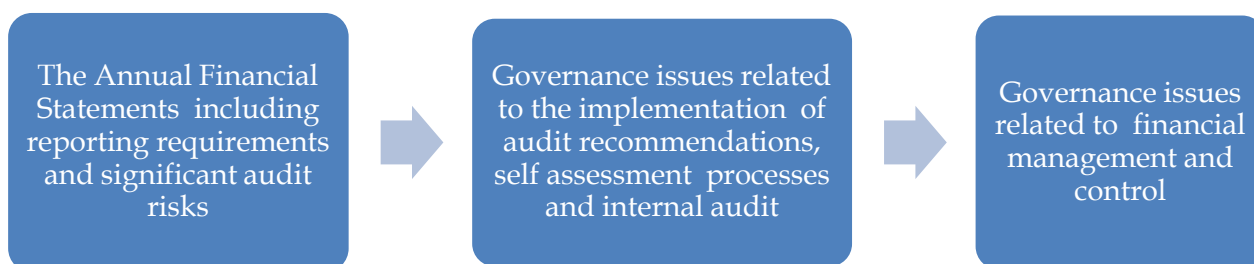
Executive Summary

Introduction

This report summarises the key findings from our audit of the 2015 Annual Financial Statements of the Ministry of Education, Science and Technology, which determine the Opinion given by the Auditor General. We thank the Minister and his team for their assistance during the audit process.

The examination of the 2015 financial statements was undertaken in accordance with the internationally recognised Public Sector auditing standards (ISSAIs). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The approach taken is set out in our Audit Planning Memorandum dated 25.09.2015.

Our audit focus (detailed in Annex I) has been on:



The level of work undertaken by the Office of the Auditor General to complete the 2015 audit is a direct reflection of the quality of the internal controls implemented by management.

Opinion

Annex II explains the different types of Opinions applied by the Office of the Auditor General.

The Auditor General's opinion is:

Unmodified Opinion with Emphasis of Matter

The Annual Financial Statements *present a true and fair view* in all material aspects.

We draw your attention to the fact that the lack of a systematic approach to confirm the value and completeness of assets and the basis for assets evaluation has resulted in overstatement of fixed assets disclosed in the Annual Financial Statements. In addition, expenditures over €7.4 millions were incorrectly budgeted and spent from the Capital Investments category.

A full wording of the Opinion is detailed in Section 1.2 of this report.

Overall Conclusion

Our key conclusions and recommendations are:

The errors in the classification of expenditures and incorrect information on assets were presented in the AFS, which led to Emphasis of Matter.



The Minister should analyse the reasons for Emphasis of Matter in 2015 and identify the required actions to enable the right classification of expenditures and fair presentation of assets in 2016 AFS (see sub-chapter 1.2)

The AFS Production process was poorly managed with a number of financial and incomplete presentational errors identified during the audit



The Minister should ensure that the 2016 AFS production process incorporates formal, effective management review with the AFS declaration only signed after all necessary actions have been applied (see sub-chapter 1.4).

The Self Assessment Process and implementation of Prior Year Audit recommendations are not being addressed as required to ensure organisational development and improvement



The Minister should implement a rigorous process to ensure the self assessment process and prior audit year recommendation are proactively addressed with key issues/progress reported to senior management on a monthly basis (issue 2 and 3).

Governance arrangements related to accountability, risk management and management reporting are weak. Audit Committee did not function during 2015.



The Minister should ensure a more efficient functioning of governance and accountability. A critical review of Governance arrangements is necessary to improve accountability and management reporting, in particular with Universities (see issue 4, 5 and 6).

Although internal controls are effective in some areas (revenues) - weaknesses exist in a number of important financial systems including procurement and wages and salaries.



The Minister should implement a detailed assessment of procurement and other areas of concern highlighted in this report to identify reasons for weaknesses and action needed to address these (see issue 7 -16).

There are common weaknesses in controls implemented by Universities regarding Wages and Salaries, staff recruitment, poor procurement processes and management reporting.



Rectors of Public Universities should implement a detailed assessment of controls to Wages and Salaries and other areas of concern highlighted in this report to identify reasons for weaknesses and action needed to address these (see issue 17 to 26).

Minister's response – audit 2015

The Minister has taken into consideration and agreed on detailed audit findings and conclusions and committed to implement the recommendations given.

1 Annual Financial Statements and other External Reporting Obligations

1.1 Introduction

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

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

1.2 Audit Opinion

Unmodified Opinion with Emphasis of Matter

We have audited the Annual Financial Statements of the Ministry of Education, Science and Technology for the year ended on 31 December 2015 which comprise of the Statement of Receipts and Payments in Cash, the Statement of Comparison of Budget and Actual Amounts, Explanatory Notes in the AFS and Disclosures.

In our opinion, the Annual Financial Statements present a true and fair view in all material aspects of receipts, payments and executed budget of Ministry of Education, Science and Technology for the year ended on 31 December 2015 in compliance with International Public Sector Accounting Standards (Cash Based Accounting), Law no.03/L-048 on Public Finance Management and Accountability (as amended and supplemented), and Financial Rule no.03/2013 on the AFS of Budget Organisations issued by the Ministry of Finance.

Basis for Opinion

We conducted an audit in accordance with International Standards on Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Ministry of Education, Science and Technology in accordance with the ethical requirements that are relevant to our audit of the financial statements in Kosovo and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw your attention to the fact that the lack of a systematic approach to confirm the value and completeness of assets and the basis for assets evaluation resulted in an overstatement of at least €15,381,662 in the disclosed register of fixed assets (see Section 1.3 of this Report). The overstatement of assets is a result of incorrect recording of textbooks which do not meet the criteria to be classified as fixed assets. In addition, the inventory under €1,000 which does not meet the requirements to be included in the fixed asset registers was wrongly recorded.

Moreover, the fixed assets was incomplete and unreliable, because we were unable to obtain assurance whether the transfer of fixed assets over €1,000 of Public Universities was done when they reached a Memorandum of Understanding to transfer assets from University of Prishtina to the Ministry (see for more details section 1.3).

Expenditures of the total of €7,461,628 were misclassified. The lion share of them related to purchase of textbooks and inventory for the schools. These expenditures were budgeted under the wrong economic category. Our audit opinion is not modified in respect of these issues.

Other issues

The Ministry has a project with external donors “Joint Donors’ Fund”, whose expenditures for 2015 were €922,162. Payments from this fund were excluded from sampling during this audit, since there was no special audit carried out for this part by the Office of the Auditor General.

Responsibility of Management and Those Charged with Governance for the Annual Financial Statements

The Secretary General of the Ministry of Education, Science and Technology is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Modified Cash basis of Accounting and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law number 03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

The Minister is responsible to ensure oversight of Ministry’s financial reporting process.

Auditor General’s Responsibilities for the Audit of the Annual Financial Statements

Our responsibility is to express an opinion on the annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance

is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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 the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

1.3 Significant Audit Risks to the Annual Financial Statements

Description

Our Audit Planning Memorandum dated 25.09.2015 identified two significant risks to the AFS. These are risks of material misstatement which may result in a modification of the opinion or emphasis of matter. The first risk related to failure to record, assess and disclose the assets required in the fixed assets registers, while the second risk is about material misclassification of expenditures in wrong economic categories.

Our conclusion is that these risks occurred despite the management's limited measures, as no effective measures were taken by management to address properly the risks presented.

