




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

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**RAPORTI VJETOR I AUDITIMIT
GODIŠNJI IZVEŠTAJ REVIZIJE
ANNUAL AUDIT REPORT
2013**

TABLE OF CONTENT

1. Introduction	7
2. External Audit and Accountability.....	8
3. The Kosova Budget Annual Financial Report and Government Accountability10	
3.1 Introduction and Audit approach	10
3.2 Audit Opinion on the Consolidated Financial Statements 2013	11
3.3 The Annual Financial Statements of Kosova Budget 2013	11
3.4 Analysis of KB/AFS 2013.....	14
3.5 Disclosures of Non financial Assets and Outstanding Liabilities	20
3.6 Addressing the recommendations given for 2012.....	22
3.7 Overall Recommendations.....	24
4. Public Financial Management	25
4.1 Budget Planning	25
4.2 Financial Management/Control and Internal Audit system.....	25
4.3 Reforms in Civil Service and Remunerations.....	30
4.4 Public Procurement	32
4.5 Overall Recommendations.....	33
5. Executing the budget in the Public Sector	34
5.1 Central Authorities.....	34
5.2 Independent Institutions.....	38
5.3 Municipalities.....	40
5.4 Publicly and Socially Owned Enterprises.....	44
5.5 Privatisation	48
5.6 Public-Private Partnerships	49
Annex I: Different types of opinions applied by the Auditor General.....	51
Annex II. Audit opinions and key managerial shortcomings	53

ADDRESS BY THE AUDITOR GENERAL



Honourable Members of the Assembly,

Firstly, let me congratulate you, all Deputies of the fifth Legislation. It gives me great pleasure to submit this year's Annual Audit Report and it is my hope that you will find the report useful in your ambitions to serve the citizens of Kosovo.

This report covers the Government's implementation of the 2013 budget and the Annual Financial Statements of the Kosovo Budget for that period. We have continued to address our core mission of providing a base for holding public spending managers to account and contributing to improvements in the Public Financial Management field.

I am the auditor of all public entities, with only a small number of exceptions. We audit everything from the Kosovo Consolidated Budget to very small entities, as well as some donor funds.

The day to day work of the office therefore provides us with a very broad and detailed view of public sector activities. A good auditor understands the entity, as well as its accounts. The process of giving an audit opinion on financial statements also involves forming a view on the strengths and weaknesses of an organisation's governance and management systems.

As well as the work of providing assurance over the financial statements our law gives us a performance audit function under which we can examine

economy, effectiveness and efficiency. The law also gives us capacity to carry out other audit services, and to enquire into any matter concerning an entity's use of its resources.

In essence, we expect public entities to be able to demonstrate internally, to Government and to the public that the following questions can be answered positively:

- Are they spending public money carefully in line with expectations?
- Are they properly managing the process for spending it?
- Are they doing the right things?

We therefore articulate six basic principles, relevant to the external audit and the oversight of how public funds are used.

Accountability – Public entities should be accountable for their performance and be able to give complete and accurate accounts of how they have used public funds, including funds passed on to others for particular purposes. They should also have suitable governance and management arrangements in place to oversee funding arrangements.

Openness – Public entities should be transparent in administering funds, both to support accountability and to promote clarity and shared understanding of respective roles and obligations between entities and any external parties entering into funding arrangements. Appropriate reporting arrangements should underpin this.

Value for money – Public entities should use resources effectively, economically, and without waste, with due regard for

the total costs and benefits of an arrangement, and its contribution to the outcomes the entity is trying to achieve.

Lawfulness – Public entities must act within the law, and meet their legal obligations.

Fairness – Public entities have a general public law obligation to act fairly and reasonably. They must be, and must be seen to be, impartial in their decision making.

Integrity – anyone who is managing public resources must do so with the utmost integrity. The standards that should be applied are clear, and public entities need to make clear when funding other organisations that they expect similar standards from them.

We have worked closely with the Assembly and the Government in order to further develop these principles as a base for current reforms building good governance and better systems for Financial Management and Control.

The quality of the information in the Kosovo Budget as well as in the underlying Annual Financial Statements has improved over the years. However, we are now facing higher expectations and requirements on the accuracy and validity of information and statistics.

Given the scarce budget situation we need to achieve more with the money we have. Kosovo therefore needs to focus more on maximising outputs and results achieved and reflect this in decision making and political priorities. The implementation of the necessary financial management systems and mechanisms requires commitment and support from the highest levels. Despite the fact that the accountability process is delayed this year, measures should be taken for holding responsible managers to account. Furthermore, firm action has to be taken in cases of identified misuse and mismanagement of public funds.

In the current situation we will put additional emphasis on following how our recommendations are addressed and continue to work in close partnership with the managements of all entities to promote improvements.

This report lays out key challenges that should be addressed which in some areas reflect significant challenges. I commend this report to Honourable Members and look forward to your deliberations and responses.



Prishtina, August 2014

1. Introduction

During the 2013/14 audit season our work has again addressed a range of statutory regularity audits and non statutory performance, management and systems audits. These resulted in the presentation of 102 audit reports to the Assembly. The associated recommendations provided focused and prioritised advice to support enhanced financial management in public administration and improvements in public services.

In the context of regularity audit, final audit reports followed an interim memorandum based on the nine month financial statements. This and constructive support to Budget Organisations (BOs) during the final audit stage allowed early action to address weaknesses in internal controls and/or the quality of disclosures and financial information in the statements. Our other audit products and more general support are intended to provide similar constructive support as required.

This report summarises the results of our 2013 audits and highlights key issues and common themes that the Government, Assembly or Municipal Assemblies should actively address. The effective management and implementation of recommendations is a key mechanism by which BOs develop their governance arrangements and the Government and Assemblies have a crucial role in supporting this process.

The Auditor General's opinion related to the Annual Consolidated Financial Statements of the Budget of Kosova (KB/AFS) is also incorporated in this report. This audit considered the results of the audits of underlying BOs and the impact of these on the Consolidated Statements.

The 2012 Annual Audit Report was submitted to the Assembly in late August, considered in the Committee for Oversight of Public Finances (COPF) and presented by the Auditor General in plenary on 14 November 2013. A similar process is expected to be followed this year especially against the background that the COPF, due to the challenges in forming an Assembly, have not considered any underlying reports on BOs this year.

To support an effective review of our finding we have organised the report as follows:

- Chapter 2 - External Audit and Accountability
- Chapter 3 – The Kosova Budget Annual Financial Report and Government Accountability
- Chapter 4 - Financial Management and Control
- Chapter 5 - Executing the budget in the Public Sector

The report also has two appendices. The first explains the different opinions given by the Auditor General related to regularity audit. The second summarises, at the BO level, significant audit findings/ management weaknesses as well as the opinion given and the reasons for any modified opinions. Individual audit reports can be found on our website www.oag-rks.org.

2. External Audit and Accountability

The public expect that those in charge of managing public money are held fully accountable for the use of that money. The prime responsibility for securing that public money is handled with absolute integrity and spent wisely rests with Ministers, elected members of the Assembly, governing bodies, managers and officials. Public sector audit is an important link in that chain of accountability. It should strengthen accountability, both upwards to the elected members who allocate resources, and outwards to the consumers and beneficiaries, taxpayers and the wider community at large.

External audit adds value not just by analysing and reporting what has happened after the event but also by being forward looking, by identifying lessons to be learnt and by disseminating good practice. External public sector auditor thereby should help to promote better management and decision-taking, and thus a more effective use of taxpayers' resources, and play an important role in the corporate governance arrangements of public bodies. Transparency and public access to information is an integral part of this.

Within the Kosova Public Sector, external audit is provided by the Office of the Auditor General (OAG)¹ as a Supreme Audit Institution (SAI). Its role is to assist the Kosova Assembly to scrutinise the effectiveness, efficiency, and accountability of the public entities that are accountable to it. The OAG supports this accountability process by carrying out:

Financial Audit – confirming whether financial information in the Annual Financial Statements is accurate and consistent with the financial reporting and regulatory framework and **Compliance Audit** – confirming if processes and transactions are in compliance with relevant laws and regulations. This combined approach is called **Regularity Audit**; and

Performance Audit – confirming whether projects or programmes deliver economy, efficiency and effectiveness in the use of resources. Other types of Performance Audit, Management and System Audit, address other aspects of this.

Our reports, including this Annual Audit Report, promote accountability between the Assembly, Government and BOs as well as at the individual BO level. The reports on BOs provide a basis for holding managers responsible for organisational performance and suggest actions to address identified weaknesses. The publication of all of our reports allows citizens to hold the custodians of public resources accountable.

The number of reports considered by COPF has earlier demonstrated enhanced accountability within the public sector, a development trend broken this year due to the challenges in forming an Assembly. Alongside this we provided advice on a range of issues supporting developments in Financial Management and Control (FM/C) with particular emphasis on:

¹ The statutory audit of the Central Bank (CBK), the Trust Fund, the Radio and Television of Kosova (RTK) and the Kosova Intelligence Agency (KIA) are not done by our office. In case of the Publicly Owned Enterprises (POEs) the statutory audit might be carried out by our Office.

- Further developing our co-operation with the new assembly and working with a range of committees besides the COPF and supporting informed debates through the provision of relevant information;
- Interventions with the executive branch and different projects within the Public Financial Management (PFM) field including support to investigation and justice authorities;
- Directly supporting the Public Internal Financial Control (PIFC) project with one of the assistant Auditors General being a member of the project steering group; and
- Support to other projects within the PFM field.

Enhanced accountability is increasingly important given the challenges faced by, in particular, EU integration. Managers must clearly demonstrate that they understand evolving governance requirements and associated accountability initiatives that need to be implemented. Our activities are increasingly directed to supporting this issue alongside other institutions and wider PIFC and PFM developments.

However it is the internal developments within individual institutions that will drive change and accountable officers must place increased emphasis on:

- Actively managing and implementing the Auditor General's recommendations;
- The further development of internal audit to provide an effective assurance function to management; and
- The completeness and effectiveness of internal control systems alongside more proactive use of self- assessment tools with timely responses to identified gaps.

There are significant management challenges ahead for public sector institutions given budgetary constraints and increased performance expectations from citizens and international partners. Against this background more focus is required on risk management and appropriate systems that mitigate risks. Similarly more emphasis is required on achieving best value for money in the use of scarce resources.

Accountability responsibilities for addressing these requirements must be clearly determined – there is limited benefit in identifying change requirements unless they are actively addressed.

3. The Kosova Budget Annual Financial Report and Government Accountability

3.1 Introduction and Audit approach

The KB/AFS summarises the transactions related to virtually all Government activities². The Ministry of Finance (MoF) should, on behalf of the Government, submit the KB/AFS for the fiscal year no later than 31st of March of the following year. These should be drafted on the basis of the overall framework established from the Law on Public Financial Management and Accountability (LPFMA) and in compliance with the International Public Sector Accounting Standards (IPSAS) for "Financial Reporting under Cash basis of Accounting".

Article 47.1 of the LPFMA sets out the OAG's responsibility for carrying out a Regularity Audit which includes examination and evaluation of the KB/AFS.

Our audit has been focused on:

Three main statements:

- Statement of receipts and payments in cash, the Consolidated statement of the comparison of budget with the execution and the Consolidated statement of assets in cash and balance of funds;
- Whether these financial statements present, in all material aspects, a true and fair view of finances and the financial situation for the audit period; and
- Whether adequate measures are undertaken by the Government for implementing the recommendations of the Auditor General for 2012 and earlier years.

The examination of the 2013 KB/AFS was undertaken in accordance with the internationally recognised Public Sector auditing standards (ISSAIs) issued by INTOSAI³. Our audit approach is based on a thorough understanding of the process by which the KB/AFS is produced. This understanding allowed us to develop an audit strategy which focused on addressing specific risks to an unqualified opinion whilst providing an acceptable level of assurance across the financial statements as a whole.

The approach undertaken was presented in the Audit Planning Memorandum submitted to the MoF on 31/03/2014 and reflects an assessment of the results of the audits of the underlying BOs which are consolidated in the KB/AFS.

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

² This does not cover activities of Central Bank, Pension Trust Fund and Kosovo Intelligence Agency.

³ The International Organisation of Supreme Audit Institutions

3.2 Audit Opinion on the Consolidated Financial Statements 2013

Unmodified Opinion⁴ with an Emphasis of matter

“The Annual Financial Statements of the Budget of the Republic of Kosova present, in all material aspects, a true and fair view of financial situation for the year ended on 31 December 2013”.

As an *Emphasis of matter* we draw your attention to an incorrect presentation of assets over €1,000 (**ISSAI 200 Unmodified Opinion with an Emphasis of matter**)

Basis for Emphasis of matter

Ineffective processes for identifying asset values in individual BOs and incomplete asset consolidation processes within the MoF related to the KB resulted in material values of assets not being included in the KB.

Information on capital assets disclosed in the KB/AFS and AFS of individual BOs are not consistent. In some cases, BOs wrongly disclosed the assets' gross value instead of their net value. In some municipalities due to ownership disputes and uncertainty, public property was not recorded in the KFMIS preventing their disclosure in KB/AFS. An understatement of assets in the KB/AFS of €135,192,229 exists.

3.3 The Annual Financial Statements of Kosova Budget 2013

Our review of the KB/AFS considered both compliance with the reporting framework and the accuracy of the information recorded in the financial statements. We also considered the Declaration made by the MoF and Treasury General Director when the draft KB/AFS was submitted to the Assembly and the Auditor General.

The declaration regarding presentation of the KB/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.

