



Republika e Kosovës
Republika Kosova-Republic of Kosovo
ZYRA E AUDITORIT TË PËRGJITHSHËM
KANCELARIJA GENERALNOG REVIZORA
OFFICE OF THE AUDITOR GENERAL

**RAPORTI VJETOR I AUDITIMIT
GODIŠNJI IZVEŠTAJ REVIZIJE
ANNUAL AUDIT REPORT
2011**



Republika e Kosovës
Republika Kosova-Republic of Kosovo
ZYRA E AUDITORIT TË PËRGJITHSHËM
KANCELARIJA GENERALNOG REVIZORA
OFFICE OF THE AUDITOR GENERAL

ANNUAL AUDIT REPORT 2011

Prishtinë, September 2012

ANNUAL AUDIT REPORT

Table of Contents

LIST OF ABBREVIATIONS.....	4
ADDRESS BY THE AUDITOR GENERAL.....	5
EXECUTIVE SUMMARY.....	7
1.INTRODUCTION.....	9
2.EXTERNAL AUDIT AND ACCOUNTABILITY.....	10
3.ANNUAL FINANCIAL REPORT AND GOVERNMENT ACCOUNTABILITY.....	12
3.1 AUDIT OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS.....	12
3.2 AUDIT SCOPE AND APPROACH.....	13
3.3 AUDIT OPINIONS IN THE INDIVIDUAL AFS THAT FORM THE OPINION IN THE AFS OF KB.....	13
3.4 ANALYSES OF THE ANNUAL FINANCIAL STATEMENTS OF THE KOSOVA BUDGET FOR 2011.....	14
3.4.1 Consolidated statement of comparison of budgeted and actual amounts.....	14
3.4.2 Consolidated statement of cash receipts and payments.....	15
3.4.3 Consolidated Statement of Cash and Fund Balances.....	18
3.4.4 Assets and Outstanding Liabilities.....	19
3.5 PROGRESS OF LAST YEAR'S RECOMMENDATIONS RELATED TO AFS OF KB.....	20
3.6 OVERALL RECOMMENDATIONS.....	20
4. FINANCIAL MANAGEMENT.....	22
4.1 FINANCIAL MANAGEMENT AND CONTROL (FM/C) SYSTEMS.....	22
4.1.1 Central Harmonisation Unit (CHU)/FMC.....	22
4.1.2 Reporting.....	23
4.1.3 System for Public Investment Projects (PIP).....	23
4.1.4 Procurement.....	25
4.1.5 Certification system.....	26
4.1.6 Asset Management System.....	27
4.1.7 Petty Cash.....	28
4.1.8 Civil Service Reform and Remunerations.....	29
4.1.9 Budget Management.....	32
4.2 INTERNAL AUDIT SYSTEM.....	33
4.3 OVERALL CONCLUSIONS.....	35
4.4 RECOMMENDATIONS.....	35
5. EXECUTING THE BUDGET IN THE PUBLIC SECTOR.....	37
5.1 CENTRAL AUTHORITIES.....	37
5.2 INDEPENDENT INSTITUTIONS.....	39
5.3 MUNICIPALITIES.....	42
5.4 PUBLICLY AND SOCIALLY OWNED ENTERPRISES.....	45
5.5 PRIVATISATION.....	48
ANNEX I. DIFFERENT TYPES OF AUDIT OPINIONS.....	50
ANNEX II. AUDIT OPINIONS AND KEY MANAGERIAL SHORTCOMINGS.....	52