Materialisation of the significant risk related to the assets registers has resulted in:

- Overstatement of fixed assets for over €15 million. The lion share of this amount, or about €14,500,000 related to textbooks for schoolchildren from grade 1 to 9 (this is about textbooks purchased during 2014-2015 and textbooks purchased by the University of Prishtina which have been recorded as capital assets while they do not meet the underlying criteria to be considered as such); €435,163 are school inventory which are recorded as capital assets, and €399,560 are related to a twinning project co-financed by MEST and European Commission, aiming at purchasing Information Technology equipment for schools. These equipment are not owned by MEST, but are owned by individual schools.
- A payment in €97,000 for the Students' Centre was not recorded as a capital asset over €1,000 although meeting the requirements;
- Supervision expenditures of capital projects are not handled consistently. They were added to the costs of capital projects, but were recorded separately; and
- Following the establishment of Public Universities, their assets above €1,000 were not transferred to the Ministry of Education registers as it was required by the Memorandum of Understanding between respective Universities, University of Prishtina and MEST.

Materialisation of the risk associated with misclassification of expenditures has resulted in:

- Purchase of textbooks for grades 1 to 9 in the amount of €6,692,708 from the category of Capital investment, while they should be paid potentially from the category of Subsidies;
- Purchase of inventory in the value of under €1,000 in the amount of €650,827 from Capital investment while they should be paid from Goods and Services;
- Purchase of the kitchenware by Students' Centre in the value of €97,000 from Goods and Services, while it was investment;

- Purchase of software in the value of €5,742 in the Students' Centre from Goods and Services, while it should be paid from Capital investment;
- Payments of €10,851 for the salaries of four professors of University of Gjakova for the work carried out in University of Prishtina from Goods and Services, through the special service agreement; and
- A payment by €5,500 was executed from Treasury on the request of the private executor for the University of Peja from Subsidies and Transfers, while it should be paid from Goods and Services.

1.4 Compliance with AFS and other reporting requirements

MEST is required to comply with a specified reporting framework and other reporting requirements. We considered:

- Compliance with MoF Regulation no. 03/2013;
- Requirements of LPFMA no. 03/ L-048, amended by Law no. 03/L-221, Law no. 04/L-116 and Law no. 04/L-194;
- For Agencies within the Ministry, reporting to their Steering Boards and for Universities, reporting to Steering Councils of respective Universities;
- Procurement plan and its implementation, progress reporting on Capital investment;
- Reporting on obligations, etc.

In the draft financial statements submitted to the Ministry of Finance, we have identified some errors in the key tables, i.e. under donations, deposits and borrowings and disclosure of accounts receivable. These findings were improved in the final version of the statement following our recommendations. However, shortcomings related to explanatory notes and disclosures, particularly in fixed assets, still remain.

The above findings demonstrate a poor financial statements' consolidation and preparation process. In addition, the weaknesses identified indicate also lack of effective review of AFS by management, before they are submitted to MoF.

Given the above, the Declaration made by the CEO and General Secretary, when the draft AFS are submitted to the Government can be considered to be incorrect given the material errors and other incomplete disclosures identified during the audit.

In the context of other external reporting requirement, all necessary reporting requirements were achieved.

1.5 Recommendations

Recommendation 1 High Priority – The Minister should analyse the reasons behind the Emphasis of Matter in 2015 and identify the actions required to enable the right classification of expenditures and fair presentation of assets in the 2016 AFS.

Medium Priority – The Minister should ensure that effective processes are in place to confirm that the 2016 AFS production plan formally addresses all compliance issues. This should include management review of the draft account with specific focus on high risk areas and/or areas where errors have been identified in previous years. The Declaration made by the CEO and CFO should not be submitted unless all necessary checks have been applied to the draft AFS.

2 Governance

2.1 Introduction

Effective governance arrangements are fundamental to MEST successfully managing the challenges it faces and ensuring that service delivery is optimised for the benefit of taxpayers and service users.

A key tool supporting effective Governance is the implementation of audit recommendations as this demonstrates that management are seeking to develop existing processes and controls. Similarly the self-assessment checklist completed by all Budget Organisations provides a framework for developing enhanced Governance arrangements. It is important that the answers provided by an individual budget organisation are supported by appropriate evidence. We have therefore applied a common approach across all audits to determine the quality of the completed self-assessment checklists to provide in a ‘snapshot’ format an assessment of the accuracy of the picture being presented on governance in Kosovo.

The remainder of our review of governance arrangements reflects a consideration of:

- those areas of Governance Arrangements where significant improvements are required and where we believe that our recommendations can generate positive improvements including consideration of the Internal Audit Unit; and
- areas of financial management and control identified through our audit work including specific work directed at compliance issues in key income and expenditure systems (these areas are considered in section 3 of this report).

2.2 Overall Conclusion on Governance

There are number of governance weaknesses within MEST particularly related to accountability, communication and internal cooperation, building of mutual trust among the staff, risk management and the quality of management reporting. The self-assessment checklist completed by MEST only partially recognises this situation with some positive comments about existing arrangements not fully evidence based. Other arrangements which would support the development of governance such as an effective response to audit recommendations and the operation of a high quality internal audit system are in place but were not sufficiently effective to address weaknesses identified in this audit report.

2.3 Prior Year Recommendations

Our Audit Report on the 2014 AFS of MEST resulted in 23 key recommendations. MEST prepared an Action Plan stating how all recommendations will be addressed, but certain actions to be taken should have been more concrete. Management has also created a formal monitoring process of monitoring recommendations, but the implementation results were not reported on regular basis to management.

At the end of our 2015 audit, 11 recommendations have been fully addressed; four are partially addressed; and eight have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex III.

Issue 2 - Addressing Prior Year Audit Recommendations – High Priority

Finding Less than half of recommendations have been fully implemented because Ministry has not taken actions necessary to ensure full addressing of recommendations. Despite a monitoring of recommendations took place in September 2015, management has lacked an on-going monitoring and regular reporting on the progress on addressing the AG's recommendations.

Risk Incomplete implementation of recommendations has resulted in continued weaknesses of management controls and ineffective functioning of governance. In particular this has been reflected by:

- Poor AFS preparation and review;
- Non addressing the issue of correct budgeting and classification of books;
- Incomplete and incorrect register of fixed assets and obligations; and
- Weak procurement planning and low budget execution for Capital investment.

Recommendation 2 The Minister should ensure that a serious approach is implemented in handling the AG's recommendations by the level of management. He should ensure that a revised action plan is implemented which clearly sets out measures undertaken, and a timetable for addressing the recommendations made by the AG with accountable staff members identified and with initial focus on those of greatest significance. The action plan should be monitored formally on regular basis and results of the implementation of recommendations should be reported to management in order to take adequate measures.

2.4 FMC Self-Assessment Checklist

The Ministry of Finance has produced a detailed self-assessment checklist for Budget Organisations to support effective governance arrangements. For all audits we undertake we have tested the quality of submissions made to the Ministry by assessing 1 key question in each component of the checklist. We have summarised our findings for the Ministry below and the summary of our work across all audits will be consolidated in our Annual Audit Report. This is not intended to give a commentary on the quality of the whole self-assessment questionnaire submission but will provide a 'snapshot' across a number of key questions to support the Ministry of Finance in its attempts to increase the effectiveness of the process and to develop FMC system in whole.