MoF submitted the KB/AFS to the Assembly and the Auditor General within the required timeframe of 31st March 2014. The KB/AFS have met all the requirements of IPSAS “Financial Reporting under the Cash Basis of Accounting”. However, as reflected in the opinion above, disclosures regarding financial assets over €1,000 are not accurate or complete.

⁴ The term, “unmodified opinion” is equivalent to the term, “unqualified opinion” used in our previous year’s reports. The new wording is in accordance with the new INTOSAI audit standards (ISSAI 200). For more information refer to Annex 1.

Given the above - the Declaration made by the MoF Minister and Treasury Director General can be considered reasonable with the exception of disclosures for financial assets over €1,000.

3.3.1 Significant risks and other issues in the Annual Financial Statements

Our Audit Planning Memorandum identified two significant risks to the KB/AFS related to the financial assets above €1,000 and third party payments⁵. The former risk materialised as noted above.

The risk of material misstatement that we identified in relation to third party payments did not materialise. While there remains a difference between the value of third party payments in the KB/AFS and individual AFS' of BOs this is not material at the KB/AFS level.

MoF produced clear guidelines in 2013 for the treatment and presentation of third party payments. However, third party payments of only €4,354,000 were reported in KB/AFS compared to a total value of € 28,748,000 reported in the individual AFS of BOs. Out of this, €11,963,345 represented co-financing from line Ministries which are presented wrongly in the AFS of BOs as third party payments leaving a true difference of € 16,784,655.

Other Consolidation issues

In addition to the significant risks identified above, we have also identified a number of other areas which we do not consider to represent a significant risk of material misstatement to the financial statements, but are important areas of audit focus requiring consideration by the Government:

- Intergovernmental transactions are not consolidated in KB/AFS, resulting in an overstatement of values concerning these transactions. The same happened last year. The Treasury explanation was that it did not consolidate the intergovernmental transactions for the sake of keeping consistency and comparability with the information reported in the previous years. Non-capital assets within KB/AFS are overstated by €2,646,926 and outstanding liabilities understated by €4,402,177 compared to total values in individual AFS;
- The Privatisation Agency of Kosova (PAK) did not present expenditures for professional liquidation fees of privatised Socially Owned Enterprises (SOEs) of €4,009,126. This resulted in an understatement of expenditures within Goods and Services by this amount (the amount was incorrectly included in the cash flow statement for Privatisation Fund); and
- Planning and budgeting expenditure in incorrect economic categories and recording expenditures in incorrect categories and economic codes is still present. The total value of expenditure misclassification in all BOs for Goods and Services

⁵ Third party payments are direct payments from the Government or donors to BOs on behalf of the Government. These payments do not go through the Treasury Single Account (TSA). TSA is a system of bank accounts maintained by CBK, controlled by the Treasury/MoF, used by state institutions for collection of revenues and payment of expenditures.

was €5,756,094⁶. "Other capital" expenditure of €55,852,015 also includes incorrectly recorded items. Purchases of computers, software development, repairs and buildings renovations, equipment, etc are incorrectly recorded in this category. In addition, Subsidies allocated to individual beneficiaries, NGOs and businesses that are not public entities have been classified and recorded as subsidies to public entities. The value of such expenditures recorded in the KFMIS is €16,175,665.

These weaknesses reduce the transparency and effectiveness of financial reporting at a time when international partners expect increasingly effective financial management. EU integration aspirations require an effective accounting regime.

3.3.2 Audit opinions for individual AFS

The audit of the KB/AFS is underpinned by regularity audits carried out in 88⁷ BOs. A further two⁸ organisations audited are outside the KB. In addition 13 non statutory audits (including two donor funds) have been carried out. The conclusions of the non statutory audit forms a base for some of our views expressed in chapter 4 and 5. The impact on the KB/AFS of the regularity audits is summarised below:

Table 1: Type and number of opinions for individual AFS for BOs

Serial no.	Types of Opinions	Number of opinions	Impact on KB/AFS
1	Unmodified Opinion	35	Not applicable
2	Unmodified opinion with Emphasis of matter	46	Emphasis of matter
3	Qualified Opinion	2	Not material
4	Adverse Opinion	4	Not material
5	Disclaimer of Opinion	2	Not material
Total		89 ⁹	

The Emphases of matter arising in 2013 primarily relates to inaccurate disclosure of assets and third party payments.

⁶ Out of these, €3,993,823 were planned or budgeted in wrong economic category, whilst the other part was wrongly classified by BOs itself.

⁷ The AFS of the Central Bank, Pension Trust and Kosovo Intelligence Agency (KIA) are not audited by OAG.

⁸ AFS of TAMAD and DANIDA project

⁹The difference between the number of audited institutions and opinions given is that Auditor General is obliged to give two separate opinions related to PAK, one for the institution and one for the Privatisation Fund

3.4 Analysis of KB/AFS 2013

The data presented in the KB/AFS is a reflection of receipts and actual payments and the relevant appropriations. The Budget of Republic of Kosovo for 2013 was subject to mid-year review (Law no. 04/L-210 for amending and supplementing Law no. 04/L-145) and budget adjustments were also made between economic categories within BOs.

3.4.1 Consolidated statement of the comparison of budget with the execution

In relation to the initial budget, the final budget was higher for both receipts and payments (€48,939,000 and €34,871,000 respectively).

Table 2: The initial budget and outturn of receipts in relation to payments ('000 €)

Description	Initial budget	Final budget	Outturn	Percentage	Percentage in 2012
	A	B	C	D=C/B	
Receipts	1,527,000	1,575,939	1,428,704 ¹⁰	90,7%	96,3
Payments	1,623,831	1,658,702	1,500,176 ¹¹	90,4%	92,5
Deficit	(96,831)	(82,763)	(71,472)		

The annual deficit of €71,472,000 was 86.3% of the planned amount. The annual deficit is 5% of the overall annual revenues and it is financed from surplus accumulated over the years. This is reflected in a reduction of the accumulated bank balance of 2013.

3.4.2 Statement of receipts and payments in cash

A. Analysis of Cash Receipts

Receipts include different sources of revenues such as tax and non-tax revenues, own source revenues, dividends, securities, royalties, concession taxes, loans etc.

The overall revenues collected at country level are €1,428,704,000. Tax revenues collected by the Customs of Kosovo (Customs) and the Tax Administration of Kosovo (TAK) represent 77% of overall revenues at country level (71% in 2012 and 81% in 2011).

A lack of budget support through World Bank grants, lower levels of own source revenues, a lack of one-off financing from the Privatisation Fund and lower borrowings from international financial institutions are the key factors that resulted in 2013 receipts being 7% lower than in 2012.

Receipts collected in relation to the final plan and a comparison with the two previous years by revenue source is presented in the following table. This highlights for example that only 53.9% of the plan for central level own source revenues was achieved.

¹⁰ This sum does not include €12,587,607 from Donor Designated Grants and €3,873,000 deposit funds.

¹¹ This total sum does not include €11,179,000 paid from Donor Designated Grants and €203,000 from deposit funds.

Table 3: Budget and collection of receipts by different sources for 2013 (in €000)

Revenues and other receipts	Final budget	Outturn 2013	Budget Execution %	Progress compared with previous year	Outturn 2012	Outturn 2011
	A	B	C=(B/A)	D=(B-E/E)	E	F
Revenues from Customs	914,737	837,269	91.5%	-0.9%	844,861	827,704
Refunds from Customs	(3,597)	(3,189)	88.7%	53.8%	(2,074)	(1,112)
Revenues from TAK	300,964	305,448	101.5%	7.6%	283,915	261,134
Refunds from TAK	(30,990)	(34,685)	111.9%	5.9%	(32,763)	(29,774)
I. Total tax revenues	1,181,114	1,104,843	93.5%	1.0%	1,093,939	1,057,952
Non-tax revenues – central level	44,048	43,080	97.8%	4.7%	41,145	45,525
Municipality own source revenues	63,020	55,850	88.6%	-6.1%	59,448	55,621
Own source revenues – central level	72,535	39,103	53.9%	-12.8%	44,835	59,912
II. Total non-tax revenues and own source revenues	179,603	138,033	76.9%	-5.1%	145,428	161,058
Concession tax	6,300	2,000	31.7%	100.0%	-	-
Royalties ¹²	22,000	24,693	112.2%	100.0%	-	-
Dividends	43,000	43,000	100.0%	-4.4%	45,000	60,000
Privatisation revenues ¹³	26,300	26,300	100.0%	100.0%	-	-
Revenues dedicated to PAK	-	-	0.0%	-100.0%	16,248	-
PAK one-off financing	-	-	0.0%	-100.0%	28,934	-
Return of loan by POEs	6,000	6,000	100.0%	50.0%	4,000	-
Receipts from securities	80,000	79,200	99.0%	8.0%	73,313	-
Loans from IMF and WB	31,621	4,634	14.7%	-95.1%	93,677	5,076
Budget support grants	-	-	0.0%	-100.0%	37,417	19,240
III. Total other receipts	215,221	185,827	86.3%	-37.7%	298,589	84,316
Total revenues and receipts (I+II+III)	1,575,939	1,428,704	90.7%	-7.1%	1,537,955	1,303,328

¹² Revenues received from licenses for quarry and mines.

¹³ Revenues from privatisation in the amount of €26,300,000 relate to revenues received from the privatisation of KEK Distribution.

Tax revenues generated from Customs

Planned revenues for 2013 were €915,000,000, whilst €837,268,927 (gross) or 91.5% were collected, a reduction of 1% compared to 2012. This under-collection of customs revenues was affected by lower than expected levels of imported goods and decreased consumption.

Tax revenues generated from TAK

Planned revenues for 2013 were €300,964,000, whilst €305,447,912 (gross) or 101.5% were collected. The trend of revenues shows that TAK revenues have increased by 7.6% over 2012 and 17% over 2011. The factors that led to increased revenues are: electronic declaration; business registration through the One-Stop-Shop; the development of a robust system for the management of compliance with annual plans on handling of risks; and frequent short visits to Economic Operators (EOs).

TAK has put in place controls over the collection and reporting of revenues. However, TAK is concerned about the higher rate of uncollectable debts which, at the end of 2013, were €253,496,704.

There are some shortcomings that need to be improved such as: delays in reviewing refunds and a failure to apply the collection-orders for both the collection of debts and agreements on paying tax liabilities by instalments. As such there is potential for further improvements in collection rates / reducing arrears

Dividends and concession taxes

In the initial and revised budget, dividends were planned to be €30,000,000 while dividends collected and included in the final budget were €43,000,000. Out of these, €40,000,000 was received from PTK and €3,000,000 from the Electricity Transmission System and Market Operator (KOSTT).

The dividend paid by PTK was for €5,000,000 lower than the one paid in 2012 and €15,000,000 lower compared to 2011. This trend of decreasing dividends is due to the fact that services provided by the postal and telecommunication market have continuously declined.

The concession taxes from the International Airport of Prishtina for 2013 were planned to be €6,300,000, whilst €2,000,000 were collected. This low level of collection was because of unrealistic budget planning.

B. Analysis of cash payments

Capital Investments have the largest share of overall expenditures with 35.3%, followed by Wages and Salaries with 27.8%, Subsidies and Transfers with 20.9% and Goods and Services with 12.9%. Utilities and debt payment represented 3%.

Table 4: Current spending against the final budget (in €000)

DESCRIPTION	Final budget	Execution 2013	%	Comparison 2013-2012	Execution 2012	Execution 2011
Wages and Salaries	437,696	417,093	95.3%	2.3%	407,706	385,033
Goods and Services	215,641	193,857	89.9%	14.5%	169,362	156,559
Utilities	24,098	21,662	89.9%	0.5%	21,558	20,376
Subsidies and Transfers	320,981	312,916	97.5%	11.7%	280,120	256,166
Capital expenditures	627,457	529,176	84.3%	-3.8%	550,245	528,186
Reserves	115	-	0.0%	0.0%	-	-
Sub total	1,625,988	1,474,704	90.7%	3.2%	1,428,991	1,346,319
Debt payment	32,713	25,472	77.9%	18.9%	21,416	11,491
Loans for POE	-	-	100.0%	100.0%	15,000	30,000
Membership IFI	-	-	100.0%	-100.0%	1,050	-
Sub total	32,713	25,472	77.9%	-32.0%	37,466	41,491
TOTAL	1,658,702	1,500,176	90.4%	2.3%	1,466,457	1,387,810

Compared to last year, expenditure for Goods and Services has increased by 14.5% and for Subsidies and Transfers by 11.7%. Expenditure incurred for Capital Investments has decreased by 3.8%.

Compared to the final budget, the plan was executed at a low level. This was due in part to the Government taking a decision at the end of December 2013 that 80 million Euros were to be saved and put aside as budget reserves as a measure against fiscal risk. Capital Investments was the category with the lowest rate of execution with 83.4%. This low execution level was due to slow project implementation and the delays in procurement processes caused by complaints submitted to Procurement Review Body (PRB¹⁴). The impact of this is both the lost opportunity to implement capital programmes and the under spend carried forward as obligations into next year.

BOs did not execute the annual budget according to cash flow plans. As in past years, expenditure increased in the last months of the year. Having such a large number of payments processed at the year-end resulted in BO control weaknesses related to payments completion and certification.

Designated Donor Grants (DDG) are funds which should be used according to the agreement terms and intended purpose. The largest part of these funds are dedicated to and used for Capital Investment and Subsidies and Transfers.

¹⁴ In the absence of functional board, PRB was not able to decide on the complaints made by the parties in the tendering process.