List of Abbreviations

AAR	Annual Audit Report	NGOs	Non Governmental Organisations
AC	Audit Committees	OAG	Office of the Auditor General
AFS	Annual Financial Statements	PAK	Privatisation Agency of Kosova
AG	Auditor General	PAR	Public Administration Reform
AI	Administrative Instruction	PEFA	Public Expenditure and Financial Accountability
BO	Budget Organisations	PIA	Prishtina International Airport
CAA	Civil Aviation Authority	PIC	Public Investment Committee
CAO	Chief Administrative Officer	PIFC	Public Internal Financial Control
CBK	Central Bank of Kosova	PIP	Public Investment Projects
CIPFA	Chartered Institute of Public Finance and Accountancy	PFM	Public Financial Management
CPA	Central Procurement Agency	PRB	Procurement Review Body
CO	Certifying Officer	PPRC	Public Procurement Regulatory Commission
COPF	Committee on Oversight of Public Finances	POEs	Public Owned Enterprises
CHU/FMC	Central Harmonisation Unit/ Financial Management Control	PTK	Post and Telecom of Kosova
DDG	Designated Donor Grants	SAD	Single Administrative Document
DFID	Department for International Development	SIGTAS	Tax Administration System
EO	Economic Operator	SOEs	Social Owned Enterprises
EU	European Union	TAK	Tax Administration of Kosova
FY	Financial Year	TIMS	Trade Information Management System
FM/C	Financial Management Control	USAID	United States Agency for International Development
IA	Internal Audit	VAT	Value Added Tax
IAU	Internal Audit Unit		
IPSAS	International Public Sector Accounting Standards		
ISSAI	International Standards of Supreme Audit Institutions		
KB	Kosova Budget		
KEK	Kosova Energetic Corporate		
KFMIS	Kosova Financial Management Information System		
KPA	Kosova Property Agency		
LPFMA	Law no. 03/L-048 on Public Financial Management and Accountability		
LPP	Law no. 03/L-241 on Public Procurement		
MED	Ministry of Economic Development		
MoF	Ministry of Finance		
MPA	Ministry of Public Administration		

ANNUAL AUDIT REPORT

Address by the Auditor General



Honourable Members of the Assembly,

It gives me great pleasure to submit this year's Annual Audit Report. This report covers the Government's implementation of the 2011 budget and the Annual Financial Statements of the Kosova Budget for that period.

The Office of Auditor General continues in its core mission to provide a base for holding public spending bodies to account and to contribute to improvements in the field of Public Financial Management.

We have worked closely with the Assembly and the Government in order to expand our capacity to deliver high quality information on the use of public funds. We have also developed better cooperation with the Government and other national and international actors in building good governance and contributing in developing better systems for Financial Management and Control.

Though the quality of information in the Annual Financial Reports has improved over the years, there is still a need for improvement in financial management and control.

As the financial management approaches are developed, the legal framework is getting more consistent and the parliamentary oversight is getting stronger. To roll all these intentions out over the entire public sector will take time. But, more can be done under the current conditions.

The implementation of the new financial management systems and mechanisms requires the commitment and support from the highest levels. New approaches, methods and good examples on "how to do it" are needed and should be used. Furthermore, firm action has to be taken in cases of misuse and management.

Where we have found weaknesses we have given constructive recommendations for change, and this has yielded good results. We closely follow how our recommendations are addressed and continue to work in close partnership with managements. We aim to act as a key driver for change in Public Financial Management.

This report lays out key challenges we must all address to push forward improvements in the public sector. It is my hope that You will find the report useful in identifying areas where we can all work together to better serve the citizens of Kosova.

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

Prishtina, September 2012

ANNUAL AUDIT REPORT

Executive Summary

The AAR is a comprehensive summary of our audit work in the Financial Year 2011. The overall opinion of the AG concludes that:

“The Annual Financial Statements of the Budget of the Republic of Kosova present, in all material aspects, a *true and fair view* of finances and financial situation for the fiscal year 2011”. This is an **Unqualified Audit Opinion** in line with ISSAI 400.

Notwithstanding this there remains scope to improve the consolidation process which is weakened at present by:

- Allowing individual AFS of BOs to be corrected after the consolidation date without being reflected in the AFS of KB;
- Not removing transactions between different BOs; and
- Not disclosing donations processed outside the Treasury system.

We have carried out the statutory regularity audit of AFS for 88 BOs. The opinions given indicate that, compared with earlier years', the information quality is steadily getting better. More detailed information about our individual audits may be found on the OAG web site.

Overall, our audits have revealed both positive developments and challenges needed to be addressed to secure economy, efficiency and effectiveness in the public sector. A systematic approach to this will better secure spending in accordance with priorities made, success in reform ambitions and pave the way for better service to the citizens.

The Government has shown progress in improving its Public Financial Management system. The PFM legal framework is clarified and updated, but the implementation of this still leaves room for improvement. Other areas in need for further development are operational planning, internal management reporting, external performance reporting, internal financial control, procurement and capital investment management.

At the same time, it is important to strengthen the general control environment. This is an approach in public spending ensuring that taxpayers' money is used in a more economic and prudent way. The Government have emphasised this in several budget documents. But, more needs to be done, especially in the current situation where the budget is scarce and expenditure requirements are high.

The effectiveness and consistent application of financial management still remains a challenge. PIFC related results are not delivered as intended. The new FM/C requirements are not yet fully applied. Managerial accountability, delegation of responsibilities and risk management are areas where, in general, more needs to be done. Different approaches and attitudes are needed.