Issue 3 – Self Assessment Checklist – High Priority

Finding	As part of our audit we have considered 6 key questions related to the five components of the self-assessment questionnaire. For the questions considered we found that: • Expected risk management procedures are not in place and (this is considered in more detail in section 2.5.2 below); • Comprehensive strategy development 2014-2016 (involving stakeholder liaison and ensuring a fully costed strategy) are considered in place by MEST. While effective monitoring processes are missing. Specifically, budget monitoring and progress related to the achievement of objectives; and • Procurement plan was not consolidated to include all individual requirements of departments for purchase. This has often resulted in development of more procurement procedures with price quotations. In addition, procurement plans were not produced at all in two Universities. Actions undertaken for addressing issues identified by the 2014 self-assessment were scarce, and issues raised were not further analysed in an action plan in order to address these. This situation has occurred because of a lack of clarity within Ministry regarding both the importance of this checklist and who is the responsible officer for using it to support operational improvements.
Risk	Poor governance arrangements weaken strategic and operational processes and reduce the quality of services provided to students through inefficient and ineffective activities.
Recommendation 3	The Minister should ensure that a review of the processes for completing the self-assessment checklist and proactively addressing areas of weaknesses is implemented. A revised mechanism to confirm the accuracy of the return and to ensure supporting documentation supports the submission should be applied.

2.5 Specific Governance Reviews

Our work on specific areas of governance arrangements has been informed by our audit planning which considered the context within which the Ministry operates and the challenges that it faces.

2.5.1 Accountability Arrangements

Ministry has a number of Agencies and Universities, whose requirements and reports should be consolidated during the process of budget requests, procurement planning, financial statements preparation and external reporting requirements. An effective consolidation process and associated timely reporting is required to ensure effective financial management.

Issue 4 - Accountability Processes – High Priority

Finding	During 2015, the entire administrative accountability chain including the General Secretary, Chief Financial Officer, Certification and Expenditure Officer have functioned with the acting civil servant more than foreseen by legislation. This phenomenon is also present in Agencies and other MEST programmes, especially in Public Universities. As a result, functioning of governance structures has not always ensured effective accountability.
Risk	Functioning of governance structures with acting civil servants for a long period questions the effective organisational functioning. This may result in poor accountability, weakens responsibility and accountability of staff and may potentially postpone important decisions for Ministry.
Recommendation 4	The Minister should analyse the reasons why key position are not staffed on timely basis with regular staff. Further, the Minister should prioritise the recruitment of regular staff in all positions exercised by acting civil servants. This may increase accountability, responsibility and ensures effective development of Ministry's activities.

Issue 5 - Process of consolidation of Public Universities – Medium Priority

Finding	MEST serves as an “Umbrella” institution for other higher education institutions aiming at functional and organisational independence from MEST. While University of Prizren and Peja have a more emphasised independence and are more completed with administrative capacities, other Universities, such as that of (Gjakova, Gjilan and Mitrovica) have still not managed to achieve to meet the necessary human and infrastructure capacities to enhance their organisational independence. This process is led by MEST and there were unjustified delays in this matter related to staffing and other necessary requests. Currently MEST has no concrete action plan to finish this process. This has resulted often in different delays, poor accountability, organisational inefficiency, poor controls, etc.
Risk	Lack of an action plan with a timetable and necessary measures to ensure full functionalization of Universities does not demonstrate that the process of consolidation of Universities was managed in the best way. This may result in delays, organisational inefficiency, additional expenditures, etc.
Recommendation 5	The Minister should ensure, along with other key staff in the Ministry and Rectors, to produce an action plan on the measures necessary for full functionalization of Public Universities. The Minister should also make a critical analysis to highlight difficulties and key challenges faced by Universities during the functional and organisational independence process in order that they are addressed appropriately.

2.5.2 Risk Assessment

All Budget Organisations are expected to implement risk assessment. LPFMA provisions and Financial Treasury Regulation no. 01-2010 determine that CEO is responsible for implementation of arrangements, procedures and systems to ensure the achievement of key organisational objectives and identify risks in achieving these objectives, and to undertake steps in managing those risks. Good practices in risk management also require the organisations to develop an approach to risk management. Risk register should be completed in order to support an effective operational and strategic management of Universities.

Issue 6 – Failure to implement Formal Risk Management Requirements – Medium Priority

Finding	The Self-Assessment questionnaire completed by Ministry's staff acknowledged that required risk management systems were not yet formally in place. A risk register was produced in 2013, but was not updated since then and was not used effectively to support the operational Ministry's activities.
Risk	The absence of effective risk management will reduce the management's ability to best manage the quality of service to taxpayers as internal and external issues impacting on this will not be addressed on a timely basis. This is because proactive action to address and remove or reduce the impact of such issues will not be undertaken in a systematic and planned manner.
Recommendation 6	The Minister should ensure that immediate responsibility for risk management is delegated to a named staff/Director and ensure monthly reporting on the implementation of requirements in this area and the risks that are being managed.

2.5.3 Management Reporting

A range of internal controls are applied by Management to ensure that financial operate as intended. Despite a good management reporting controls put in place did not prove effective and often caused unnecessary delays in the budget execution and operational activities. It is important that these include appropriate reporting to management to enable an effective and timely response to identified operational problems.

Issue 7 – Weaknesses in Management Reporting in the University of Gjilan – Medium Priority

Finding	Our review of the management controls applied to Ministry's key financial system highlighted good quality of financial reporting. However, poor financial reporting and failure to consider financial reports by the Steering Council was identified in the management of University of Gjilan. This occurred because financial officers in the University lacked the appropriate access in the Financial Management Information System. This was as a result of negligence of University officers to require the appropriate access. Based on informal communication has resulted in a reporting which does not demonstrate the review of key challenges.
Risk	Poor quality financial and activity reporting has impacted on the management decision-making, including monitoring activities and operational and financial control. This has resulted in budgetary challenges and delays for necessary action to address these.
Recommendation 7	The Minister, together with the Rector of the University of Gjilan, should ensure that a review of current reporting requirements to management is implemented to determine the most appropriate format of reporting, which is required to support effective business management. The Rector should initiate a request for access and on-going training of staff to support management with financial reporting. At the same time, the Steering Council should ensure that recurrent financial reports are reviewed and eventual variances between the budget and expenditure are handled. Necessary actions should be taken to address the issues raised.

2.6 Internal Audit System

The Internal Audit System is comprised of the Audit Committee (AC) and Internal Audit Unit (IAU). IAU operates with two members of staff - the Head of IAU and one auditor. An effective IAU requires a comprehensive work programme that reflects financial and other risks of the Ministry and Universities and provides sufficient assurance over the effectiveness of internal control. The impact of IAU output should be judged by the importance that management places on addressing recommendations and the support and challenge provided by an effective Audit Committee.

Issue 8 – Internal Audit Unit and Audit Committee – High Priority

Finding A number of weaknesses exist related to Internal Audit System and current IAU operations:

- A total of nine reports were completed during 2015, and only three of the completed reports related to 2015 activities. This is as a result of lack of appropriate focus to management and Audit Committee in this area;
- During the first nine months, internal audit recommendations were not followed by action plans for their implementation by the audited units. This made unable their implementation. However, following our advices, this was addressed at the end of the year, and
- Audit Committee has not functioned during 2015. Despite the internal auditor's insisting, management took no measures to handle this issue. No meeting was held and consequently no IAU report was reviewed.

These findings reflect a lack of awareness by management in recognising and maximising the benefit of Internal Audit or seeking assurances over the effective operation of internal controls.