Table 5: Designated donor grants**(in €000)**

Naming	2013	2012	2011
Balance of grants carried forward at the beginning of the year	8,301	6,423	9,741
Received Grants	12,588	11,322	8,968
Direct Payments	4,354	5,493	4,642
Total of received grants	16,942	16,815	13,610
Total	25,243	23,238	23,350
Grants expenditures	(11,179)	(9,426)	(11,729)
Direct payments	(4,354)	(5,493)	(4,642)
Return of grants	(91)	(18)	(556)
Unspent grants as of year end	9,619	8,301	6,423

Grant funds were not used at a satisfactory level. Figures in the above table indicate balances of unspent funds from donor grants have increased over the last three years. Unspent funds carried forward from one year to another indicate that these funds are not sufficiently managed or used for the intended purposes. This raises the risk that future donor grants are reduced as they are seen as not being actively managed.

Subsidies

Subsidies paid to non-public beneficiaries, but recorded as to public beneficiaries are:

Table 6: Subsidies paid to non-public beneficiaries (in €)

Recipients	2013	2012
Individual Beneficiaries	280,801	764,082
Non-Governmental Organisations	14,904,859	16,774,165
Businesses	<u>990,005</u>	<u>752,659</u>
Total	16,175,665	18,290,906

Compared with 2012 the total amount of misclassification is €2,115,241 less.

Loans to Kosova Electricity Corporation (KEK)

Financing of KEK from the state budget has also been handled in the previous years' audits reports. From 2005 to 2010, MoF entered into seven financial agreements with KEK in the total amount of €239,152,550. The total amount that KEK has withdrawn from the Kosova Budget on behalf of loans was €202,539,992. KEK managed to return only the first credit signed in 2005 of €10,000,000, out of which €4,000,000 was returned in 2012 and €6,000,000 in 2013. For credits/funds used, KEK has paid interest to the budget account of €7,081,488, out of which €1,710,176 was paid during 2009 and €5,371,312 in 2010.

Following the request of KEK Management, in November 2010, MoF and KEK have amended the financial agreements (credit) for KEK. According to these amendments, the return on principal and interest was foreseen to start from 2012 through to 2021. For the period 2012-2013, KEK did not made any payments for the six other existing loans other than the return of the first loan. By the end of 2013, the amount of principal to be returned was €30,007,161 whilst the interest was €12,097,409, or €42,104,570 in total.

In July 2013, the KEK Board of Directors (BoDs) asked MoF, i.e. the Inter Ministerial Commission for Publicly Owned Enterprises (MC/POE), to renegotiate the provisions of the six loan agreements. The proposal was that the deadline for paying loans and other tariffs should be postponed until 1 May 2014. By the completion of our audit, we had not received any information on whether this request was decided upon by MC/POE and no payments were made.

3.4.3 Consolidated Statement of assets in cash and balance of funds

The Cash balance at the end of the year includes the DDG own source revenues carried forward; revenues collected by the municipalities and central BOs during 2013 but not used; as well as trust funds in the total amount of €52,490,000.

We compared the data presented in the Consolidated Statement of Cash and Fund Balances with the CBKs reports and conducted an analysis on funds balances over recent years.

Table 7: Cash assets and fund balances

(in €000)

Description	Balance 2013	Balance 2012	Balance 2011
Central Bank of Kosova	12,888	73,697	89,326
Securities for the Government	80,955	45,996	0
Termed Deposits abroad	113,008	152,007	105,042
Funds in NLB Prishtina Bank	0	0	41
Cash in transit	3,039	5,115	7,074
Accounts of Embassies and Consulates	406	448	961
Cash in hand (cash register)	1,482	907	1,184
Total cash	211,778	278,170	203,628

The balance of current accounts held at the CBK is significantly reduced compared to the previous two years, whilst cash or government securities equivalents have increased. Cash was reduced to €66,392,000 at the end of 2013 compared to the balance of 2012 as funds held met the 2013 budget deficit.

3.5 Disclosures of Non financial Assets and Outstanding Liabilities

3.5.1 Non financial Assets

Public asset management is an important part of FM/C¹⁵. The KB/AFS records non-capital assets' net value as €4,187,269,552 comprising central level BOs €1,848,661,630 and local level €2,338,607,922.

However BOs are not consistently treating their assets in the accounting register or reporting them correctly. Nine BOs at the local level (including one who did not submit an AFS) and two at the central level did not present non-capital assets at all. This reflects in part, uncertainties regarding property rights over some assets and a lack of evidence of their ownership. Further weaknesses were identified in the reporting of gross asset values, assets categorisation and the calculation of depreciation. An absence of reporting related to stocks was found in 24 BOs. Overall BOs are still facing difficulties in the registration, classification and management of government assets.

Due to shortcomings in asset recording and disclosure, opinions with an Emphasis of matter have been given on 34 AFS of local level BOs and 12 AFS of central level BOs.

E-Assets¹⁶

While this application provides many possibilities for asset registration and management, some technical errors have been identified. These relate to asset depreciation and the generation of reports with negative asset values and negative quantities of stocks. Adequate training for asset officials for using this application has not been provided. Consequently, in some organisations, the E-assets system is not applied at all.

3.5.2 Outstanding Liabilities

Annex 9 of the KB/AFS, and Article 15, Note 28 of the financial statements of individual BO record liabilities.

Outstanding liabilities of BOs at the end of 2013 amounted to €53,626,720, which were carried forward to be paid in 2014, an increase of €26,939,117 or over 100%. Of this increase €16,065,063 relates to the central level and €10,874,057 to the local level.

¹⁵ According to legal requirements, capital assets (>1,000) should be registered in Treasury's Accounting System (KFMIS), whilst non-capital assets (<1,000€) and stocks (spending material) should be recorded in the E-assets System.

¹⁶ E-assets is a web application and integrated electronic system, developed for the Government's needs. E-assets is part of the E-government, intended to be implemented by all state institutions. It creates a central data base for effective management of public assets. Ministry of Public Administration (MPA) is the owner of this project.

Table 8: Outstanding liabilities over the last three years (in €)

Description	2013	2012	2011	Increase between 2012 and 2013 (€)	Increase between 2012 and 2013 (%)
Central Level	29,940,831	13,875,768	21,072,571	16,065,063	115.78
Local Level	23,685,889	12,811,832	18,123,248	10,874,057	84.88
Total	53,626,720	26,687,600	39,195,819	26,939,120	100.98

Where liabilities are a high proportion of their budget, BOs are likely to face significant budget difficulties in future if proactive action is not taken to reduce this level.

Table 9: Outstanding liabilities of individual Budget Organisations in relation to their 2013 budget (in €)

Budget Organisations	Final budget 2013	Outstanding liabilities 2013	Final budget %
Ministry of Agriculture, Forestry and Rural Development	23,359,230.00	12,025,450.00	51.48
Shtërpcë	3,570,778.00	1,093,000.00	30.61
Gjakovë	19,931,360.00	5,345,056.00	26.82
Klllokot	1,093,000.00	285,608.00	26.13
Rahovec	10,384,259.00	2,202,988.00	21.21
Gjilan	21,356,768.00	4,112,630.00	19.26
Lipjan	12,305,133.00	1,246,034.00	10.13
Ministry of Education Science and Technology	55,929,372.00	4,266,220.00	7.63
Prizren	5,157,505.00	2,485,000.00	7.07
Ferizaj	22,991,734.00	1,606,000.00	6.99
Deçan	6,968,000.00	386,579.00	5.55
Mitrovicë	17,770,924.00	972,000.00	5.47

Compared to the previous year, MAFRD increased its outstanding liabilities in 2013 to €11,533,337. The increase of liabilities is a result of increased commitments associated with a clearer alignment with EU policies. However in other BOs the most common reasons for non-payment by the individual BO is a lack of funds, invoices submitted with delays by EOs and funds not committed on a timely basis.

3.6 Addressing the recommendations given for 2012

Addressing audit recommendations is a mechanism for promoting improvement in financial management. To support this process the COPF held public meetings with the accountable BO officials but it remains the case that a number of important recommendations are not being addressed by BOs as detailed below.

Table 10: Implementation of the Auditor General's recommendations

Budget Organisations	Recommendations Addressed	Partially addressed recommendations	Unaddressed recommendations	Total
Central level	163	112	88	363
Local level	119	115	197	431
Independent Institutions	128	47	42	217
Total	410	274	327	1011

The largest proportion of unaddressed recommendations relate to the local level organisations/municipalities. The failure to address recommendations given resulted in continued weaknesses in internal control and financial losses. Unaddressed recommendations relate to areas such as: the accuracy of disclosures in AFS, management of revenues, procurement procedures, human resources, subsidies and assets.

The audit report for the KB/AFS 2012 resulted in nine key recommendations directed to the Government, and one to the Assembly. The majority remain unaddressed as summarised below:

Two recommendations addressed relate to:

- Actions that MPA and MoF have taken to unify the two systems for Asset Management. MoF Regulation no. 02/2013 for managing non-financial assets in BOs clarified the way of handling, recording and managing of Government assets; and
- Reviewing the impact of reduced donations on the future expenditure plans in terms of salary costs.

Despite the new guidance for non financial assets being in place, no improvements were made in the area of asset management and financial reporting.

Two partially addressed recommendations reflect:

- The addressing of earlier recommendations on identified control weaknesses and inefficient management; and
- Focusing on how effectively the Government addresses the recommendations given and requires reports on the progress made well before the KB/AFS 2013 is drafted.

Partial addressing of these recommendations does not entirely eliminate the identified weaknesses in financial reporting, management and internal control. In some areas the same weaknesses still exist.

Six unaddressed recommendations are summarised below:

- The basis of the Emphasis of matter relating to the consolidation of assets is addressed as a matter of priority. A specific Task Force should be established and report to the Assembly within a three month period and consider both the consolidation issue and the weaknesses at BO level in recording and valuing assets. An Action Plan should be implemented to achieve a marked improvement in the 2013 position at both the KB and individual BO level;
- A proper solution on the handling of bad, doubtful and un-collected debts is developed and implemented during 2013;
- Closely overseeing the implementation of agreements and loans to Publicly Owned Enterprises (POEs), KEK to ensure that repayments are made within the defined deadlines;
- The transparency in the KB/AFS by classifying and recording all expenditures, with special emphasis on subsidies; adequate codes of expenditures; and fully including third party payments;
- Causes behind the outstanding liabilities are thoroughly analysed and proper actions are taken in order to bring them down at an individual BO level; and
- A separate Task Force should be set up to consider budget execution and the actions that can be taken particularly related to procurement processes and project planning to remove barriers to increasing the level of budget execution. Particular emphasis should be placed on the barriers to effective execution of the capital investment budget.

Failure to address the recommendations results in operational inefficiency and eventual financial losses. Furthermore the Emphasis of matter on issues related to the consolidation of assets is repeated this year because the weaknesses in the registration and management of government assets are still present; uncollected tax debts and non repayment of the KEK loan has caused financial loss to the budget; and improper classification of expenditure has resulted in both under- and overestimation of expenditures in the respective economic categories. In relation to the previous year the value of arrears has doubled. The level of budget execution in general, including capital investment is not at the expected level.

3.7 Overall Recommendations

I recommend the Government to ensure that:

- The reasons for Emphasis of matter in the KB/AFS for 2013 are analysed and that necessary actions are identified to address these control shortcomings in order to enable a fair and true presentation of assets in the KB/AFS of 2014 and underlying AFS;
- Adequate measures are taken to analyse other shortcomings in KB/AFS consolidation process such as: the inter-governmental transactions, third party payments, non capital assets and classification of the expenditures. In this aspect, the reasons behind the non implementation of the new guideline related to third party payments should be reviewed. Similarly the justification for the non consolidation of inter governmental transactions should be reassessed and formally justified if further action is not taken to address this position;
- Monitoring mechanisms applied to budget performance are strengthened by identifying and addressing potential barriers to budget execution with budget planning preceded by a rigorous process of evaluation. When drafting and reviewing the budget, proper budget classification should be made based on the nature of expenditure;
- An effective capital project management process is put in place providing proactive monitoring and action to address barriers preventing the timely implementation of contracts according to dynamic plans;
- A critical review is carried out to ensure full implementation of revenue collection plans. The Government should seek more accountability from the main revenue collection agencies in order to ensure that control measures over the complete application of collection orders and collection of tax debts are strengthened;
- A Task Force is established for analysing and reporting to the Government within a three-month period regarding the causes behind increased liabilities from one year to another, aimed at bringing debts down to an acceptable level;
- The Ministry of Finance should ensure that KEK starts to implement the amended agreements on withdrawn credits and that it adheres to the credit plan for paying the principal and interest; and
- The e-asset programme is implemented in all governmental institutions. The Ministry of Public Administration as the owner of the e-asset system should take all necessary actions to avoid and/or address technical shortcomings of the system. In addition, training programmes should be provided to the responsible officials in the use of this application.

4. Public Financial Management

The Management and control of public finances is achieved through an integrated process of daily financial and operating activities of individual BOs. The Public Internal Financial Control (PIFC) initiative aims to implement effective policies and reform financial management, control and improve public accountability. The PIFC strategy aims to meet expectations of international good practices to be implemented by candidate countries for membership into the European Union (EU).

The main institutions with specific central responsibilities in the financial management area remain MoF, MPA and the Public Procurement Regulatory Commission (PPRC).

Through this chapter we provided an overview of the current situation relating to financial management and internal control in state institutions, the weaknesses identified, assessments and recommendations for further FM/C development.