The *Central Authorities* have shown progress in the reporting area. The AFS' for all Central Authorities presents a true and fair financial situation. Shortcomings in these are related to insufficient disclosure of information.

The major challenges in budget implementation are related to lack of managerial control. There is a great need for internal guidelines specifying general laws and administrative instructions to the specific situation and needs in individual policy areas. In order to rapidly strengthen administrative and financial efficiency, the accountability lines between ministries and executive agencies should be clarified as well as the handling of subsidies. The gaps between requirements and practice in procurement and certification should rapidly be closed. These shortcomings should be taken into consideration in all reforms.

The *Independent Institutions* have managed to introduce adequate financial management and control systems. However, these systems were not fully functional in practice. Some of the measures taken include drafting of procedures, policies and internal guidelines as well as action plans for addressing our recommendations.

The *Assembly* should have a more proactive approach securing transparent and sustainable solutions for these institutions, taking the need for independence into account. Furthermore appointments and extension of Boards and its members' mandates have to be carried out on a timely basis and mechanisms for holding the institutions to account may still be developed.

In the *Municipalities* many earlier recommendations have not been addressed properly. The same weaknesses are repeated year after year, resulting in slow progress in developing public financial management and delivering service to citizens.

Weak management and oversight of projects, advance payments prior to finalising the works, low level of budget execution, numerous payments in the last quarter, and weak handling of revenue and receivables are amongst the most frequent challenges. In addition to this, there are also numerous deficiencies in the area of internal and external reporting. Disclosure of assets and third party payments remains challenges. New methods and tools should be taken into account in securing better external reporting and PFM.

In *Publicly and Socially Owned Enterprises* the Government in many cases failed to select competent Boards of Directors able to, in practice, secure efficiency in managing the companies towards positive operative and financial results. In cases when the engagement of the Boards have been high, the financial results are still poor. These negative results threaten the continuity of these enterprises in the current form.

Regarding the *Privatisation process*, the privatisation or sale of the respective SOEs through privatisation and liquidation was close to the planned level. Several weaknesses in procedures and deviations from policies and rules are noted in this process. Transparent procedures in privatisation were not always secured. This was also noticed in the review of complaints regarding the distribution of the share of the privatisation proceeds of 20% to employees.

A number of recommendations are given in the report, in a systematic way addressing causes behind these challenges. The recommendations are given to the Assembly, the Government and the local Assemblies. By addressing these recommendations individual Budget spenders will be better placed to carry out the public business in a more economic, efficient and effective way and secure the interest of the tax payers.

ANNUAL AUDIT REPORT

1. Introduction

Over the past year the OAG has continued to provide the Assembly with different audit reports assisting it in holding the government to account for the management of public money.

Public audit is important. Reporting our audit findings on a timely basis and with inherent quality supports the Assembly and Government to ensure accountability in the budget cycle.

Our Quality Management System has brought further substantial improvements in the quality of our audits and reports produced in terms of readability, understandability and adherence to the international audit standards and good European practices.

Moreover during the year we have been able to assist the audited bodies to eliminate many of the errors in the financial statements and to improve the quality of information reported.

During 2011 we further strengthened our cooperation with the Assembly Committee on Oversight of Public Finances (COPF). COPF has been able to handle 26 individual audit reports and draw conclusions. Last year's Annual Audit Report (AAR) has been discussed and approved in the Assembly plenary session.

This AAR is a comprehensive and analytical summary of our audit findings and recommendations on the Financial Year (FY) 2011. The Auditor General expresses in this report an Audit Opinion (in accordance with ISSAI 400) on the *Financial Statements of the Government of Kosovo for the FY 2011*. This is a key document in both the political and administrative accountability processes provided by the Auditor General to the Assembly.

The report is organised as follows: Chapter 2 provides an explanation on the role of external audit and is followed by chapter 3 that provides an opinion on the Annual Financial Statements of the Kosovo Budget (AFS OF KB). Chapter 4 focuses on conclusions about the financial management systems while chapter 5 provides an explanation of the financial management in different state levels and in publicly and socially owned enterprises including the privatisation process. This report also has two appendices. The first one provides the different types of audit opinions while the second provides the audit opinions given and key managerial shortcomings within the individual audited bodies. More information relating to the individual audit reports can be found on our web site www.oag-rks.org

2. External Audit and Accountability

External Audit

The external auditor has an important part to play in the process of the accountability. The role of the Auditor General is to provide a base for closing the accountability chain between the Assembly and the Government. The Auditor General's role is crucial in promoting managerial accountability principles in the ministries, municipalities and other public enterprises. The Auditor General fulfils this responsibility through the annual audit of the Government's report on the budget execution and underlying reports providing an assessment of accountability at all levels within Government.