Risk A non-functional Audit Committee does not serve to the audit function and weakens the role and internal audit independence. Lack of internal audit focus in the current year's activities may result in necessary corrective measures not being taken on timely basis. This also limits the possibility that management obtains assurance for the effectiveness of internal controls.

Recommendation 8 To gain maximum benefit from Internal Audit activity, the Minister should ensure functioning of an Audit Committee and maximizing of audit work is introduced. The Audit Committee should critically review Internal Audit plans (to confirm that they are risk based and provide the required assurance to management) and Internal Audit outputs. It should also review actions taken by management on Internal Audit recommendations.

3 Financial Management and Control

3.1 Introduction

Our work on Financial Management and Control outside of the areas of Governance referred to sections two above reflects the detailed work undertaken on Revenue and Expenditure Systems. As part of this we consider Budget management, Procurement issues, Human resources and Assets and Liabilities

3.2 Financial Management and Control Conclusion

The major concern is procurement and salary management. Relevant regulations are not being enforced with resultant poor value for money being achieved, delays in capital project completion and payment for hours not held. In the context of financial systems, controls over revenue are generally strong and are based on computer systems and being implemented effectively. But controls over a range of expenditure areas require further enhancement to prevent the Ministry and Universities suffering delays in project implementation, financial loss, and poor value for money. The main areas where most improvements are required are in Budget Planning and Execution, supervision of capital investment, asset management and management of salaries and personnel, particularly monitoring and verification of attendance of hours of the academic personnel (for Public Universities see in more details section 4.3 of this report).

3.3 Budget Planning and Execution

We have considered the sources of budgetary funds for MEST, spending of funds by economic categories and revenues collected. This is highlighted in the following tables:

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

Description	Initial Budget	Final Budget ¹	2015 Outturn	2014 Outturn	2013 Outturn
Sources of Funds	48,672,715	46,881,682	42,800,007	49,325,724	46,005,818
Government Grant -Budget	43,467,314	39,484,685	38,954,016	44,199,147	40,851,773
Borrowing	3,531,000	3,531,000	958,600	2,000,000	-
Carried forward from previous year ² –	-	398,887	397,468	294,080	171,695
Own Source Revenues ³	1,674,401	1,817,629	1,282,535	1,938,389	2,364,306
External Donations	-	1649,480	1,207,388	894,108	2618,054

The final budget is lower the initial budget by €1,791,033. This decrease of budget is mainly attributed to budget transfer and management of new Capital investment from MEST to MPA, and budget changes through categories during the budget review

The Ministry used over 91% of the final budget in 2015 or €42,800,007, a level similar compared to 2014 (92%). However, the level of budget execution remains at an unsatisfactory level in some areas and explanations for the current position are detailed below.

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

Description	Initial Budget	Final Budget	2015 Outturn	2014 Outturn	2013 Outturn
Spending of funds broken down by economic categories	48,672,715	46,881,682	42,800,007⁴	49,325,724	46,005,828
Wages and Salaries	14,873,430	13,411,802	13,314,071	8,641,673	6,678,665
Goods and Services	9,581,100	10,729,881	8,851,988	9,520,979	9,160,219
Utilities	943,259	1,056,008	991,042	735,285	858,116
Subsidies and Transfers	4,189,926	3,935,296	3,918,128	3,963,032	4,634,860
Capital Investments	19,085,000	17,748,694	15,724,778	26,464,754	24,673,968

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

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

³ Receipts used by the entity for financing its own budget.

⁴ This figure (€42,800,007) differs from the amount presented in AFS (€43,300,175). This is a result of two events (deposits of students' coins in the Students' Centre and return of donations) which occurred during 2015, and which are not reflected in this table, but only in AFS.

Explanations for changes in budget categories are given below:

- Budget decrease for Wages and Salaries was €1,461,628 in line with Government decisions and budget review. Budget execution of Wages and Salaries was 99% of final budget;
- The increase of the budget for Goods and Services by €1,148,781 and Utilities by €112,749 includes changes for grants of external donors, changes in line with budget review and revenues carried forward from previous year. This reflects the need to support the consolidation process of Public Universities. Despite the increase, budget execution for Goods and Services was 83%, while for utilities 94% and this is mainly as a result of failure to spend funds from external donations. Irrespective of this, outstanding liabilities for Goods and Services at the end of the year were €447,510 and €27,550 for Utilities;
- The decrease of budget for Capital investment by €1,336,306 was mainly as a result of agreements between MEST and MPA for transferring all new Capital investment. The low execution in this category (89%) reflects different delays in project execution and delays in the development of new procurement procedures. Outstanding liabilities at the end of the year for Capital investment were €3,297,250 although the amount of €2,023,916 were not used; and
- While there was low execution in the categories above, it is encouraging that the budget execution with the category of Subsidies was 100%. This reflects the nature of category of Subsidies, but also a better planning and management of budget in this category.

Issue 9 – Budget planning – High Priority

Finding

The Ministry has a number of Agencies for which it prepares the budget in coordination with their respective officers, and for which it organises discussions and budget consultations. However, the budget planning process highlighted a number of weaknesses. This is in particular expressed by Universities which raised their need for a better budgeting process based on measurable criteria and which are reflecting their specific requirements. We have identified the following:

- Poor coordination and inadequate communication with Public Universities during the budgeting process; despite the Budget department of MEST inviting to consultations, the participation of Universities was not always appropriate, and this caused problems to budget execution because the budget allocated did not meet the needs of Universities;
- Currently there is no formal methodology based on criteria on how budget is allocated for Goods and Services for Universities. This demonstrated inconsistency during budget allocation. For example, while University of Peja has a higher number of students than the University of Prizren, this is not reflected in the budget allocations for Goods and Services; and

Risk

Poor coordination and communication during budget process results in a situation where budget allocated does not reflect the needs of Universities. Budget allocation without any methodology including a range of factors does not ensure a strategic allocation of resources to support long-term University objectives and may create budget difficulties

Recommendation 9

The Minister should ensure a comprehensive budgeting process which is based on a complete communication and coordination with the University staff. Mechanisms ensuring the involvement of the staff during the budgeting process should be created. In addition, the General Secretary should initiate the development of an acceptable strategy (budget formulae) for budget allocation which would be based on the criteria set forth.

Issue 10 – Budget Execution – Medium Priority

Finding Budget execution was not at the expected level and while some of the under spend was outside of the control of the Ministry, such is the case of failure to execute expected donations and financial loan; other expenditure could have been actioned before the year end. This did not occur especially with capital expenditures as a result of bureaucratic control procedures, inefficient supervision of capital projects and delays in procurement procedures.

Decision in awarding scholarships from Public Universities lacked sufficient budget. University of Prizren awarded scholarships in the value of €90,000, while budget was €10,000, University of Gjilan had a budget only of €7,760 while necessary funds for the scholarship amounted to €34,500, and University of Gjakova allocated €20,000, while the budget was €10,000. Cases mentioned above show decisions taken which generate liabilities against the budget ceilings.

Risk Inadequate budget planning and a low budget execution level will result in a failure to meet organisational objectives and result in current year obligations being funded from future year budgets. Taking decisions to award scholarships without sufficient budget can cause dissatisfaction of students, and puts universities in difficult budgetary positions

Recommendation 10 The Minister should ensure that budget performance is systematically monitored on a monthly basis and that this review identifies and addresses barriers to planned levels of budget execution. Where initial budget assumptions are found to be incorrect this should be fully reflected in the final budget process.