4.1 Budget Planning

While the budget for 2013 was approved on a timely basis, the budget review process was completed too late (October 2013). This resulted in delayed budget adjustments and a failure to execute the budget at the expected level. In 2013 there were other weaknesses related to the budget planning process, at the overall level as well as at the project level. This was highlighted by:

- Budget surpluses;
- Budget planning for social and pension schemes based on insufficient information;
- Budgeting, accounting and reporting transactions in inadequate economic codes resulting in inaccurate presentation of transactions within AFS; and
- Poor budget execution primarily for capital projects, but also for other economic categories.

Late approval of the budget review and other Government decisions for budget cuts undoubtedly had an impact on the BOs' budget performance. This situation cannot be regarded as good practices.

4.2 Financial Management/Control and Internal Audit system

The Central Harmonisation Department (CHD) consists of two divisions, the Internal Audit Division (IA) and the FM/C Division.

In November 2013, the Team Leader of the EU-funded project supporting CHD resigned. Gaps in activities in the period before this had an adverse effect on the further development of FM/C and internal audit. However, a new team leader was appointed in February 2014 and the activities have been re-engineered.

4.2.1 CHD/ FM/C

CHD/FM/C has responsibility for developing policies, strategic documents and guidelines in the area of FM/C, evaluate FM/C adequacy and effectiveness within BOs, as well as preparing training programmes for public officials.

CHD has made a slow progress in developing FM/C in the public sector partly due to the reorganisation process of its institutional framework which took longer than expected. Another explanation is lack of sufficient professional capacity needed to carry it out effectively.

The existing FM/C regulatory framework needs further clarification and updating following recent developments in the FM/C and IA area. The enforcement of the legislation is also not good enough. In some BOs there are no specific internal regulations which would adjust general FM/C requirements into specific policy areas.

An essential part of the development and implementation of FM/C procedures is also the self-assessment that shall be carried out by BOs regarding leadership, staff, internal control, risk management and financial management.

4.2.2 Financial Management and Control

It is the responsibility of state institutions to establish and develop an operational internal control system and secure good financial management. Senior managers of organisations are responsible for implementing the rules, procedures and systems securing that the objectives are met. FM/C should be applied to all structures, programmes, operations and processes managed by them, considering principles of legality, sound financial management and transparency.

The current situation indicates that there are still difficulties in properly understanding FM/C concepts and management accountability. The accountability for budget spending and for achieving organisational policy objectives at pre determined quality standards is not being applied. Consequently, intended results from applying FM/C are not achieved yet.

Risk management¹⁷ is a key FM/C component to identify, assess and monitor risks and implement controls required to reduce risk exposures to an acceptable level. However there are few formal arrangements for risk assessment and management as this process is poorly understood at the management level.

The effective and consistent application of FM/C in practice remains a challenge which must be tackled seriously by senior managers. Internal controls should be repeatedly evaluated in terms of adequacy, appropriateness, functionality and cost-benefit ratio. Such an assessment should be made on a regular basis and a more effective policy and approach should be in place in this regard.

¹⁷ Risk is the probability for an event or action with negative impact and hinders the fulfilment of on the organisation's objectives.

Self-assessment is a legal requirement, not implemented by all organisations. Only half of BOs have submitted the self-assessment to MoF. Even where completed, the quality of the assessments is poor and the impact of the issues raised not fully understood. In most cases, assertions and assessments presented in the self assessment check-lists are not evidenced by supporting documents.

That management accountability is not sufficiently developed is indicated by the fact that only a small number of central level BOs have prepared and submitted an annual performance report to the MoF. Annual reporting is a requirement of LPFMA and FM/C. The Parliament, other interested parties, the media and the general public are informed through these reports on how the organisation has performed during the year compared with the expected results, services provided, as well as the organisation's effectiveness in achieving results.

Many shortcomings identified in the BOs point to the need for capacity building and further advancing the FM/C system to support compliance with and completeness of controls. In most cases, written procedures are missing. Daily operational activities are carried out solely based on general laws and regulations. The presence of weaknesses in many aspects of the system is an indication that the practical implementation of FM/C procedures has stagnated.

Despite BOs commitment to put management and control systems in place, in practice they do not operate as intended in preventing, detecting or addressing the existing gaps. Controls in terms of budget planning and management, procurement system, capital projects management, revenues, subsidies and asset management, require further improvement.

4.2.3 CHD/IA

The CHD/IA activities in 2013 resulted in a revised Administrative Instruction on the establishment of an internal audit function and an Instruction on licensing internal auditors which are still both at the drafting stage. The CIPFA training and certification programme continued including a first pilot audit that started in November 2013. Supported by the PIFC project advisor, CHD/IA staff performed a Quality Check of the internal audit units in three BOs.

The Consolidated Report on Quality of Internal Audit for 2013 was published in April 2014.

The Internal Audit system¹⁸ should be an important support to public sector managers to confirm the effectiveness or otherwise of systems and processes. Despite developments in 2013 internal audit can provide further support to managers given the continuous repetition of findings on governance and financial management indicating that the existing system is not functioning properly.

As highlighted in the previous Annual Audit Reports, the current Internal Audit System does not cover the POE's. This limitation is caused by the existing legal framework as the

¹⁸ The system includes Internal Auditors and Audit Committees in the budget organisations and the Central Harmonisation Department

current Law on Public Enterprises makes the Law on Internal Audit inapplicable. The rationality for this is not clear. We are not aware of actions taken in order to analyse how the internal audit within the POE's could be integrated in the overall system.

Some of challenges identified related to this area, require review of the existing legal framework which is undertaken by CHD/IA with the assistance of experts from the EU project.

The CHD/IA has continued to organise the Internal Audit certification scheme. The number of certified internal auditors is 32. During 2013 trainings for certification of the second group of internal auditors started and 25 more have passed the exams from certification scheme. As such 40% of the internal auditors in public sector (not including POE's) will be certified.

The certification scheme provided by CIPFA (and funded by EU) offers basic level of knowledge for internal audit practitioners. However this is not at the level of the certification provided by the Institute of Internal Auditors (IIA). The stakeholder's expectations for internal auditors are to be able to carry out the profession in accordance with internationally recognised standards.

Although training is provided by local trainers, sustainability is questionable under the current design. It is crucial that a new certification scheme is considered, organised, funded and maintained locally. This should be in accordance with IIAs International Professional Practices Framework (IPPF).

To keep abreast of professional and other developments it is important that the internal auditors become members of a professional association and use networking opportunities to assist them in their ongoing professional development. How a Kosova internal audit association shall be built is something to be considered by all internal auditors and CHD/IA including securing international support for sharing knowledge and experience, and continuous professional development.

Facilitated by the PIFC project, CHD/IA has started to discuss the need for developing a new CPD programme for internal auditors. A workshop on internal audit strategic planning was provided and some pilot audits were carried out. The impacts of these measures are still limited.

4.2.4 The Internal Audit

To provide management with assurance (or otherwise) over the operations of all significant systems in an organisation requires a risk based annual audit plan implemented by qualified staff.

Around 20% of the reviewed internal audit plans failed to identify high risk areas suggesting the absence of a proper risk management framework.

Furthermore, the focus of internal audit is still to a large extent related to financial information. Consulting activities still remain at a very low level compared with assurance provided by compliance testing. While the focus has improved on current year activities, 10% of the activities were still focused on past years' activities. The potential for change from such work is limited.

Some Internal Audit Units were not able to complete their annual plan. Shortages in staff, poor management of the internal audit and training for the certification programme were some of the reasons for this.

Guidelines for audit methodology are in place with a need for regular updating. However the quality of the internal audits carried out needs to be developed to meet international audit standards and good European practices. The audit approach towards internal control systems is not at the required level in terms of understanding and effective analyses.

The focus of the audit plans and capability of the internal auditors directly impact on the quality of the reports. While the quality of the reports has slightly improved they were mainly compliance oriented. Recommendations given are focused on legal enforcements with little attention paid to systematic improvements. As such, they rarely provide the base for change and developments.

Due to budget constraints many Internal Audit Units still are not equipped with the appropriate number of auditors. The Ministry of Diaspora, seven municipalities and one independent institution have not yet established Internal Audit Units. MoF during 2013 provided internal audit services for nine small agencies and the Ministry of Diaspora while some other requests could not be met.

Around 46 % of Internal Audit Units are comprised of only one internal auditor. Small units may find it difficult to ensure that staff have the skills necessary to undertake a comprehensive internal audit plan. In this situation, there is a risk that the audit plan will be determined more by the skills of the staff available rather than the needs of the entity.

Discussions started in 2012 and recommendations given about introducing an internal audit service in the Assembly to provide support for the smaller independent institutions have not resulted in any development so far.

Strong Audit Committees (ACs) should build public trust and confidence in how BO's are managed and strengthen the independence and value of internal audit activity. However, around 20 % of institutions, mainly municipalities have not established ACs.

Furthermore, while the number of ACs increased in 2013 the effectiveness of their activities is questionable. A high number of these did not discharge their duties as expected.

A lack of support in promoting a high quality internal audit programme, limited communication with BO senior management and the low level of recommendations addressed suggests significant scope for improving effectiveness of internal audit teams and ACs in BOs.

4.3 Reforms in Civil Service and Remunerations

In 2013 the Civil Service (CS) reform has progressed in terms of developing the legal framework. In 2013 a Personnel Planning Regulation in the Civil Service was drafted. This was approved in March 2014 (nr.02/2014). Further positive developments include:

- The Human Resources Management Information System (HRMIS) is now put in place. Although with some delays, the implementation phase of this project started in 2014; and
- Training for CS staff has been continuously delivered by Kosova Institute for Public Administration (KIPA).

However, the failure to fully implement the Regulation 09/2012¹⁹, meant that Regulation no. 05/2012 on the classification of jobs in the civil service could not be implemented. This situation prevented the application of the new salary and appraisal system.

Furthermore, when it comes to promotion of CS staff being fully based on the civil servants' appraisal, there were no achievements in 2013. The reason for this delay is that the new promotion procedures cannot be applied until job positions are classified.

The payroll system in CS is organised through a centralised system which is managed by the MPA. The salaries of civil servants include basic salary and allowances. These and other remunerations are financed from General Budget, and in some cases from Designated Donor Grants.

The total number of public sector employees approved under the revised budget law for 2013 was 79,906. Under the payroll managed by MPA the current number of employees in the last month of the year were 78,995. Employees regulated under the Civil Service law are 21,737. The following table presents annual expenditures of regular salaries and retroactive salaries for the current and previous year.

¹⁹ The Regulation on standards for internal organisation and systematisation of job positions for the state administration bodies

Table 11: Annual expenditures for Wages and Salaries (in €)

Description	Regular salaries 2013	Retroactive salaries 2013	Total wages 2013	Total salaries 2012
Net salaries through payroll	354,666,477	1,370,157	356,036,634	348,416,031
Source withheld tax for salaries	18,955,087	66,942	19,022,029	18,338,383
Pension contribution by employee	19,697,902	74,209	19,772,111	19,335,275
Pension contribution by employer	19,697,902	74,209	19,772,111	19,335,275
Trade Union fees	1,221,184	-	1,221,184	1,209,922
Total	414,238,552	1,585,517	415,824,069	406,634,886

According to the KB/AFS expenditures for Wages and Salaries for 2013 were €418,546,000. Out of this €417,093,000 was paid from the Kosova Budget and €1,453,000 from donor grants.

€1,268,929 was paid through KFMIS. Paying salaries through KFMIS, bypassing the payroll system, indicates an absence of appropriate controls in this area.

Based on the final budget for 2013, the average monthly public sector salary at the overall level was €456. However the average monthly salary varies between BOs. A lower level is applied at the municipal level.

Individual audit reports of BOs indicate that there are shortcomings in terms of management and controls in this area mainly related to:

- Recruitment procedures without advertisements;
- Management positions held by acting staff longer than the legal time limit;
- Employment contracts not applied correctly and salaries paid higher than the multipliers specified in contracts;
- Additional salaries paid without being approved and without sufficient evidence for need, from the category of Subsidies(for Committees) and from the brain fund;
- CS staff promotions and appointments without sufficient basis; and
- The preparation and maintenance of personnel files.

4.4 Public Procurement

In 2013 around €616 million Euros, around 40% of the KB expenditures were spent through procurement in 90 BOs (including Executive Agencies).

The Central Procurement Agency (CPA), set up in the beginning of 2012, has not yet implemented a single centralised procurement or framework contract. The impact of this shortcoming is the lost opportunity for achieving economy of scale and cost savings for the public sector.

Against this background there has been some positive development. For example, procurement during 2013 reduced the value of negotiated procedures without publication of a contract notice.

The report of the PPRC states that the procurement system is making progress every year and is becoming more transparent. However, our individual reports highlight that implementation of procurement's legal framework is not at a satisfactory level with many violations and irregularities identified.

Procurement remains a challenge for the Government and the Contracting Authorities and weaknesses highlighted in 2013 replicate those raised in 2012.

The most common shortcomings identified in 2013 are:

- Contracts with price quotation and minimum value have increased;
- Contracts awarded to ineligible EOs;
- Contracts awarded without having funds committed;
- Purchases made not in accordance with the budget law/administrative guidelines;
- Delays in implementing the contract;
- Paying for goods and services from Capital Investments;
- Purchase Order raised after the invoice is received;
- Security Performance not covering the implementation period;
- Failure to inform unsuccessful/ eliminated EOs;
- Lack of a Receiving Committee;
- Contract awarded without procurement procedure;
- Lack of signatures on the Statement of Needs;
- Purchase not in accordance with the technical specification;
- Payments certified without sufficient evidence in place;
- Exceeding the limit for additional works;
- Poor Needs Assessment; and
- Failure to impose fines/penalties when contractual requirements are not met.