This is achieved by conducting statutory regularity audits of KB execution and of some institutions outside KB, as well as undertaking performance audits on the economy, efficiency, and effectiveness of governmental operations and services. The results of each are reported to the audited body and the Assembly. The Auditor General's reports are made public – so providing the public with information about the Government's performance.

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

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

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

Management audit is a form of performance audit focused on the quality of financial management or service provided. This approach allows us to produce results wider than the regularity audit approach.

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

Strengthening Accountability of Top Management

"Management accountability" is the expectation that senior managers across government are responsible for setting and meeting performance targets through the delegation of responsibilities while still retaining overall accountability.

ANNUAL AUDIT REPORT

To fulfil this accountability, senior management must establish, supervise and maintain effective Financial Management and Control (FM/C) systems.

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

In the structure of accountability and control, Ministers are responsible for the operations in their respective ministries, for which they are accountable to the Assembly. This is a principle of crucial importance which ensures that the elected representatives are held to account over the spending of public funds and management of public assets. The Ministers' subordinates are the Civil Servants and other individuals carrying out public operations.

In the municipalities the Mayor, as a political appointee, also manages the administration/operations, and is accountable to the people in regard to both the areas.

An organisation may be considered as having an effective framework of FM/C when this is clearly understood and applied by the Chief Administrative Officer (CAO)¹ and across all levels of the the organisation. It should include a wide range of preventive control activities to ensure the avoidance of error.

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

¹ The CAO means (i) with respect to a municipality, its mayor, and (ii) with respect to other budget organizations: (a) its Permanent Secretary, (b) if it has no Permanent Secretary, its Chief Executive Officer, or © if it has neither a Permanent Secretary nor a Chief Executive Officer, the person who has principal day-to-day administrative authority over its operations and personnel.

3. Annual Financial Report and Government Accountability

The Ministry of Finance (MoF) should, on behalf of the Government, present the Annual Financial Statements of the Budget of the Republic of Kosova (AFS of KB) for the fiscal year no later than 31st of March of the following year. The Government prepared these statements on 28th of March 2012 and submitted them to the Assembly and to the Auditor General (AG) for review.

The AFS of KB for the financial year 2011 should be drafted on the basis of the overall framework established from the Law on Public Financial Management and Accountability (LPFMA) as well as in compliance with the International Public Sector Accounting Standards (IPSAS).

The final records in the General Ledger processed through the Kosova Financial Management Information System (KFMIS) managed by Treasury served as the source of information for drafting the AFS of KB.

The overall consolidated statements contain three main statements:

1. Consolidated statement of cash receipts and payments;
2. Consolidated statement of comparison of budgeted and actual amounts; and
3. Consolidated statement of cash assets and fund balances

Article 47.1 of the LPFMA requires from the Auditor General to provide an audit opinion in line with the internationally recognised audit standards - ISSAI 400 regarding the financial statements in general (see Appendix I). This chapter addresses the AG's opinion and the main conclusions supporting such opinion.

3.1 Audit Opinion on the Consolidated Financial Statements

The summarised comprehensive audit opinion of the AG concludes that:

“The Annual Financial Statements of the Budget of the Republic of Kosova present, in all material aspects, a *true and fair view* of finances and financial situation for the fiscal year 2011”. This is an **Unqualified Audit Opinion** in line with ISSAI 400 (see Annex I).

The AFS of KB have been drafted in compliance with applicable standards (IPSAS) and laws and regulations.

We audited the AFS of KB consolidation process. We found that the AFS of KB and individual AFS of Budget Organisations (BO) are not fully consolidated. Treasury has, as of 15th of March this year, summarised the annexes of statements and drafted the first version of AFS which thereafter became final given that there were no additional corrections by the BOs.

We have found cases when individual AFS were corrected after the consolidation date. These changes are not covered in the AFS of KB. Due to this some, non-material, differences exists between the individual AFS and the AFS of KB.

ANNUAL AUDIT REPORT

In the AFS of KB the Government states that no consolidation of transactions between different BOs is carried out. The motive for this is to make it easier to compare with previous years. In our view the consolidation should be done and the differences explained in a note. The reason for this is that the turnover otherwise is overstated and for transparency.