3.4 Procurement

Procurement rules are intended to ensure that public funds are used in a transparent and efficient manner to achieve value for money. The legal framework clearly defines the rights, duties and responsibilities of all parties involved in public procurement. This includes the requirement to mitigate the risk of non-completion of contracts and poor contract execution. This is achieved through the implementation of a regime of penalties related to poor performance and execution security.

Issue 11 – Systematic Weaknesses in Procurement – High Priority

Finding

Our review of 30 procurement procedures identified a range of common weaknesses. In particular management controls have not been effectively implemented to prevent the following issues to arise:

Poor planning and avoiding open procurement procedures – there were six procurement procedures⁵ conducted with price quotation in the value of €53,844, for printing services and design of materials, avoiding open procurement procedures. This is so as a result of poor planning of requirements and their non-consolidation within departments.

Delays in completion of capital projects – there were considerable delays in the construction of 11 school buildings in the joint value of €20,915,259 and additional works in the value of €1,367,142. The construction started in 2009/2010 and is still on-going. Reasons are various – for some of them, budget was re-destined in the purchase of textbooks, poor planning of premeasures and positions, etc. The validity of execution work security expired for this project.

Contracting without procurement procedures and poor value for mobile telephony expenditures – mobile telephony expenditures for MEST and its programmes during 2015 were €105,514. Services were purchased from two telecommunication companies “Vala Mobile” and “IPKO”. There was no consistency in using these services. While MEST and University of Prizren used top ups (scratch cards), University of Gjakova contracted IPKO without any procurement procedure. However, this contract was renegotiated and as a result expenditures have decreased.

Risk

A failure to consolidate individual plans increases the risk for non-achievement of the value for money, higher number of procurement procedures, and financial loss for Ministry. Delays in completion of projects damage the quality of works, impact in the achievement of objectives and potentially financial loss of Ministry.

⁵ Contract “Printing of materials for training on the implementation of new curricula” by €9,478, “Printing of materials for higher education” by €9,925, “Printing of materials of the training programme on the professional development of teachers for the implementation of KKK” by €10,000, “Printing and design of different materials for the needs of KAA” by €9,490, “ Printing of materials for organising the 7th of March” by €6,050, “Printing of leaflets and placards, frame photos” by €8,901.65.

Recommendation 11 The Minister should ensure that an internal review is implemented to determine why specific Procurement requirements are not addressed for all procurement exercises. Subsequently enhanced controls should be introduced to ensure that the systematic weaknesses identified are addressed. A concrete plan for the completion of works in the uncompleted schools should be produced and same should be monitored on regular basis. Procurement needs produced by units should be incorporated in a joint plan to facilitate the management of procurements foreseen.

3.4.1 Remunerations (Wages and Salaries)

Wages and Salaries comprise about 31% of overall Ministry's expenditures. Wages and Salaries are paid through a centralised system operated by the Ministry of Public Administration and Ministry of Finance. The key controls implemented by Ministry are delegated to the level of Universities and its programmes. For Public Universities, the remuneration of Wages and Salaries except the other legislation in the public sector is regulated also by internal regulations on personal income in respective Universities. The Wages and Salaries portion related to Public Universities have been handled separately in section 4.3 of this report.

Issue 12 - Weaknesses in personnel management - Medium Priority

Finding The expected implementation of personnel instructions was not achieved because of the absence of effective management supervisions. This has resulted in:

Non-functioning of controls on timely basis – Two cases resulted in over payments as a result of different applications on timely basis in the payroll. In one case of the suspension of the Director of Accreditation Agency, no prohibition was made from the 50% of the basic salary. In another case on the maternity leave, the timely prohibition of salary was not made. However, the above prohibitions are done afterwards retroactively.

Failure to respect regulation on civil servants – regulation on leave on civil servants states that during the first six months of maternity leave, civil servants are paid by the institution/employer with 70% remuneration of the basic employee's salary. Out of six samples tested, in two cases we found that officers were in maternity leave, while the prohibitions were not applied according to the regulation in force. During this time they also received additions under internal decisions from the Secretary (one in value of €50 per month and €200) a total of overpayment in €1,200. This has occurred as a result of timely non-functioning of controls.

Findings prove non-functioning of controls effectively.

Risk Findings above demonstrate non-functioning of controls in an effective manner for prevention of overpayments. Poor internal communication and non-coordination between departments may result in errors not being identified and potentially in financial loss for the Ministry.

Recommendation 12 The Minister should ensure that a review of personnel management is taken to ensure that necessary changes are timely reported in order to prevent eventual overpayments. Reasons for failure of prohibitions to function on timely basis should be analysed and corrective measures should be taken. A better coordination between departments should be ensured to avoid potential errors in Wages and Salaries.

3.4.2 Subsidies and Transfers

MEST implements a range of subsidy types. The biggest portion is allocated in support of different scholarship schemes with external partners. The other portion is allocated for research and scientific projects.

Issue 13 – Lack of a comprehensive legal basis on awarding of subsidies - High Priority

Finding A big portion of subsidies is allocated by MEST, however, a stable legal basis in the form of a regulation, instructions or written policies, which would regulate procedures, conditions and criteria on awarding of subsidies on long-term is not created. Often, the awarding of subsidies in particular those for individual beneficiaries are done based on (ad hoc) decisions and policies and do not provide consistency through years.

Risk Absence of a legal basis and written policies creates uncertainties for potential beneficiaries about conditions, criteria and procedures to be followed and controls to be implemented during payments. This increases the risk that controls are weak and funds allocated will not achieve the purpose expected by Ministry.

Recommendation 13 The Minister should initiate the production of a legal framework or an internal instruction regulating the area of subsidies. Legal basis should determine Ministry's priorities, criteria and procedures necessary to be followed by potential beneficiaries. This would direct subsidies in the areas with more interest for the Ministry; it would ensure formal better controls and would impact on the increase of transparency and equal opportunities for all stakeholders.

Issue 14 - Poor reporting on the use of subsidies – Medium Priority

Finding In two cases, we have identified that supporting evidence on the use of subsidies provided by MEST were deficient because narrative reports, invoices and financial feedback reports were missing. One subsidy was €6,200 for Essential Consulting LLC on the project Research on the ground for Safe Schools while the other was €1,000 provided by the Students' Centre to the Students' Parliament for marking the day of Europe.

Risk Absence of financial feedback reports increases the risk that intended results/effects of subsidies are not achieved.

Recommendation 14 The Minister should ensure that subsidies are subject to effective monitoring by determining the reporting requirements to beneficiaries of subsidies on the manner of use of funds.

3.5 Own Source Revenues

Revenues management marked a significant progress in the recent years. Electronic systems used for Management of Students have considerably assisted Universities in the elimination of weaknesses identified before. Revenues executed / collected by MEST were €3,187,905. Of them €1,817,635 were foreseen to be spent by MEST, while the other part are carried forward in the Kosovo Budget.

Issue 15 – Manual invoicing by Kosovo Accreditation Agency – Medium Priority

Finding Kosovo Accreditation Agency invoices higher education institutions for the services / accreditation it provides. Currently, calculation of invoices is done manually. Kosovo Accreditation Agency has been using a Management Information System which provides the possibility to integrate invoicing module and electronic revenues management.

Risk Manual calculation of revenues increases the risk of errors of calculation of invoices.