I have recommended BO management to ensure that these issues are addressed as applicable in the individual organisation.

4.5 Overall Recommendations

I recommend the Government to ensure that:

- The Ministry of Finance reviews the effectiveness of the FM/C self-assessment process as a tool designed for the overall public governance development. It should further analyse reasons why it is not used by all Budget Organisations and why, when used, rarely provides sufficient and appropriate information. Further support should be offered to its users ensuring that the quality of the process and of the information on FM/C status is further strengthened. Using good examples as a model might be of help;
- The Heads of the Budget Organisation's gives special attention to the requirements on Action plans addressing auditor's recommendations and set up clear priorities and timelines for measures;
- The Head of each Budget Organisation starts producing a performance report annually. Such a report should, amongst other objectives, include basic information about activities and results measured against policy objectives established beforehand;
- The possibility to integrate performance reporting with the financial reporting in the Annual Financial Statements should be considered. Such reporting arrangement would provide a better base for holding managers into account for both what they have spent and achieved;
- Risk management processes in Budget Organisations are strengthened. The most significant risks should be identified in the individual organisations and actions should be taken to prioritise and mitigate these risks. The Ministry of Finance should be proactive in helping the respective Head in fulfilling the risk management responsibilities and guiding them in developing appropriate policies and plans and the effective application of these in practice;
- Should consider immediate measures for strengthening quality of the internal audits carried out within POE's. Internal auditors of POE's should be part of the same professional development as other public sector internal auditors and be subject to the same quality control as for internal audits carried out within BO's. One step required to achieve this is to initiate amendments of the law on POE's;
- The Ministry of Finance finds a sustainable solution when it comes to set up a sustainable certification of internal auditors based on, for example, the Institute of Internal Auditors International Professional Practices Framework, analyses modalities for strengthening the quality of the Audit Committees, facilitates the establishment of a professional association for Internal Auditors and introduce general guidelines on risk based internal audit planning as well as delivering appropriate training to internal auditors on how to use it in practice;
- The Ministry of Public Administration pushes forward the implementation of the Civil Service reform. The whole legal framework for CS should be organised enabling implementation of a new salary and appraisal system. Preconditions for a

full implementation of the Human Resources Management Information System should be created;

- Managerial controls are strengthened regarding additional remuneration and recruitment processes in order to facilitate transparency and merit based decisions; and
- The Central Procurement Agency commences framework contracts and centralised procurements during 2014 for selected items in order to ensure that the public sector benefits from economy of scale.

I recommend the Assembly to consider the need to:

- Hold Government accountable for addressing the above listed recommendations and introduce effective follow up mechanisms of measures taken;
- Push the Public Procurement Regulatory Commission to accelerate the introduction of e-procurement in order to achieving better transparency and simplifying the procurement processes;
- Monitor the Government's actions regarding the selection of staff in key government positions and that it addresses the issue of acting positions in a timely manner; and
- Finding a sustainable solution when it comes to internal audit services for small independent institutions directly accountable to the Assembly which will foster independence and accountability. Creation of an internal audit function within the Assembly which would offer shared services for small independent institution might be a cost effective solution.

5. Executing the budget in the Public Sector

5.1 Central Authorities

5.1.1 Introduction

OAG undertook regularity audits of all 24 Central Authorities' (CAs)²⁰ AFS for 2013. CAs prepared Annual Financial Statements for 2013 in accordance with the requirements. Opinions given were unmodified, except for 11 cases²¹ which had an Emphasis of matter because the information regarding disclosures was not complete and accurate. The Emphasis of matter in eight out of 11 cases related to disclosures for fixed assets.

In the table below we present an overview of opinions for the CAs.

²⁰ 24 CAs include 19 Ministries and the Assembly, Office of the President, Office of the Prime Minister, Customs and Tax Administration.

²¹ The Ministries of Trade and Industry; Education, Science and Technology; Culture, Youth and Sports; Health, Labour and Social Welfare; Foreign Affairs; Agriculture, Forestry and Rural Development; Infrastructure; Environment and Spatial Planning; the Office of Prime Minister and the Kosova Customs.

Table 12: Audit Opinions for Central Authorities (last three years)

Audit Opinion	2013	2012	2011
Unmodified opinion	13	14	13
Unmodified opinion with Emphasis of matter	11	10	11
Total	24	24	24

Taking into account the data from earlier reporting periods, CAs have set up sound external reporting systems. Shortcomings mainly related to disclosures of certain information, which do not have a material impact on the overall level of the AFS. CAs should further advance their systems to ensure complete information regarding disclosures where the base for Emphases of matter is found.

5.1.2 Challenges faced

The internal reporting and accountability lines between ministries and executive (autonomous) agencies operating under them, remains a particular challenge. The process of AFS consolidation is often not adequate due to ineffective accountability arrangements. One example is the accountability process between Office of the Prime Minister (OPM) and its agencies. The Chief Executives of Agencies report to the Deputy Prime Ministers for certain areas of activity, whilst the General Secretary is responsible for the quality of consolidated AFS and the overall daily businesses.

Furthermore, internal communication and reporting within CAs in general was not of a good quality. The way decisions and results of the senior management meetings were documented leaves room for improvement. Current reporting and communication practices do not provide sufficient information to management (financial and operational) to support effective decision making, oversight and other managerial requirements.

The CAs level of addressing recommendations given by the Auditor General is improving. All CAs produced action plans for addressing 2012 recommendations. From 363 recommendations given, 273 were addressed (164 fully and 109 in process of addressing), while the remaining 90 have not been addressed. Unaddressed recommendations mainly related to low budget execution and shortcomings within expenditure management. As a result, similar shortcomings were again reported in 2013, some of which relate to significant control weaknesses.

The CAs overall budget execution was 91%. The lowest level of budget execution was seen in MPA by 59%, Ministry of Culture, Youth and Sports (MCYS) and OPM by 78%.

Major shortcomings in the budget process were related to weak planning processes, a low level of budget execution for Capital Investments and budget classification into inadequate categories. The last issue was raised by several CAs to MoF requesting budget transfers within the respective categories but no solution was found and the misclassification remained.

The Revenue management leaves room for improvement in a number of CAs. A soft ware for Revenue management was missing in several of them and as a result manually generated information was not in all cases reliable. Furthermore, there were instances where the revenues were recorded with delay and incomplete reconciliations between records and source documents. Delays in reporting of revenues within the MFA by the Diplomatic Missions of Kosova remained a challenge.

The quality of public procurement is a general issue and continues to be one of the biggest challenges in this year also for the CAs. The challenges are addressed in chapter 4, the same goes for human resource management and internal audit.

The current practice of managing and controlling Subsidies and Transfers does not provide sufficient assurance whether they are used for intended purposes and planned results are achieved. In particular, controls on managing basic and contributory pensions, subsidies in the field of agriculture, and subsidies for integration of minorities were of insufficient quality. Current mechanisms for reporting and monitoring subsidies to justify payments made and assess whether objectives are being met, were not effective enough.

Despite systematic improvements, asset management continues to remain a challenge for CAs. Accounting records are complete in most institutions, however, annual inventory checks, asset registration in the asset registry and their reporting into AFS still remains a challenge. The process of accounting and consolidating data between the Executive Agencies or subordinate units and Ministries is not adequate. Consequently, the value of assets in registers was not complete and accurate.

Furthermore, the controls for managing liabilities were not effective. Compared with 2012, outstanding liabilities for 2013 within CAs increased by 117%. The biggest shares in this percentage have MEST, the Ministry of Environment and Spatial Planning (MESP) and the Ministry of Infrastructure (MI). Entering into contracts without committing funds, carrying out procurements in the last months of the year and receiving invoices with delay are some of the causes for increased liabilities.

When it comes to the policies of sustainable environment we audited how the Medical Waste system was managed we identified shortcomings. There is a need for authorities to create an integrated system of waste treatment. Waste should be managed by competent persons and the activities should be carried out properly to secure the preservation of public health. The level of documentation and monitoring of activities and accelerated cooperation and coordination between Health Institutions needs to be enhanced.

In the area of capacity building of public administration we looked at the Study Programmes funded jointly by the Government and donors. In this audit, we recommended responsible ministries to establish guidelines describing the steps to be followed by all ministries responsible for managing study programmes funded. Each ministry should identify areas that would benefit from a study programme. Ministries should then establish and implement contractual obligations, ensuring that beneficiaries continue their engagement to the public administration after the scholarship or refund costs if these obligations are not met.

Looking into the prudent use of resources we addressed the management of official vehicles we analysed the limitations in the current system for authorizing the use of official vehicles. We recommended respective ministries to implement effective monitoring controls to ensure the efficient distribution and use of official vehicles based on the needs of departments and not the needs of individuals. Provisions for efficient and timely reporting on the use of official vehicles should be in place and serve as basis for decision making. The statutory audits carried out indicate similar challenges in many BOs.

Recommendations

I recommend the Government to ensure that:

- Extended accountability arrangements between Central Authorities and their agencies are developed which should clarify accountability lines, provide effective reporting structures supporting strong financial management and timely decision making and reporting. In this regard, it should support an effective consolidation process of financial statements;
- Budget policies, especially in terms of Capital Investments are improved and that financial controls related to the recording of expenditures into adequate economic categories are strengthened;
- A clear framework of risk management in relation to organisational objectives is introduced. This should be used as a basis for strengthening and developing an adequate and effective control environment and starting point for the work of internal audit; and
- Initiate an evaluation of the effectiveness of the current legal framework and practices in using official vehicles.

I recommend the Assembly to consider:

- When appropriating the budget, the previous year's budget performance of Central Authorities is taken into account, to discuss the reasons for surpluses and then take adequate decisions for annual budget appropriations.

5.2 Independent Institutions

5.2.1 Introduction

For 2013 we carried out regularity audits of AFS produced in 26 Independent Institutions (IIs). The level of compliance with the reporting requirements is good. In most IIs, AFS presented a true and fair view in all material aspects.

Table 13: Audit opinions given during the last three years

Audit opinions	2013	2012	2011
Unmodified	20	18	18
Unmodified with an Emphasis of matter	4	6	7
Qualified	2	2	1
Qualified with Emphasis of matter	1	1	
Total:	27²²	27	26

An exception to this is three cases²³ where we gave qualified opinions due to shortcomings in the reporting of revenues and executing payments not in accordance with the legislation. In four cases²⁴ we emphasised matters due to shortcomings in disclosing information on assets.

The reporting process, in relation to previous years, has developed significantly. The Assembly now has almost all currently required information regarding IIs budget management. Most of the IIs met all legal requirements when it comes to external reporting.

The initial budget for 26 IIs audited by the OAG for 2013 was €87,791,452 whilst the final budget was €86,528,364. Annual expenditures were €76,477,053 or 88% of the final budget, an improvement of 5% compared with 2012.

In general IIs are committed to improve public financial management and controls. However, additional actions are needed to address all issues arising from the audit. Furthermore, the Assembly's Coordination Office started to address our recommendation when it comes to reviewing possibilities for establishing new reporting requirements and integrating financial with operational reporting into a single report. This should pave the way for a more advanced dialogue on the budget and its execution. We still identified several challenges faced by IIs, which we present in the following.

5.2.2 Challenges faced

Weaknesses in Revenue Management exist in the collection and there is a lack of reconciliation between registers and source documents. In certain cases, revenues were not collected in accordance with applicable legislation.

²² When it comes to the PAK, OAG besides the AFS, also audit the Privatisation Fund. Two audit opinions were given within a single report. As a result of this, the number of opinions given is higher than the number of agencies audited.

²³ PAK, Privatisation Fund and PRB

²⁴ University of Prishtine, Energy Regulatory Office, State Prosecutor and PPRC.

The most challenging areas during 2013 remain as elsewhere the area of procurement followed by human recourse management. The challenges are described in chapter 4.

In the latter area a more frequent situation is that many managerial positions were covered by acting staff, for longer than allowed by law.

We noticed significant improvements within Asset Management in comparison with the previous year. During 2013 some institutions had completed accounting records, but there remain shortcomings in recording and reporting of assets in some IIs.

Inter-institutional coordination

Since most IIs are low-budget institutions and their staff are mainly professional, they need to look for other solutions in order to cover general administrative requirements. More results could be achieved with fewer funds through a better coordination and cooperation between IIs. However, very little was done in this direction in 2013. Cooperation was mainly developed in the area of procurement.

The IAU was not established in most IIs, as this is not a requirement for smaller BOs. Considering that in a number of cases internal audit services would be useful for the managers, IIs should find a way to share these services.

Cooperation between IIs for common support is necessary to support the achievement of institutional strategic objectives. This is the case for example between the institutions in the judicial system²⁵, as well as the Independent Commission for Mines and Minerals with other institutions to support law enforcement for mines and minerals²⁶.

Working Space

Working space is often inadequate and does not provide basic working standards. Out of 26 audited IIs, 20²⁷ are located in private buildings. The total value of rent paid in 2013 was €1,620,817. Consequently, a significant part of the budget continues to be spent on rent, instead of being spent on other operating and professional activities.

Independence from appointing and fulfilling senior public positions

In December 2012 a permanent contact point for IIs was established under the Assembly to notify Assembly's committees for expiring of mandates for Boards and their members. This has assisted relevant Committees to prepare the appointment process before mandates expired. Despite this, four IIs²⁸ in 2013 did not have complete Boards resulting in poor functionality of Boards during certain periods.

²⁵ The cooperation of the Kosovo Judicial Council, the Kosovo Judicial Institute, the State Prosecutor and the Ministry of Justice.