Kosova receives various funds from third parties (donations). The largest part of these are transferred directly to BOs and processed in the donor system. These types of transactions should be disclosed both in the AFS of KB and individual BOs. We have noticed that a large number of BOs have disclosed them in their individual AFS. But, Treasury has not consolidated them.

3.2 Audit scope and approach

The *scope* of the audit opinion on the AFS OF KB is the financial elements that are linked to the Kosova Budget consolidation process. The Central Bank and the Savings Trust Fund are not subject to this audit.

In order to give an Audit Opinion, the audit *approach* is the following:

- An analytical review links different sources of information on the assessment of AFS' quality. The review is mainly carried out on budget allocations and generated figures such as: balance sheets, payroll data and General Ledger (Free Balance) in the KFMIS. In addition, an assessment of the structure and classification of the AFS OF KB is made as required by the IPSAS and applicable laws and regulations;
- An overall conclusion is given on the outcome of the individual regularity audits for 2011. When applicable the outcome of other types of audits is taken under consideration;
- The AG gives his Opinion in line with the internationally recognised standards - ISSAI 400 on the AFS based on the first two steps; and
- The AG gives recommendations to the Assembly and Government based on the three previous steps.

3.3 Audit opinions in the individual AFS that form the opinion in the AFS of KB

The OAG has carried out the statutory regularity audit of AFS for 88 BOs and given an audit opinion. The audit carried out on individual AFS and the opinion given thereon is reflected in the audit opinion on the AFS of KB. Their impact is linked to the level of materiality of shortcomings in the AFS. The opinions given are presented as follows:

Table 1 - Audit opinions given on the budget organisations

Types of audit opinions	Number of opinions
Unqualified Opinion	34
Unqualified Opinion with emphasis of matter	32
Qualified Opinion	15
Qualified Opinion with emphasis of matter	4
Disclaimer of Opinion	3
Total	88

The majority of audit opinions were unqualified. Those qualified were not (individually or in total) material to the overall audit opinion on the AFS of KB.

3.4 Analyses of the Annual Financial Statements of the Kosova Budget for 2011

The Budget 2011 was prepared and approved by the Law no.04/L-001. This law includes the mechanisms enabling changes over the year. The 2011 budget was approved late and there was no mid-year budget review.

The following table shows the source of budget funds and changes over the year.

Table 2 Overall budget appropriations for the FY 2011 (in €000)

Description	Budget according to Law no.04/L-001 (2011)	Final Budget 2011	Final Budget 2010
Overall grant for the central level ²	1,109,849	1,087,395	989,797
Overall grant for municipalities	300,491	312,317	258,178
Local own source revenues	51,888	57,309	55,963
Local own source revenues carried forward from the previous year	0	26,534	21,585
Central own source revenues	20,000	23,163	21,792
Central own source revenues carried forward from the previous year	0	3,168	2,903
Total	1,482,228	1,509,886	1,350,218

There was a difference between the final budget presented in the AFS and the the KFMIS. The difference of €415,000 relates to the municipalities own source revenues registered as budget after the KB's AFS were prepared.

3.4.1 Consolidated statement of comparison of budgeted and actual amounts

The budget projections show that the planned receipts were lower than the planned expenditures in the amount of €191,324.000 (see table below).

Actual collected receipts are €1,313,253,000 ³ whilst payments made are €1,400,462,000. The deficit of €87,209,000 was covered by the surplus accumulated from previous years.

Table 3 Budgeting and collection of receipts in relation to payments (in €000)

Description	Initial budget	Execution
Receipts	1,290,904	1,313,253
Payments	1,482,228	1,400,462
Surplus/Deficit	(191,324)	(87,209)

² KEK loan and foreign debt are included in the Overall grant of the central level.

³ Designated Donor Grants in the amount of €8,968,000 and Deposit Funds €957,000 included

ANNUAL AUDIT REPORT

3.4.2 Consolidated statement of cash receipts and payments

3.4.2.1 Analysis of cash receipts

This financial analysis is based on the records presented in the AFS of KB by comparing them with the records kept in the KFMIS, General Ledger and Treasury Trial Balance.

The following table shows the budgeted and collected receipts over the years.