Recommendation 15 The Minister should request from the Chief Executive of the Accreditation Agency to consider the possibility of enhancing the revenues module in the current Management Information System. This would enable a better management of revenues, including invoicing, reporting and the Agency's revenues analyses.

3.6 Assets and Liabilities

3.6.1 Capital and Non Capital Assets

Assets are identified as an area with significant risk and all issues about assets are presented above in this report in section 1.3 Significant risks to AFS.

3.6.2 Handling of Debts

The statement of liabilities not paid to suppliers at the end of 2015 was €3,961,845, an increase by 27% compared to previous year €3,120,460. These liabilities are carried forward to be paid in 2016.

Issue 16 – Handling of debts – Medium Priority

Finding Increase of outstanding obligations compared to previous year shows an inadequate financial management. This is so by considering the budget over spend in the category of Goods and Services and Capital Investment which demonstrates inefficiency and inadequate management of obligations.

Risk High level of outstanding obligations increases the risk that budget will be subject to direct executions by MoF in cases when invoices are not paid on timely basis. This may also impact on failure to execute other projects due to the absence of budget and reduces the possibility of new investments.

Recommendation 16 The Minister should initiate a review of the status of debts to determine causes of delay and measures required to address them. The assessment of liabilities should continue to be made on regular monthly basis and payments should be made within the timelines set out by Financial Rules.

4 Public Universities

4.1 Introduction

On the decision made, the Government of Kosovo has established six other Public Universities besides the University of Prishtina, which have been functioning as independent, however there is subordination to MEST, because they still function as Ministry's budgetary sub programmes. Universities established earlier (University of Prizren and University of Peja) are consolidated, while the other Universities (University of Gjilan, Gjakova, Mitrovica and Ferizaj) are still under the process of consolidation, in terms of academic and administrative staff and other resources such as associated infrastructure.

The intention of this section is to handle separately issues dealing with Public Universities considering the nature and their activities. In addition, it intends to increase accountability and responsibility of the persons charged with governance in Universities.

4.2 Governance

Effective governance arrangements are fundamental to Public Universities to successfully managing the challenges they face and ensuring that service delivery is optimised for the benefit of taxpayers and service users.

Governance bodies in Universities are comprised of the Steering Councils as the highest body of the University; the Rector as the chief executive responsible person and the Senate as the highest academic body. The General Secretary of the University is the Chief Executive Officer in the University.

Our overall conclusion is that governance in all 6 Public Universities has functioned well. However, a common challenge for all universities is the frequent changes of the persons charged with governance and their sustainability.

Issue 17 – Public Universities Steering Committees – Medium Priorities

Finding The Minister of Education appoints 3 members of Steering Councils in Public Universities. Despite the short time of the establishment of Universities and them being under the consolidation process, we have found frequent changes of members of Steering Councils, including the Chairs of the Councils.

Risk Frequent changes of governance structures make difficult the effective functioning of Universities and the achievement of their objectives.

Recommendation 17 The Minister should ensure that persons charged with governance in Universities are appointed after a rigorous process of assessment in order to guarantee sustainability of functioning of Steering Councils. This enables higher stability of governance in Universities and easier achievement of strategic objectives.

4.3 Remunerations (Wages and Salaries)

Expenditures of Wages and Salaries for Public Universities of Peja, Prizren, Gjakova, Gjilan and Mitrovica totalled €5,657,487. We have tested a total of 100 samples for Wages and Salaries of the academic staff in five Public Universities and we have identified a number of systematic weaknesses present in all universities.

University of Prizren

Issue 18 – Weaknesses in Wages and Salaries of the academic staff – High Priority

Finding	Calculation and payment for hours over the norm in conflict with internal regulations – Calculation of the payment for hours over the norm was not made correctly in three cases. Despite the hours over the norm are not held according to contract, the payment was fully made according to contract; Non-verification of attendance lists on the teaching held – Internal regulation foresees that the hours presented for payment should be verified by the administrative staff and the Dean of the Faculty. In three of five faculties (Faculty of Economics, Faculty of Law, Faculty of Education) this requirement was not applied; and Lack of evidences for hours held by professors – in three cases we identified that professors have not recorded the hours for lectures held, while hours should be paid based on the evidence offered by professors. This demonstrates that calculation of hours for payment is made in absence of respective evidence.
Risk	Remuneration in conflict with internal regulations, failure to formally verify hours and absence of evidence by professors increases the risk that payments are made for the hours not held.
Recommendation 18	The Rector of the University of Prizren should analyse the findings above and consider the reasons why internal regulation requirements for remuneration of the academic staff are not respected. The Rector should ensure that controls are implemented on the level of faculties and hours are paid only after they are confirmed formally by the Deans of Faculties that evidence of professors is held.

Issue 19 – Weaknesses in management of administrative personnel – Medium Priority

Finding	Irregular recruitment and payment for internal auditor for uncompleted work - As a result of poor communication between University and MEST and poor understanding of legislation – statute – University of Prizren recruited one internal auditor at the end of 2014, who ever since the recruitment date continues to be paid for the uncompleted work (as internal auditor). Ministry of Finance has not licenced him as internal auditor, as his recruitment should have been done by MEST, rather than by the University. The University is not a special Budget Organisation but it functions as a programme within MEST. While only Budget organisations can recruit auditing staff. Despite us raising this issue in the audit memo in December 2015, it was not resolved; and Announcement of the vacancy without the current staff resigning - The University has announced the vacancy for the position of the assets officer and recruited one staff irrespective of the person working by then and who had still not resigned. The staff who worked at that time was selected for another position within the University, but after a complaint filed with the Independent Board of the Civil Servants, the vacancy was cancelled.
Risk	Other than remuneration of the staff for uncompleted work, the University continues to lose contribution that could be given by the added value of audit staff to the improvement of internal controls and assurance to management. Poor personnel management may lead the University to difficult situations and potentially in financial loss for University.
Recommendation 19	The Rector of the University of Prizren along with the General Secretary should make an immediate solution for the internal audit staff and the asset officer staff. The Rector, prior to any recruitment, should ensure an enhanced dialogue with the Ministry to clarify rights and responsibilities in order to avoid misunderstanding of the legislation.

University of Peja

Issue 20 - Systematic weaknesses in Wages and Salaries of the academic staff – High Priority

Finding	Remuneration for hours over the norm in conflict with internal regulations on personal income – Article 5.2 of regulation on income prohibits the academic personnel having two employment relationships within or outside the University of Peja to be engaged with hours over the norm in this University. We identified three cases when professors were engaged with the primary and secondary work in other Universities and have held hours over the norm in the University of Peja. In three cases, the calculation over the norm was not done correctly according to evidences; and Lack of evidences for the hours held by professors – Of the 30 samples tested, in seven cases we identified that professors do not record the hours of lectures held, while hours should be calculated and paid based on those evidences. Calculation of hours for payment is done in absence of evidences.
Risk	Remuneration of hours in conflict with internal regulations, and absence of evidence by professors increases the risk that payments are made for the hours not held.
Recommendation 20	The Rector of the University of Peja should analyse the findings above and consider the reasons why internal regulation requirements for remuneration of the academic staff are not respected. The Rector should ensure that controls are implemented on the level of faculties and hours are paid only after they are confirmed formally by the Deans of Faculties that evidence of professors is held.