²⁶ Cooperation between ICMM prosecutors, the Ministry of Internal Affairs (MIA), MESP and the municipalities.

²⁷ At the end of 2013, the National Agency for Personal Data Protection (NAPDP) was transferred into a public building.

²⁸ The Competition Authority, the Council for Cultural Heritage, PRB and PAK.

Recommendations

I recommend the Assembly to consider:

- Initiating immediate measures for appointment within legal limits when notified regarding the expiration of mandates of Boards and their members;
- Further promoting horizontal cooperation between Independent Institutions through the Coordination Office of the Assembly in sharing knowledge and more rational use of human resources;
- Advise the Government to further explore the possibilities to provide the Independent Institutions with working space in public buildings within the shortest period possible thus reducing the operating costs for IIs significantly; and
- Developing the reporting framework in order to ensure that sound mechanisms are established for Independent Institutions accountability for public money spent against results achieved.

5.3 Municipalities

5.3.1 Introduction

We carried out regularity audit of all 38 municipalities²⁹ 2013 AFS. Of these, 11 were contracted out to one internationally recognised private audit firm.

Unmodified opinions were given for 33 municipalities, of which 31 with an Emphasis of matter. Qualified Opinions with an Emphasis of matter were given for three municipalities, while a Disclaimer was given for two.

Table 14: Differences of opinions for audits of municipalities in the last three years

Audit opinions	2013	2012	2011
Unmodified	2	5	2
Unmodified with Emphasis of matter	31	25	14
Qualified with Emphasis of matter	3	5	18
Disclaimer of Opinion	2	3	3
Total:	38	38	37

Local self-government and responsibilities

The municipalities' financial resources consist of grants from the central level, operational grants and grants for extended competencies³⁰ and emergency grants as well as revenues from taxes and municipal loans. In addition different donors provide support to projects and

²⁹ This includes Mitrovica North Administration Office.

³⁰ Types of extended competencies are thoroughly described in Articles 19-23 of the Law on Local Government Finances no.03/L-040, while budgeting for extended competencies are described in Article 6 of the Law on Local Government Finance no. 03/L-049

Serb majority municipalities also receive financial assistance from the Republic of Serbia. In these cases the audit situation is not transparent enough.

Turnover in municipalities

The total expenditures of municipalities for 2013 were €386,068,502³¹ or 26% of total KB expenditures. During 2013, municipalities collected own source revenues of €55,850,331 which comprised 14% of the overall financing structure. Compared with 2012 own source revenues were reduced by 6%. The final budget of municipalities was spent at an average level of 90% compared to 89% in 2012.

5.3.2 Challenges faced

Implementation of prior year recommendations

The action taken on our recommendations was not satisfactory. In the reports produced for 2012, we gave 425 recommendations for 35 municipalities³². Out of these only 52% were fully or partially addressed.

Furthermore, three municipalities did not prepare Action Plans for addressing the recommendations given³³.

Compliance with financial reporting requirements

Compared with the 2012 AFS, there is an improvement when it comes to implementing legal requirements for financial reporting. Only a small number of municipalities did not meet some of the legal requirements on financial reporting. In the following we present the key issues:

- Zubin Potok did not submit AFS to the Treasury, while three others (Leposaviq, Partesh and Zvecan) had deficiencies in the signing and sealing of the Declaration by authorised persons; and
- Four municipalities did not prepare AFS in both languages.

Assisted by the OAG, Leposaviq and Zvecan drafted AFS for the first time and offered full cooperation in the course of audit. However, they continue to face challenges, such as: a lack of adequate professional training especially in using KFMIS modules, addressing FM/C requirements (methods for drafting annual budgets, implementation of procurement regulations, etc) and establishing sustainable organisational structures.

Development of Performance indicators

Besides regularity audit, we have analysed several potential key performance indicators of the municipalities and a separate discussion paper regarding these indicators is in the process of being published. Results of this analysis highlighted some key challenges that the municipalities are currently facing including:

³¹ €367,296,565 were spent in 2012

³² Not including Leposaviq, Zubin Potok and Zvečan

³³ Gjakova, Istog and Kllokot

- (a) *Poor management of outstanding liabilities.* 34 municipalities, excluding four northern municipalities for which we do not have complete data, have liabilities over €46 million, out of which €16 million relate to 2013 and the rest for previous years.
- (b) *The continuous increase of debts to the municipalities.* Uncollected debts at the end of 2013 reached €147 million. The majority of these debts relate to property tax (€104 million), business fees, construction licenses and leases. Municipalities do not have any strategies how to approach these historical debts.
- (c) *Poor planning of revenues.* When planning annual revenues, there is no consistency between the amounts planned, invoiced and collected. For example: when determining property tax charges, planning is not related to invoicing or collections of previous years.
- (d) *Inadequate classification of economic codes.* In most municipalities, some expenditure was not in accordance with the initial budget appropriations. For example: due to a lack of funds, funds appropriated for capital investments were spent for Goods and Services. The municipalities have not used the option of transferring budget (within set limits) between economic categories.
- (e) *Lack of prudence in managing expenditures.* Some municipalities³⁴ made imprudent expenditures for travel, representation, purchase and use of luxury cars. In some, there were very high representation costs.

Key audit findings

We noticed weaknesses in a number of areas many of which were reported in 2012 and previously:

- Failure to address audit recommendations made by the Auditor General;
- Failure to accurately present third party payments to the AFS;
- Low level of budget execution within the Capital Investment category;
- In many municipalities, there are still insufficient internal controls within the procurement system;
- Lack of control when it comes to supervision of capital investment contracts and delays in implementing contracts;
- Subsidies granted without taking the internal municipal regulations into account and lack of feedback from beneficiaries on the way subsidies are used;
- Incomplete Asset Registers, delays when it comes to asset inventory and improper disclosure of information in the AFS;
- Non-functional ACs in almost half of the municipalities resulted in an ineffective internal audit system within the municipalities; and

³⁴ Gjilan, Gjakova, Graçanica, Kamenica, Mitrovica, Peja and Skenderaj

- In most municipalities the Management only addresses the recommendations given by the IAU to a limited extent.

Many of the internal control shortcomings listed above are linked to the absence of a generic internal reporting soft ware allowing better recording of business information as a base for further management decisions. Such a system would also facilitate transparency and make it easier to develop indicators based on which comparissons between municipalities could be made.

Recommendations

I recommend the Government to ensure that:

- The Minister of Finance discusses with the Mayors the issue of outstanding liabilities, and review alternatives for settling these liabilities;
- The Minister of Finance initiates a comprehensive discussion with the Mayors and the Government on handling un-collected debts, with a special focus on debts older than five years;
- The possibilities to invest in a generic internal reporting system for the municipalities is analysed in order to support better control of municipal activities;
- Clear rules are defined specifying ceilings for representation expenditures in municipalities; and
- Intensified discussions with Mayors of northern municipalities are initiated to identify the challenges that they face and provide adequate support for their complete integration in all fields. Furthermore, determinehow appropriate training should be provided on the use KFMIS modules and other required Public Financial Management functions.

I recommend Municipal Assemblies to ensure that:

- When reviewing quarterly budget reports, special focus should be on uncollected liabilities and debts;
- Before submitting budget requests for 2015, audit reports are analysed, with special focus on addressing recommendations and eliminating shortcomings identified; and
- Audit Committees are established where they are not in place yet.

I recommend the Assembly to consider:

- Addressing the recommendation from last year on re-establishing the function of Executive Manager in all municipalities, as a highest civil servant in the administration responsible for providing service for citizens.

5.4 Publicly and Socially Owned Enterprises

5.4.1 Introduction

POEs³⁵ are the property of the state. POEs are categorised as:

- Central and Regional POEs; and
- Local POEs.

Central and Regional POE's are supervised and monitored directly by the Ministry of Economic Development, as a representative of the owner. Local POEs, on the other hand, are owned by a municipality or in some cases by a number of municipalities together. It is the obligation of each municipality to introduce an ownership policy regarding the Local POE and its role in the corporate governance. The Boards of Directors (BoDs) have the obligation to oversee the work of management so that objectives are met and the POEs produce results. The municipalities exercise their rights through the Municipal Shareholder Committee (MSC), Socially Owned Enterprises (SOEs) are represented by the PAK. The function of the PAK is the administration and privatisation of SOEs and their assets.³⁶

5.4.2 Publicly Owned Enterprises

For the financial year 2012, we published five audit reports³⁷ for five audited entities, resulting in 18 recommendations in total. Out of these, six recommendations below were given to the Government and the Assembly. The audited entities produced action plans for addressing recommendations issued.

Prior year's recommendations to the Government were to:

- Establish forums between the Government and enterprises to discuss challenges they are facing and opportunities to improve performance and services;
- Include a higher degree of information on the performance of POEs and their contribution to fulfilment of set objective in the report issued by the Policy Monitoring Unit of Publicly Owned Enterprises (PMU/POE) within the Ministry of Economic Development (MED) on the operations of POEs;
- Have a higher degree of cooperation between Ministries in relation to implementation of policies and different policy areas; and
- That PMU/POE conducts regular follow up on how POEs are addressing the Auditor General's recommendations.

³⁵ There are a total of 61 POEs, of which 17 are Central and 44 are Local POEs.

³⁶ This authorisation includes the authorisation for sale, transfer and liquidation of enterprises and their assets.

³⁷ Of which four were non-statutory audits and one a management audit.

Prior year's recommendations to the Assembly were to consider:

- Actively following the actions of the Government by looking into the performance of POEs in relation to the policies in place in providing quality service to citizens, and the challenges they face in this process;
- Providing further feedback to PMU/POE on the content of the analysis of the performance of POEs, to also include information not only of operational and financial performance, but also analysis of shortcomings in the provision of services to citizens.

A. Challenges faced by central POEs

This year we have seen that the PMU/POE has started developing a standardised format of assessment criteria which shall be used to produce the report of the performance of the POEs. Also the PMU/POE has followed up with the audited POEs on the level of implementation of their action plans and discussed the recommendations with audited POEs in the annual meeting between the Government as the owner and POEs.

However, we have no information that forums between Government and POEs have been established to discuss challenges, or that the level of cooperation between ministries in implementation of policies regarding POEs has increased.

The Assembly has also not played an active role in respect to the recommendations to the POEs, as they did not conduct any hearing sessions for the reports produced, and no requests for specific information were made to the Government.

This year's performance audits on BoDs in central POEs have identified the following shortcomings:

- MED – PMU/POE as a Shareholder representative in relation to POEs did not ensure effective monitoring of the BoDs;
- ACs of POEs have failed to fully establish measurable performance criteria for setting compensation for members of BoDs; and
- BoDs of POEs in some cases have exceeded by 100% the expected fee by receiving compensations for participating in a large number of committees, which could have an effect on the efficiency of their work.

Recommendations**I recommend the Government to ensure that:**

- Provisions are drafted that clearly set forth and describe the process and deadlines for selection of the Board of Directors;
- The selection procedure of Board of Directors in Publicly Owned Enterprises are carried out according to the deadlines set forth in the provisions;
- The assessment of the Board of Directors is based on the previously set criteria;

- The Ministry of Economic Development carries out analysis of the financial statements of the Publicly Owned Enterprises and specifies standard information needed for an effective monitoring and oversight; and
- The Ministry of Economic Development take measures in order to secure that Board of Director remunerations are result based.

I recommend the Assembly to consider:

- Closely follow how the Government develops its ownership responsibilities in relation to the central Publicly Owned Enterprises with an emphasis on the development and monitoring of performance indicators; and
- Giving higher priority to the oversight of Publicly Owned Enterprises.

B. Challenges faced by local POEs

In the audit we have conducted this year on waste management, we have identified some shortcomings and the main challenges that the stakeholders, MESP, municipalities and Regional Waste Companies (RWCs) are facing, in particular:

- **MESP** has not produced a comprehensive legal framework to address waste management and coordination with municipalities in handling waste problems is limited;
- **Municipalities** lack clearly determined internal responsibilities for the administration and management of waste. They also fail to coordinate and communicate with MESP in addressing the shortcomings and challenges; and
- **RWCs** provide limited services, particularly in rural areas where waste collection services are provided in only 61% of the territory. The Low level of collection of billed revenues is also a major challenge for the investment in and quality of the operations of RWCs.

Recommendations

I recommend the Government to ensure that:

- More effective mechanisms are put in place in order to clarify requirements from the National Overall Strategy on waste management;
- The National Strategy is regularly updated in order to focus on the waste minimisation and prevention;
- The existing programme for central waste inspections is implemented to address the shortcomings in local level inspections; and
- An effective monitoring and reporting on environment is implemented by providing comprehensive, quantitative and qualitative information on waste management related issues in Kosova.

I recommend the Mayors to ensure that:

- Municipal organisation on waste collection is improved by clarifying responsibilities within the municipality and that local inspectors fully implement their work programmes in order to support a cleaner environment;
- Completion of the legal infrastructure on municipal waste is moved forward through the introduction of local standards and regulations. For example, this must provide adequate locations for containers and encourage the separation and classification of waste; and
- Regional Waste Companies are supported in promotion of waste collection services in terms of expanding their activities and focus at the same time on more effective collection of revenues in order to generate funds to support investments for operational improvements.

5.4.3 Socially Owned Enterprises

Last year we carried out a statutory regularity audit of both parts of Trepça, resulting with a total of 45 recommendations to Trepça and PAK as the direct administrator. These recommendations were given with the aim of improving the SOE's performance.