Table 4 Budget and collection of receipts by different sources (in €000)

Revenues and other receipts	Final budget	Execution 2011	% Budget execution	Progress compared to the previous year (%)	Execution 2010	Execution 2009
Revenues from Customs	830,518	827,704	99.66	18.10	700,657	635,214
<i>Refunds from Customs</i>	<i>(1,500)</i>	<i>(1,112)</i>	74.13	-12.50	<i>(1,272)</i>	<i>(1,068)</i>
Revenues from TAK	260,889	261,134	100.10	18.04	221,234	206,469
<i>Refunds from TAK</i>	<i>(30,017)</i>	<i>(29,774)</i>	99.20	10.20	<i>(27,017)</i>	<i>(24,810)</i>
I. Total of tax revenues	1,059,890	1,057,952	99.82	18.39	893,602	815,805
Non-tax revenues central level	45,419	45,526	100.23	-4.00	47,412	53,062
Local level own source revenues	58,317	55,621	95.38	6.90	52,028	48,293
Central level own source revenues	55,278	59,912	108.38	23.70	48,451	29,657
II. Total of non-tax revenues	159,014	161,059	101.28	8.90	147,891	131,012
Dividends	45,000	60,000	133	-29.40	85,000	200,000
Foreign loans	7,000	5,076	72.51	-77.00	22,093	0
Budget support	20,000	1 9,241	96.20	-35.90	30,000	0
III. Total of other receipts	72,000	84,317	117.10	-38.50	137,093	200,00
Total of receipts I + II + III	1,290,904	1,303,328	100.96	10.60	1,178,589	1,146,817

The total receipts for the Kosova Budget for 2011 were in the amount of €1,303,328,000; designated donor grants (DDG) in the amount of €8,968,000 and receipts from deposits in the amount of €957,000 are not included.

The table above shows that the total receipts at the country level have increased by 10.6% compared to the previous year. There are no material differences between the General Ledger, Trial Balance and the AFS of KB.

a) Tax revenues generated from Customs

The planned revenues were in the amount of €830,518,000, whilst €827,704,000 or 99.66% were

collected. Customs have shown progress in the collection of revenues compared to the previous years. In 2011, revenues increased by 18.1% compared to 2010, and by 30.3% compared to 2009.

Despite this increase there remain some shortcomings in the revenue collection process: fees were not applied and calculated in accordance with the Customs Code, the Single Administrative Document (SAD) was not corrected when errors occurred and there was no justification for re-evaluations when the import value in the SAD increased.

Notwithstanding the progress achieved, the individual audit report indicates a need for improved internal controls. These shortcomings reflect insufficient transparency which makes it difficult for us to ensure that taxes are collected in accordance with the rate and amount to be paid.

b) Tax revenues generated from TAK

The planned revenues from TAK were in the amount of €260,889,000, whilst €261,134,000 or 1% more than the plan were collected. Compared to 2010, revenues increased by 18% and compared to 2009 they increased by 26.5%.

Notwithstanding the progress made, TAK still needs to strengthen the internal control function in areas such as: the collection of critical debts; elimination of shortcomings in the SIGTA System; and, identification of local and international enterprises that carry out business in Kosovo not declaring/paying taxes.

We found a high level of debts older than six years. The balance of these debts is €73,787,268 (includes the period from 2000 to 2005). 30% of these are estimated to be linked to public enterprises. The balance of critical debts, which this year exceeded the limit of six years from being created as a tax liability and becoming uncollectable, is €6,061,605. TAK have started addressing this inherited problem.

We have also noted that there are some non-resident businesses that have generated revenues from the public sector without declaring tax. In addition, there are some taxpayers who have generated annual revenues over €50,000 from renting business premises and are not listed in the group of VAT payers. One of the causes behind these shortcomings is the lack of coordination between TAK, Treasury, and BOs doing business with foreign and local Economic Operators.

Described shortcomings indicate a lack of an effective risk analysis to determine the totality of tax that should be collected. This has led to an insufficient level of revenue collection and prevention of fiscal evasion. This could have been achieved through a better exchange of information between TAK, Treasury and BOs. TAK now has taken measures securing better coordination of information from relevant public sector organisations. The factual results remain to be seen.

c) Dividends

The Government is the only authorised shareholder for PTK and Prishtina International Airport (PIA). In the budget 2011, revenues from dividends were planned in the amount of €45,000,000. In 2011 the amount of €60,000,000 was received

ANNUAL AUDIT REPORT

d) Revenues from interest

Revenues from interest are collected from investments of public money and loans. In 2011 they totalled €1,631,000. The Government has, in medium terms, invested in different financial institutions.