Issue 21 – Special Service Agreements – Medium Priority

Finding

For 2015, University of Peja used about 42 special service contracts. Of them 34 were for the engagement of academic personnel, while 8 others for the engagement of employees in administrative work. These engagements are paid for Goods and Services, while services they provided deal with primary university activities – and should have been paid from the budget of Wages and Salaries.

A part of academic personnel engaged under special services were engaged with the primary and secondary work, in other Universities, in MEST or other organisations. This made unable the University of Peja to include them in the payroll, because the Ministry of Public Administration has implemented a limit up to 2 work positions in the public sector. Therefore, special service contracts have been used in order to avoid this limit and fulfil the needs for academic staff against budgetary limits in the University. While the limits for the number of employees from the old Budget Law was valid for the administration employees.

Risk

Engagement of employees through special services for activities which are of primary University nature is not only classification of expenditures, but also exceeds the limits for Wages and Salaries from the Budget law. The engagement of employees through special services is not based on real needs of University.

Recommendation 21 The Rector of the University of Peja should review all special service contracts and determine reasons and the need for a high number of such contracts. A comprehensive analysis of the need for staff should be done to initiate a dialogue with MEST and Ministry of Finance for additional budget for Wages and Salaries.

University of Gjakova

Issue 22 – Weaknesses in Wages and Salaries of the academic staff - High Priority

Finding	Remuneration for hours over the norm in conflict with regulation on personal income – the regulation sets out that the hours over the norm cannot be carried forward in other months, but only during the month they occurred, while we identified that over norm was not met according to contract, in certain months but it was carried forward in other months; Non-verification of hours held by authorised persons in faculties – Internal regulation foresees that the hours presented for payment are verified by the administrative staff and the Dean of the Faculty. We identified that list are not verified by the Deans of Faculties; and Failure to respect the request for the assistant's vacancy – in the vacancy for engagement of academic personnel, in the Faculty of Philology, Department of English Language and Literature needed three assistants for a group of courses. The vacancy required the completion of Master studies, while the candidate selected did not meet this requirement, because she did not provide the diploma on Master studies, but only the Bachelor one.
Risk	Remuneration of hours in conflict with internal regulations, failure to formally verify hours held increases the risk that payments are made for the hours not held. Failure to meet the vacancy requirements is also in conflict with the University's statute.
Recommendation 22	The Rector of the University of Gjakova should analyse the findings above and consider the reasons why internal regulation requirements for remuneration of the academic staff are not respected. The Rector should ensure that controls are implemented on the level of faculties and hours are paid only after assurance is obtained that they are held including evidence of professors and formal confirmations by the Deans of Faculties.

Issue 23 – Payments from the budget of the University of Gjakova for the work carried out in the University of Prishtina – High Priority

- Finding** At the end of 2014, the Rector of the University of Prishtina (UP) took a decision to prohibit the salaries for the academic staff engaged in two public work places. As a result, UP prohibited the salaries for two months (December and January 2014/2015) to the Chair of the Interim Steering Council of the University of Gjakova who at the same time was acting Rector together with three pro-rectors, as all of them were teaching staff also in UP. However, during 2015, Acting Rector took a decision to pay the salaries of the three professors for the work they carried out in the University of Prishtina (another budget organisation), including here his own salary (in the total amount of €10,851). Payments were made from the category of Goods and Services (misclassification), through Special Service Agreements. The justification of the agreements determines that these funds will be returned to the University of Gjakova, as soon as they are received by the University of Prishtina.
- Risk** Payments for the work carried out in another budget organisations are illegal and may potentially be considered as misuse of public funds.
- Recommendation 23** The Rector of the University of Gjakova should ensure that this issue is immediately handled and necessary legal measures are taken to return the funds paid unjustly, to the budget of the University. At the same time, the Rector should ensure to avoid similar cases in the future.

University of Mitrovica

Issue 24 - Weaknesses in Wages and Salaries of the academic staff – High Priority

Finding	Remuneration for hours over the norm in conflict with regulation on personal income – Article 5 of regulation on personal income prohibits the academic personnel having two employment relationships within or outside the University of Mitrovica to be engaged with hours over the norm in this University. We identified one case in the Faculty of Mechanical and Computer Engineering when an assistant professor having two employment relationships, primary employment in the University of Mitrovica and secondary employment in the University of Peja, has held hours over the norm in the University of Mitrovica. Lack of evidences for the hours held by professors – Of the 23 samples tested, we identified that the attendance lists of lectures were not confirmed by the Deans of Faculties. Complete hours were not held for one case of payment of the hours over the norm for May 2015. Twenty (20) hours were paid €500, while only 17 of them were held.
Risk	Remuneration of hours in conflict with internal regulations, failure to formally verify hours held increases the risk that payments are made for the hours not held.
Recommendation 24	The Rector of the University of Mitrovica should analyse the findings above and consider the reasons why internal regulation requirements for remuneration of the academic staff are not respected. The Rector should ensure that controls are implemented on the level of faculties and hours are paid only after necessary assurance is obtained that hours are held, including evidence of professors and formal confirmation by the Deans of Faculties.

University of Gjilan

Issue 25 - Weaknesses in Wages and Salaries of the academic staff – High Priority

Finding **Lack of evidences for the hours held by professors** – In three of 11 samples tested, professors did not keep evidence on the number of hours held, while calculation of salaries by the financial staff should be done based on the number of hours held.

Risk Remuneration of hours in conflict with internal regulations, and failure to formally verify hours held increases the risk that payments are made for the hours not held.

Recommendation 25 The Rector of the University of Gjilan should analyse the findings above and consider the reasons why internal regulation requirements for remuneration of the academic staff are not fully respected. The Rector should ensure that controls are implemented on the level of faculties and hours are paid only after necessary assurance is obtained that hours are held, including evidence of professors and formal confirmations by the Deans of Faculties.

4.4 Procurement in Universities

Our audit of procurement procedures and payments though procurement has identified a number of common compliance weaknesses, which are reflecting lack of appropriate supervision by the management of Universities. In particular, management controls have not functioned effectively to prevent the following issue to arise:

Recommendation

Issue 26 – Systematic Procurement Weaknesses – High Priority

Finding

We found the following in the University of Prizren:

Failure to sign standard procurement documents – the contract supply with cartridge in the value of €9,079, the declaration under oath, the opening meeting minutes and the evaluation report were not signed by all members of commission;

The Statement of availability of funds is not approved for all procurements – Availability of funds was not approved for price quotation procedures. Therefore, as a result of poor understanding of procurement requirements and negligence of the procurement officer, no formal approval of availability of funds was made; and

Lack of procurement planning – The University of Prizren has not produced any preliminary procurement plan to consolidate the needs for purchase by Faculties.

We found the following in the University of Gjakova:

Contracting of services made without the application of procurement procedures – in June 2015, an EO “Ipko Telecommunications” was contracted for the purchase of mobile telephony services in a period of two years but without applying any procurement procedure. The contract price for mobile telephony services was €1,030 per month.

Risk

Cases above demonstrate weaknesses in procurement process. Failure to follow adequate procurement procedures and associated guidance consistently has resulted in delays, purchase without procurement procedures and poor value for money.

Recommendation 26 The Rectors of the University of Prizren and Gjakova should ensure that an internal review is implemented to determine why procurement requirements are not addressed in all procurements conducted. Subsequently, enhanced controls should be put in place to ensure that weaknesses identified are addressed.

This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.

ANNEX I Audit Approach and Methodology

The responsibilities placed on the Auditor and Those Charged with Governance are detailed in the Opinion set out in Section 1.2 of this report.