In the last year's AAR I recommended the Assembly to:

- Request from the Board of PAK to provide clear rules on the manner of administration, proper cooperation between managers of Trepça, extend the authority throughout the entire enterprise and ensure proper reorganisation process of Trepça SOE;
- Request from the Board of PAK to ensure that Managers of Trepça shall draft unified AFS that contain comprehensive information as required under the law and IFRS, whereas the Board of PAK follows up their cooperation; and
- Ensure that Managers of Trepça provide for an adequate environment of controls over their business activities, so that weaknesses are eliminated and they are oriented towards adequate cooperation. There should be unified internal functioning and controls, and the regular financial reports to PAK should also be unified and transparent.

In 2013 PAK have worked closer with Trepça and are continuing to implement the recommendations given last year.

Recommendations**I recommend the Assembly to consider:**

- Follow the progress in implementing the recommendations given for 2012 regarding Trepça.

5.5 Privatisation

5.5.1 Introduction

PAK is an independent public body responsible for implementing the programme of privatisations. The results of SOE privatisations will potentially have a significant impact on Kosovo's market restructuring and economic development as well as improved welfare for citizens. The mandate of the PAK is expected to end in 2016, after completion of its objectives.

Where SOEs have a sustainable business, the assets of SOEs are liquidated according to the law and Agency's operational policies through the Spin-off method. Voluntary Liquidations allow an expeditious exit from the market for those enterprises that have no prospects of continuing with business activities. This process is important to preserve the remaining value of enterprises, and of any ownership or creditor claimant's interest.

In the AAR issued last year we identified a number of challenges for the PAK, and issued recommendations for the Government and issues for consideration by the Assembly. We have noticed that most of the issues raised have remained the same.

5.5.2 Challenges faced

- Delays caused in the privatisation and liquidation process due to the incomplete BoDs;
- Insufficient controls over the distribution of 20% to the workers from sale of SOEs;
- Using funds of SOEs in liquidation for PAK's administrative services, before the liquidation of enterprises takes place; and
- Fulfilling the objective of finishing its mandate by 2016.

In 2013 PAK has been working on simplifying the financial statements, the results of which we shall see in the 2014 statements.

Recommendations

I recommend the Government to:

- Provide a procedure for selecting members of Board of Directors which should clearly foresee the advertising of positions, development of an assessment process for candidates and submission of proposals for candidates for appointment to the Assembly.

I recommend the Assembly to consider:

- Developing clear provisions that determine the timetables for selecting members of Boards of Directors thereby not leaving gaps in the functioning of the Agency;
- Taking measures securing that revenues from the sale, transfer and liquidation of SOEs, with the exception of surplus funds, are to be held in trust for the owners and creditors; and
- Requesting from the Board of Directors of the Agency clarity over how the cost for liquidation services should be budgeted for.

5.6 Public-Private Partnerships

5.6.1 Introduction

For the first time this season we have audited a Public-Private Partnerships (PPP). The aim was to identify possible shortcomings and challenges PPP might face, that can be used as lessons learned for the future projects.

5.6.2 Challenges faced

The challenges we have noticed in the implementation of the new terminal of Prishtina International Airport "Adem Jashari" (PIA) are that:

- The Government has failed to address the shortcomings identified during the implementation of the project. It did not secure a construction license for the construction of the new terminal. The issues regarding some land planned for use by the Private Partner is not yet resolved due to a dispute with KFOR; and
- The management of the project was weakened due to the failure of the Government to establish a permanent and professional unit for project management. The PPP Committee held irregular meetings, and reports from the independent engineer (IE) were incomplete.

Recommendations

When planning PPP projects, I recommend the Government to ensure that:

- All administrative procedures are adhered to when issuing directives, regulations and holding meetings;
- A permanent project management unit should be established. The establishment of the independent unit should become a precondition for entry into force of any agreement made;
- The PPP Committee should clarify reporting timescales through directives and regulations and ensure timely reports and in line with prescribed requirements in the future; and
- All official documents and agreements should be available in the country's official languages.

For the completion of the current PPP project, I recommend the Government to ensure that:

- The issue of lack of construction licence for the new Terminal is treated seriously and the responsible stakeholders are mobilised to legalise the building;
- Immediate actions are taken regarding the land disputed with KFOR to clarify the dispute and close the unresolved issues on expropriation of private properties in order to have construction of the entrance road of IAP AJ finished. Furthermore, amendments to the Agreement should be made as needed;

- The new Terminal is received in accordance with the PPP Agreement with the expected level of safety and capacities; and
- The PPP Committee take actions regarding outstanding works and clarifies how they shall be performed and supervised and produces a report on the Independent Engineers services and clarifies whether the supervision services are completed in accordance with the contract.

Annex I: Different types of opinions applied by the Auditor General

(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 managerial shortcomings

Table 1: Types of opinions

Number	Types of opinions	Number of opinions
1	Unmodified opinion	37
2	Unmodified opinion with Emphasis of matter	46
3	Qualified opinion	2
4	Qualified opinion with Emphasis of matter	4
5	Disclaimer of opinion	2
Total		91³⁸

Table 2: Unmodified opinions

Organisation	Final budget (€000)	Key managerial shortcomings
Ministry of Internal Affairs	100.02	High budget execution in the last three months in the category of Capital Investments; The large number of positions covered by Acting Duty and lack of completion of entire documentation before signing the contract; Salaries paid out of the category of Goods and Services.
Ministry of Economic Development	41.72	Incomplete implementation of Auditor General's recommendations; Inappropriate planning of procurement; Shortcomings in planning and budget execution; Poor controls over the payments process and management of subsidies; Failure to carry internal audit in accordance with the annual plan.
Ministry of Kosova Security Forces	37.30	Low level of budget execution in the category of Capital Investments; Delays in implementation of projects; Shortcomings in managing Procurement; Shortcomings in processing payments and closing of advances.
Ministry of Public Administration	31.31	Incomplete implementation of Auditor General's recommendations; Low level of budget execution in the category of Capital Investments and Utilities; Delays in implementation of projects; Shortcomings in managing human resources; Incomplete functioning of the Audit Committee; Shortcomings in managing non-capital assets.
Ministry of Finance (not including the Customs and TAK)	23.91	Incomplete implementation of Auditor General's recommendations, Low level of budget execution for the category of Capital Investments; Shortcomings in managing Procurement; Failure to close advances in time; Recording expenditures in inadequate codes; Shortcomings in managing human resources and in additional compensations.
Kosova Judicial Council	19.07	Incomplete implementation of Auditor General's recommendations; Shortcomings in revenues software; Shortcomings in managing Procurement; Execution of payments in disagreement with Treasury Rules; Shortcomings in managing human resources; Incomplete functioning of the Audit Committee.

³⁸ This includes the audit of opinion for the Danida and TAMAD projects

Ministry of Justice	18.23	Low level of budget execution in the category of Capital Investments; Shortcomings in managing Procurement; Incomplete and inaccurate reporting of obligations; Shortcomings in managing assets with value under €1000.
Assembly	17.89	Low level of budget execution for the category of Capital Investments; Shortcomings in managing Procurement; In-sufficient support by the Audit Committee for the internal audit.
The Central Election Commission	11.70	Incomplete implementation of Auditor General's recommendations; Recording payments in incorrect economic codes; Disagreement with the LPP; Shortcomings in processing of payments; Shortcomings in recruitment; Non-functioning of the Audit Committee.
Kosova Tax Administration	8.01	Low level of budget execution in the category of Capital Investments; Delays in reviewing reimbursements; Failure to apply levies for collection of debts; Shortcomings in agreements for payments of tax obligations in instalments, Disagreement with the LPP; Salaries paid out of other categories.
Ministry for Communities and Returns	7.37	Disagreement with the LPP; Shortcomings in managing subsidies.
Ministry of Local Government Administration	6.14	Incomplete implementation of Auditor General's recommendations; Low level of budget execution for the category of Capital Investments; Shortcomings in budget planning; in oversight of capital projects and in managing assets and debts.
Shtime	5.31	Shortcomings in collection of arrears from previous years and in managing Procurement; Irregularities in payments to staff.
Kosova Property Agency	3.50	Shortcomings in planning and budget execution; Shortcomings in processing of payments; and in managing human resources.
Office of the President	1.88	Disagreement with the LPP; Shortcomings in processing payments, Recording expenditures in inadequate codes; Irregularities in staff payments.
Ministry of Diaspora	1.72	Inadequate planning and low level of budget execution; Shortcomings in managing Procurement, expenses for trips abroad and subsidies.
Ministry of European Integration	1.72	Shortcomings in managing human resources; in reporting on the manner the subsidies are spent by the beneficiaries and in executing payments for tickets for people who were not employed in the Ministry.
Independent Commission for Mines and Minerals	1.68	Failure to implement the Auditor General's recommendations; Recording expenditures in inadequate economic codes; Shortcomings upon issuance of licenses; Lack of plan and committees for inspection of mineral activities; Shortcomings in Procurement procedures; Improper management of receivables.
Constitutional Court of Kosova	1.56	Shortcomings in payments carried out for remuneration of engagements in committees; Disagreement of the work regulation with law of KCC.
Ranillug	1.25	Shortcomings in managing vehicles and in collecting Own Source Revenues.
Academy of Sciences and Arts	1.08	Poor management and reporting of assets under €1,000; Disagreement with the LPP; Collection of revenues in disagreement with the regulation 03/2010; Shortcomings in managing human resources.

Ombudsperson	0.91	Incomplete implementation of Auditor General's recommendations; Low level of budget execution; Donor funds used at a low level; Shortcomings in managing Procurement and in processing of payments.
The Regulatory Authority for Electronic and Postal Communications	0.85	Incomplete implementation of Auditor General's recommendations; Low level of budget execution in the category of Capital Investments; Shortcomings in managing Procurement; in processing of payments and in managing human resources.
The Independent Media Commission	0.83	Necessary amendment of the Regulation for collection of license fee for audio-visual media services; Shortcomings in processing of payments; Number of employees on the payroll list is higher than the one on the annual budget.
DANIDA	0.79	Low level of budget execution; Shortcomings in managing Procurement and expenditures incurred outside procurement.
Civil Aviation Authority	0.78	Overstatement of assets with value under €1,000.
Kosova Judicial Institute	0.55	Shortcomings in processing payments; in managing human resources and in processing of payments.
Anti-Corruption Agency	0.51	Paying for expenses from inadequate category; Disagreement with the LPP; Shortcomings in processing payments; Payments in disagreement with Treasury Rules; Discrepancies between assets registers.
TAMAD	0.47	Shortcomings in managing Procurement and expenditures incurred outside procurement.
State Agency for Data Protection	0.38	Incomplete implementation of Auditor General's recommendations; Shortcomings in managing payments and in managing human resources. Incomplete assets register.
Railway Regulatory Authority	0.35	Paying expenses based on contracts of other institutions; Disagreement with the LPP; Execution of payments in disagreement with Treasury Rules; Failure to close advances in time; Shortcomings in managing Human Resources.
Water and Waste Regulatory Office	0.33	Payments in disagreement with Treasury Rules and shortcomings in managing Human Resources.
Legal Aid Commission	0.31	Shortcomings in managing Procurement.
The Elections Complaints and Appeals Panel	0.27	Low level of budget execution.
Independent Supervisory Council for KCS	0.25	Use of mobile services without a contract.
Kosova Competition Authority	0.21	Incomplete implementation of Auditor General's recommendations; Disagreement with the LPP; Use of mobile services without a contract; Payments in disagreement with Treasury Rules; Shortcomings in managing vehicles and in managing Human Resources.
Kosova Council for Cultural Heritage	0.16	Recording expenditures in inadequate codes; Irregularities in payments of Human Resources and disagreement with the applicable legislation.

Table 3: Unmodified opinions with Emphasis of matter

Organisation	Final budget (€000)	Reason for Emphasis of matter	Key managerial shortcomings
Gjilan	21.36	The information on assets disclosed in the AFS was incomplete and inaccurate; Misclassification of expenditures, from the category of Capital Investments was paid for goods and services and subsidies.	Failure to implement Auditor General's recommendations; Shortcomings in managing Procurement and expenditures incurred outside procurement; Shortcomings in managing receivables; Entry into obligation over the approved budget.
Podujeva	17.40	The information on assets disclosed in the AFS was incomplete and inaccurate; Misclassification of expenditures, from the category of Capital Investments was paid for goods and services.	Incomplete implementation of Auditor General's recommendations; Insufficient work by the Internal Audit Unit; Shortcomings in managing Procurement and in revenue collection.
Vushtrri	13.15	The information on assets disclosed in the AFS was incomplete and inaccurate; Misclassification of expenditures, from the category of Capital Investments was paid for goods and services.	Failure to implement Auditor General's recommendations; Poor reporting to the senior management regarding expenditures; Shortcomings in collecting revenues.
Malisheva	11.24	The information disclosed on assets and payments from third parties was not complete and accurate.	Incomplete implementation of the Auditor General's recommendations; Failure to apply an automated billing system for own source revenues, paying for expenditures from inadequate category.
Rahovec	10.38	The information on assets disclosed in the AFS was incomplete and inaccurate; Misclassification of expenditures, from the code of Capital Investments was paid for subsidies and goods and services.	Incomplete implementation of Auditor General's recommendations; Shortcomings in planning and collection revenues; Inaccurate classification and non-adherence to the law upon issuance of construction permits; Shortcomings in managing Procurement.
Drenas	8.10	The information on assets disclosed in the AFS was incomplete and inaccurate; Misclassification of expenditures, from the category of Capital Investments was paid for goods and services.	Incomplete implementation of Auditor General's recommendations; Lack of mechanisms for collection of Accounts Receivable; Delays in implementation of projects; Failure to include salaries of teachers in the payroll list.