Table 5 Accumulated interest (in €)

Description	Amount
PTK interest	477,305
Treasury Bonds	1,478,979
Termed deposits	946,915
Current accounts	225,253
Service fee to CBK	(1,500,000)
Treasury accumulated interest	1,628,452

MoF entered into a Memorandum of Understanding with the CBK regarding the investment terms and rules. According to this MoU, Treasury shall compensate CBK for its services in 2011 with the amount of €1,5 million. This amount is based on an earlier higher work load and has not been re-considered.

3.4.2.2 Analysis of cash payments

The planned expenditures, (without donations and deposits) for 2011 were in the amount of €1,509,886,000, whilst €1,387,810,000 or 92% of the planned amount were executed.

Table 6 Current spending against the budget

(in €000)

Përshkrimi	Buxheti Fillestar	Buxheti Final	Realizim i 2011	Buxhet-/Realizim (%)	Realizim i 2010	Krahasoni 2011-2010 (%)	Realizim i 2009
Wages and Salaries	383,476	400,694	385,033	96	311,417	24	264,396
Goods and Services	161,419	174,461	156,559	90	162,635	-4	151,763
Utilities	22,825	21,545	20,376	95	19,516	4	19,225
Subsidies and Transfers	271,681	267,715	256,166	96	252,679	1	256,901
Capital expenditures	572,430	603,696	528,186	87	455,344	16	400,380
Reserves	3,096	284	-	0	-	0	-
Sub total	1,414,928	1,468,395	1,346,319	92	1,201,591	12	1,092,665
Debts payment	22,300	11,491	11,491	100	10,083	14	43,815
Loans to POEs	45,000	30,000	30,000	100	60,000	-50	78,829
Membership fee to IFI	-	-	-	0	169	100	17,030
Sub-total	67,300	41,491	41,491	100	70,252	-41	139,674
Total	1,482,228	1,509,886	1,387,810	92	1,271,843	9	1,232,339

The table shows that there was a relatively good budget execution during 2011. The lower level of capital investments execution (87%) is a matter requiring further attention. The main causes behind this are described in the sub-chapter 4.1.9 of this report.

a) Wages and Salaries

The total of expenditures on wages and salaries for 2011 were in the amount of €388,303,333. Out of which, €385,033,000 were from the KB and €3,270,000 from donations.

Out of that amount, €384,913,227 was spent through the payroll administered by MPA, whilst the other part of €3,390,000 was paid from BOs outside the payroll through KFMIS.

b) Loan to KEK

During the period 2005-2011, the Government gave KEK loans in the amount of €187,539,992.

An agreement made in 2005 stipulated that €10 million should have been repaid at the end of 2008. This has not been done. MoF asked KEK to return the entire amount of €10 million. In October 2011, MoF entered into a "Settlement Agreement" with KEK according to which, the later would pay the amount of €10 million in instalments; €4 million during 2012 and €6 million during 2013. Although delayed, KEK paid the amount of €4million in 2012. The 1st of January 2012 was the date when KEK should have started to return the principal of the loans amounting to €177 million. The first instalment is in the amount of €5,6million. No instalment has been paid so far. The loan amortisation plan ends in 2022.

The loans given to KEK have not been paid back in accordance with the agreements and the total debt is material. The Settlement Agreement is a positive step and the payments have begun. In light of the privatisation plan the need to ensure an appropriate settlement for the total loans and a realistic payment schedule is reinforced.

3.4.3 Consolidated Statement of Cash and Fund Balances

Cash consists of funds mainly kept in CBK, Commercial Banks and BOs cash-boxes.

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

Table 7 Cash assets and fund balances (in €'000)

Description	Balance in 2011	Balance in 2010
Central Bank of Kosova (CBK)	89,326	48,796
Securities 0	0	84,586
Termed deposits in CBK	105,042	140,000
Termed deposits in Commercial Banks	0	11,000
Funds in Commercial Banks - NLB Prishtina	41	767
Cash in transit	7,074	4,278
Embassies' accounts	961	526
Cash in hand (cash-box)	1,184	885
Total Cash assets	203,628	290,838

ANNUAL AUDIT REPORT

The table shows that there is a decrease of cash in relation to previous year. Cash in the beginning of 2011 was €290,838,000, while in the end of 2011 was €203,629,000. The difference of €87,209,000 is the amount spent to cover the budget deficit in 2011. The Government covered this deficit with the reserve allocated from the previous year.