While a key output of our work is the audit opinion this report reflects the totality of our work with specific focus also on Governance Issues including Financial Management and Control. The latter is informed by our extensive, risk based, compliance audit programme.

The Executive Summary is intended to highlight the key finding of the audit and the key actions that the Minister should ensure are taken to address identified management/control weaknesses.

The detailed report provides an extensive summary of our audit finding with emphasis on determining the cause of audit findings and providing appropriate recommendations to address these. For completeness we have included issues identified at the interim audit where they remain relevant. Our findings are defined as:

High Priority - issues which if not addressed may result in a material weakness in internal control and where action will offer the potential for improvements to the efficiency and effectiveness of internal controls; and

Medium Priority - issues which may not result in a material weakness but where action will also offer the potential for significant improvements to the efficiency and effectiveness of internal controls.

Findings considered low priority will be reported separately to finance staff.

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

Annex II 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 1705¹⁹ 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 III: Prior Year Recommendations

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
Significant risks to Annual Financial Statements	Recommendation 1 The Minister should initiate an analysis of the reasons for inadequate treatment of books and inventory purchase below €1,000 and to identify proper actions to address these weaknesses in order of enabling a fair and true presentation of assets in 2015.			No
Compliance with AFS and other reporting requirements	Recommendation 2 The Minister should ensure that the 2015 AFS production plan formally addresses all compliance requirements related to the AFS. Minister should ensure that all expenditures are classified and correctly registered. This requires continuous monitoring. The Declaration made by the CEO and CFO should not be submitted unless all necessary checks have been applied to the draft AFS			No, because draft AFS contained material errors. The AFS review was poor as well.
Prior year recommendations	Recommendation 3 The Minister should ensure that a critical revised action plan clearly sets out a timetable for addressing the recommendations of 2013. This plan should determine accountable staff and to be focused initially on the areas of greatest importance. Unimplemented recommendations should be formally reviewed by the Minister and to undertake proactive measures to address reasons of delays in their implementation.		Yes, however, the action plan should be more concrete with actions and progress of addressing recommendations should be monitored and reported on regular monthly basis.	

Governance	The Minister should initiate a review to determine why the decision for payment of boards and commissions was not effectively implemented. The accountability and current reporting requirements from the units/programs should be imbedded in the review in order to ensure that these fulfil the management needs. Required improvements should be implemented within a suitable time frame.	Yes		
Budget planning and execution	Recommendation 5 The Minister should strengthen the monitoring of budget performance on a monthly basis and identify and address barriers to planned levels of budget execution. Funds from external donations should be integrated in the budget planning.	Yes		
Revenues (including own source revenues)	Recommendation 6 The Minister should initiate an analysis of the controls of revenue collection and undertake proactive measures increasing the own source revenues. Private colleges should pay the fees for all students registered and the submitted lists should be checked from the Ministry. Releases from payments for services should be supported by reasonable decisions from competent bodies.	Yes		
Expenditures Procurement	Recommendation 7 The Minister should initiate an internal review to determine why Procurement requirements are not addressed in all procurement cases and to exercise additional controls to ensure that weaknesses identified are addressed.		Out of 5 issues in this recommendation, issue 2 and 3 are not implemented, there was avoidance from open procurement procedures and misclassification of expenditures.	

	Recommendation 8 The Minister should ensure that only necessary articles are procured and reception reports for goods are signed only after the amount and quality of goods is confirmed. An analysis of reasons for not taking into consideration of the recommendation given by the negotiation commission is needed as well as the cost/benefit of this contract	Yes		
	Recommendation 9 The Minister should initiate a review of the manner of supplying school books to determine weaknesses of the process and underlying reasons should be analysed. Proposals of a new solution should be developed in order to eliminate identified weaknesses of the process. The further improvement of this process together with the implementation of IA no.16/2012-equipment of pupils with free school books- would help the Ministry to save considerable amount of budget. The issue of university books use should be discussed with the Rector of UP.	Yes		
Non procurement expenditures	Recommendation 10 The Minister should revisit the current policies of board's compensation as an urgent issue to ensure that they are feasible and within the determined limits. Reasonable actions should be taken in harmony with the applicable laws in order to avoid unjustified payments	Yes		

Remuneration (Wages and Salaries)	Recommendation 11 The Minister in cooperation with Rectors of Universities should analyse the current monitoring system of classes attendance, approval of lectures held and payment process in order of avoiding potential irregular payments and remunerations for services not provided. Foreseen sanctions by the Regulation of personal incomes should be applied as needed.			No, there are no sufficient controls.
	Recommendation 12 Minister together with the Rector of UPe should ensure that Regulation on personal incomes is accurately applied, as well as to take necessary measures for prevention of payments which are in contradiction with this regulation.			No, because they have no correct information.
	Recommendation 13 The Minister and University Rectors should ensure that lecturers and the rest of the staff are engaged based on the announced vacancies and contracts should be signed based on clear criteria within transparent and competitive processes		No, this recommendation is not implemented. In absence of staff, some professors should be engaged also through these contracts.	
	Recommendation 14 The Minister should ensure that overtime work is effectively planned and that remuneration for work outside the regular hours should be considered only when the Ministry has a high volume of work and not during the entire year and the additional work should be documented and justified	Yes		
	Recommendation 15 The Minister should ensure that only active employees are remunerated, files contain all required documents and to ensure that every recorded employee in the payroll is remunerated.	Yes		

	Recommendation 16 The Minister in cooperation with Rectors of UPe and UPz should ensure that the engaged academic staff has the proper qualification and valid evidences proving their academic level.		Yes, however, there are still cases when the staff is not adequately qualified.	
Subsidies and transfers	Recommendation 17 The Minister should revisit the agreement with “Loyola Gymnasium” in order to ensure that there is a rationale behind expenses incurred.	Yes		
	Recommendation 18 The Minister should initiate a review of identified cases to ensure that controls in this area are applied according to predictions and to ensure that funds are used for planned purpose.			No, because there is no sufficient controls yet.
Capital and non-capital assets	Recommendation 19 The Minister should ensure that purchases of books is accounted in conformity with the accounting standards an approved accounting plans. He should also work with the Rector of UPz to ensure that all assets are registered and presented in future AFS. Cost of work supervision should be added to the costs of construction, so when the transfer is made the accurate cost of each project is known. Handing of books as an asset or not should be discussed with the Ministry of Finances/Treasury.			No
	Recommendation 20 The Minister should revisit the decision on use of vehicles, to ensure its justification, and to set additional controls on vehicles” of each user of vehicles in order to spend public funds wisely and prevent their irregular use.	Yes		
Handling of receivables	Recommendation 21 The Minister should ensure a systematic monitoring of the collection of receivables. Accreditations should not be finished before the financial liabilities towards the MEST are paid.	Yes		

Handling of debts	Recommendation 22 Minister should initiate a review of current state of unpaid liabilities, in order to determine the reasons of delays and necessary measures for addressing them. Assessments of liabilities should be conducted continuously on regular monthly basis and payment should be done within the time limits set by financial regulations.			No, the level of obligations Has increased from the previous year
Internal audit system	Recommendation 23 The Minister should ensure that the internal audit in the future is focused towards the development and implementation of a risk based audit strategy. This should provide management with annual assurance over the effectiveness of internal controls systems. Furthermore, the AC should be more active and support IAU in its activities and the management in implementing recommendations.			No, Audit Committee was inactive and non-functional.
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