Kamenica	8.39	The information on assets disclosed in the AFS was incomplete and inaccurate; Payments presented as payments from third parties were financings from the central level.	Shortcomings in managing the collection of revenues; the Procurement and the Accounts Receivable; Delays in paying debts; Lack of independence of the Audit Committee.
Klina	8.34	The information on assets disclosed was incomplete and inaccurate.	Failure to implement Auditor General's recommendations; Shortcomings in managing revenues; Procurement and Human Resources.
Fushë Kosova	7.37	The information on assets disclosed in the AFS was incomplete and inaccurate; Misclassification of expenditures, from the category of Capital Investments was paid for goods and services; Stocks were understated.	Weaknesses in controls of senior management; Shortcomings in the automated billing system; Disagreement with the LPP; Shortcomings in managing advances for official travel and Accounts Receivable; Disagreements with the LCS for additional compensation of employees.
Ministry of Trade and Industry	6.56	The information on assets disclosed in the AFS was incomplete and inaccurate.	Incomplete implementation of Auditor General's recommendations; Shortcomings in budget implementation; Shortcomings in managing Procurement Human Resources.
Dragash	6.13	The information on assets disclosed in the AFS was incomplete and inaccurate; Payments presented as payments from third parties were financings from the central level.	Incomplete implementation of Auditor General's recommendations; Shortcomings in good governance; Budget execution; Collection of revenues and Procurement.
Obiliq	5.12	Records and information disclosed on the assets, receivables and classification of expenditures were incomplete and inaccurate.	Incomplete implementation of Auditor General's recommendations; Budget execution in the category of Capital Investments low; Shortcomings in collecting revenues; in managing subsidies; Failure to establish the Audit Committee.
Shterpce	3.57	The information disclosed on assets was not complete and accurate.	Incomplete implementation of Auditor General's recommendations; Shortcomings in collecting revenues; Shortcomings in managing Procurement and Expenditures incurred outside procurement.
Novoberd	2.56	The information disclosed on assets was not complete and accurate.	Inadequate controls for management of receivables; Provision of subsidies without a decision of the Municipal Assembly.

Hani i Elezit	2.01	The information disclosed on assets and payments from third parties was not complete and accurate.	Incomplete implementation of Auditor General's recommendations; Shortcomings in collecting revenues.
Klllokot	1.16	No values of assets were disclosed in the AFS	Failure to implement Auditor General's recommendations; Shortcomings in collecting revenues; managing Procurement and Human Resources.
Mamusha	1.13	The information on assets disclosed was incomplete and inaccurate; Payments presented as payments from third parties were financings from the central level.	Failure to implement Auditor General's recommendations; Collection of revenues for the budget was at an unsatisfactory level; Shortcomings in managing Procurement files of Human Resources; Lack of written policies on subsidies.
Public Procurement Regulatory Commission	0.34	Accounting handling of the donation received was improper.	Failure to implement Auditor General's recommendations; Shortcomings in managing expenditures incurred outside procurement and in the presentation of assets.
Zvecan	1.99	The information disclosed on assets was not complete and accurate.	Shortcomings in collecting revenues compared to planning; Shortcoming in managing subsidies; Procurement and Human Resources; Failure to establish the Internal Audit Unit and the Audit Committee.
Decan	6.97	The information disclosed on assets was not complete and accurate.	Shortcomings in collection of the revenues for the budget; The budget limit for capital investments and goods and services was exceeded which were reported as liabilities.
State Prosecutor	5.95	The information disclosed on assets was not complete and accurate.	Incomplete implementation of Auditor General's recommendations; Payments carried out for expertise services in lack of relevant documents.
Kacanik	5.90	Six dossiers of procurements from 2012 are under investigation by the prosecution; Assets register is incomplete and inaccurate; Payments presented as payments from third parties were financings from the central level.	Shortcomings relating to recording of revenues; Shortcomings in managing Procurement.
Office of the Prime Minister	11.89	Lack of reporting on the manner subsidies is spent.	Shortcomings in the reporting of subsidies; Shortcomings in managing expenditures; and Shortcomings in recording assets. Misclassification of expenditures

Kosova Customs	8.88	Failure to disclose receivables from previous years.	Lack of timely reporting by users of customs warehouses; Incorrect recording in Tariff Codes and incorrect Calculation of Excise; Incorrect calculation of Customs Tax for advertising goods; Shortcomings relating to multipliers of civil servants, and Acting position exercised for more than three months.
Administration in Northern Mitrovica	4.87	Assets were not fully presented.	Incomplete implementation of Auditor General's recommendations; Management of revenues is not at a satisfactory level; Shortcomings in managing Procurement; Lack of regulation on provision of subsidies.
Prishtina	85.04	The information disclosed on assets was not complete and accurate; Misclassification of expenditures, where from the category of Capital Investments was paid for goods and services; Outstanding liabilities were not presented in the AFS.	Failure to implement Auditor General's recommendations; Implementation of the budget is at a low level; Shortcomings in collecting revenues and in managing Procurement; The Internal Audit Unit does not provide expected assurance to the management on the effectiveness of internal controls.
Gracanica	6.78	The information on assets disclosed in the AFS was incomplete and inaccurate; Misclassification of expenditures, where from the category of Capital Investments was paid for goods and services.	Incomplete implementation of Auditor General's and internal audit recommendations; Incomplete presentation of obligations; Budget implementation for capital investments was at a low level; Weaknesses in managing subsidies; Improper management of Accounts Receivable; The audit committee was not functional.
Junik	1.71	Eight procurements dossiers are under investigation and the reasons were not made available or the status of these investigations; Lack of information on assets and for payments from third parties.	Failure to apply an automated billing system for own source revenues; Shortcomings in managing Revenues and Procurement.
Skenderaj	11.70	The information disclosed on assets was not complete and accurate; Payments presented as payments from third parties were financings from the central level.	Collection of revenues for the budget was at a low level; Shortcomings in collecting revenues and in managing Procurement.

Istog	8.68	The information disclosed on assets was not complete and accurate.	Shortcomings in planning Revenues; Procurement and in monitoring subsidies; Failure to record assets; Lack of commitment for implementation of the audit plan and to functionalise the Audit Committee.
Viti	8.61	Lack of information on assets and on payments from third parties.	Failure to establish an automated billing system for own source revenues.
Energy Regulatory Office	0.68	The information disclosed on assets was not complete and accurate.	Shortcomings in budget execution; Expenditures incurred without a contract; Shortcomings in payment processes and in managing Human Resources; Lack of e-assets register and accounting register.
Ministry of Education, Science and Technology	55.93	The information disclosed on assets, liabilities and unclosed advances are not complete and accurate.	Non-reconciliation of revenues; Shortcomings in managing Procurement and expenditures incurred outside procurement; Shortcomings in managing payments carried out for overtime work and in managing subsidies.
University of Prishtina	29.57	The information disclosed on assets, outstanding liabilities and contingent liabilities is inaccurate.	Incomplete implementation of Auditor General's recommendations; Shortcomings in collecting revenues; Shortcomings in managing Procurement, salary expenditures and in presenting assets, liabilities and contingent liabilities.
Ministry of Culture, Youth and Sports	19.93	Information relating to assets was materially understated and the transfer of funds in the bank accounts of subordinate institutions is not clarified.	Incomplete implementation of Auditor General's recommendations; Shortcomings in planning and budget execution; Shortcomings in managing Procurement and Subsidies; Shortcomings in the internal audit system.
Ministry of Health	108.94	The information disclosed on assets was not complete and accurate.	Shortcomings in managing subsidies; High level of budget execution at the end of the year; Large stock of expired drugs; Ineffective use of donations; Shortcomings in managing payments to various boards and commissions.
Ministry of Labour and Social Welfare	229.52	The information disclosed on assets and Accounts Payable is not complete.	Shortcomings in managing subsidies; Incorrect classification of expenditures; Failure to pay pensions to persons with disabilities and beneficiaries of social services; Failure to record and inventory assets.

Ministry of Foreign Affairs	19.80	Failure to approve expenditures for goods and services, and services provided from Diplomatic and Consular Missions.	Incomplete implementation of Auditor General's recommendations; Shortcomings in budget execution; Payments for subsidies out of goods and services; Shortcomings in managing Procurement, Subsidies and Assets and Delays in reporting and recording revenues.
Ministry of Agriculture, Forestry and Rural Development	23.98	The information disclosed on assets was not complete and accurate.	Budget execution at a low level; Shortcomings in managing own source revenues.
Ministry of Infrastructure	291.35	The information disclosed on assets was not complete and accurate.	Incomplete implementation of Auditor General's recommendations; Weaknesses in senior management controls; Weaknesses in meeting the criteria for licensing TCCs; Shortcomings in managing Procurement ; Disagreement with the LPP.
Ministry of Environment and Spatial Planning	50.14	The information disclosed on assets was not complete and accurate; Failure to present fully outstanding liabilities in the AFS.	Incomplete implementation of Auditor General's recommendations; Low level of budget execution; Poor reporting by departments that collect revenues; Increase of Accounts Receivable; Shortcomings in managing Procurement and managing Human Resources.
Suhareka	13.65	The information disclosed on assets was incomplete and inaccurate; Misclassification of expenditures, from the category of Capital Investments was paid for goods and services and subsidies; Accounts Receivable was overstated.	Incomplete implementation of Auditor General's recommendations; Payments presented as payments from third parties were financings by the relevant ministry; Improper planning of revenues; Issuance of construction permits in disagreement with legal requirements; Disagreement with the LPP; Outstanding liabilities were not disclosed in the AFS.
Gjakova	19.93	The information disclosed on assets was incomplete and inaccurate; Misclassification of expenditures, from the category of Subsidies and Transfers was paid for goods and services.	Failure to implement Auditor General's recommendations; Shortcomings in managing Procurement and disagreements with the LPP; Improper management of revenues; Shortcomings in managing Human Resources and Subsidies; Failure to apply criteria for award of scholarships; Entry into obligations over the approved budget.

Ferizaj	22.99	The information disclosed on assets was not complete and accurate; Misclassification of expenditures from the code of capitals, were paid subsidies and goods and services; Inaccurate presentation of donations' value.	Incomplete implementation of Auditor General's and Internal Audit recommendations ; Shortcomings in planning and budget execution; Shortcomings in collecting revenues; Shortcomings in managing Procurement, Staff payments and Subsidies.
Prizren	35.16	The information disclosed on fixed assets was not complete and accurate.	Incomplete implementation of Auditor General's recommendations; Inefficient revenue collection and increased receivables; liabilities at the end of the year have increased, and Shortcomings in managing Procurement.
Peja	20.95	The information disclosed on fixed assets was not complete and accurate.	Incomplete implementation of Auditor General's recommendations; Budget execution for capital investments at a low level; Shortcomings in managing Procurement, Implementation of contracts; Vehicles and Subsidies; Shortcomings in collecting revenues; Entry into obligations above the funds available.

Table 4: Qualified opinions

Organisation	Final budget (€000)	Reason for Qualified Opinion	Key managerial shortcomings
Privatisation Agency of Kosova	7.72	Failure to present liquidation professional expenditures in the AFS.	Incomplete implementation of Auditor General's and Internal Audit recommendations; Lack of a full composition of Board of Directors; Shortcomings in executing the Goods and Services budget; Shortcomings in managing Accounts Receivables; Remunerations for members of the Board. Lack of transparency in PAK Board's decision-making process; Lack of a functional Audit Committee.
Procurement Review Body	0.29	Misrepresentation of revenues and deposits.	Shortcomings in the presentation of revenues and deposits.

Table 5: Qualified opinions with Emphasis of matter

Organisation	Final budget (€000)	Reason for Qualified Opinion	Key managerial shortcomings
Mitrovica	17.77	Presentation of payments from third parties was not accurate.	Incomplete implementation of Auditor General's recommendations; Shortcomings in contract management; Poor management of revenues from renting out premises, property and housing, and failure to implement a regulation on subsidies.
Lipjan	12.31	Information disclosed on obligations and assets was not accurate; Capital investments were overstated; Payments by third parties were not presented fairly.	Shortcomings in reporting payments from third parties; Failure to implement Auditor General's recommendations; Shortcomings in revenue collection; Poor management of subsidies; Misclassification of expenses; Shortcomings in managing Human Resources and Procurement and increase of outstanding liabilities at the end of the year. .
Partesh	1.04	Payment for education sector workers without them being engaged in schools; Presentation of assets was not done in the AFS.	Incomplete implementation of Auditor General's recommendations; Shortcomings in managing Procurement; Processing of payments in disagreement with Treasury Rules.
Privatisation Fund	0	Failure to present liquidation professional expenditures in the AFS, these used funds should be held in trust for owners and creditors.	Shortcomings in paying for services for liquidation of SOEs without budget approval; Shortcomings in distribution of 20% to workers of privatised SOEs; Lack of fulfilment of criteria required in the sales process of enterprises; and Shortcomings in the monitoring process of enterprises privatised through privatisation method with special conditions.

Table 6: Disclaimer of opinion

Organisation	Final budget (€000)	Reason for disclaimer of opinion	Key managerial shortcomings
Leposaviq	31.04	Limitations in examining expenditures for wages and salaries.	Incomplete and inaccurate presentation of information on assets; Shortcomings in revenue management; Shortcomings in managing Procurement and work limitations upon examination of expenditures for wages and salaries.
Zubin Potok	21.02	AFS are not presented.	