3.4.4 Assets and Outstanding Liabilities

a) Assets

We have identified non-compliances in around 40 BOs, at both central and local level, in the recording of assets. The reasons for these discrepancies are mainly related to improper reporting by BOs and corrections after consolidation date. Reporting of non-financial assets by BOs continues to be a challenge for the Treasury. Not all BOs report on the same basis, some of them report the net value from books, while the others report according to historic costs or purchases over the year. As such each AFS is not comparable with others. From this we conclude that the value of the assets in the AFS OF KB is over €61 million lower the total sum in the BOs AFS.

BOs failed to secure proper reporting of non-financial assets as required. Treasury cannot ensure that BOs present their assets on the same basis. Results of these analyses should serve the Treasury as a base for identifying and eliminating these shortcomings. The weaknesses in reporting the value of assets are to a certain extent linked to the functionality of the e-asset system and the lack of compatibility with KFMIS.

b) Outstanding liabilities

From the analysis made we identified an increasing trend of liabilities in 2011 compared with the previous year (37%). The increase in the central level was 32% and 43% for the local level.

Table 8 Outstanding liabilities compared in three periods (in €)

Description	2009	2010	2011	Rritja 2010-2011 (në%)
Central Level	3,073,622	15,912,553	21,072,571	32.43
Local Level	1,124,237	12,623,776	18,123,248	43.56
Total	4,197,859	28,536,329	39,195,819	37.35

Outstanding liabilities which should be paid from the budget 2012 are in the amount of €39,195,819.

The most common reasons for not paying the liabilities by BOs are lack of funds, expiry date for payments and, services for the month of December. But there were also many cases when BOs did not disclose the details of these liabilities as required by Financial Rule. The following table presents BOs that have the highest level of liabilities compared with the annual budget.

Table 9 Outstanding liabilities compared to the BOs budget (in €)

Description	Final Budget	Liabilities	Structure of liabilities compared to the budget (%)
Shtërpce	4,405,547	2,301,925	52,25
Skenderaj	10,650,256	3,818,948	35,86
Ranillug	1,466,885	521,998	35,59
Partesh	1,400,196	232,758	16,62
Gjilan	19,656,797	2,541,370	12,93
Prizren	32,949,270	3,164,000	9,60
Ministry of Education Science and Technology	41,798,407	3,959,970	9,47

Invoices unpaid which remain a burden for 2012 now exceed €39 million. This is a significant amount straining this years' budget and reducing the possibility to amend the budget to address changed priorities. In addition the sum might be even higher as not all BOs have reported outstanding liabilities as required.

3.5 Progress of last year's recommendations related to AFS OF KB

In the Annual Audit Report (AAR) on the AFS of KB for year 2010 an Unqualified Opinion was given.

The audit of the AFS for 2010 raised five recommendations on these statements. Of these, two were partially addressed and three were not addressed at all.

The partially addressed recommendations are the following:

- Further analyse of the reasons behind the weaknesses in asset reporting and based on conditions diagnosed taking strategic measures for addressing those challenges; and
- Analyses of current policies for loans are made in order to secure a clearer business relationship with KEK in the future and additional actions are taken to collect the principal payment.

The recommendations not addressed are the following:

- Securing compatibility between the KFMIS and the e-assets systems;
- Timely reconciliation of asset information between General Ledger and AFS of individual BOs; and
- The situation regarding the outstanding liabilities and prevention of similar recurrence in future.

3.6 Overall recommendations

I recommend the Government to ensure that:

- Bad tax debts are written off;

ANNUAL AUDIT REPORT

- A government proposal is developed on how to handle the bad and doubtful tax debts linked to the public enterprises;
- KEKs debt to the state is regulated in due time before the privatisation; Intergovernmental transactions are consolidated properly;
- Fully depreciated assets still in use are revaluated;
- MoF take steps raising the awareness about the requirements on asset valuation and reporting;
- Adjustments of individual BOs AFS are secured in due time;
- The reasons for the increasing liabilities are thoroughly analysed and measures needed are taken in order to reduce them; and
- The compensation clauses for investment services in the agreement with the CBK are reviewed.

I recommend the Assembly to consider:

- Tightly following the implementation of Action plans in the revenue sector and the Governments further actions related to KEKs debt to the state.

4. Financial Management

The Government has shown progress in improving its public financial management system. PFM legal framework is clarified and updated. The implementation of the legal framework still leaves room for improvement. The areas in need for further development are operational planning, internal management reporting, external performance reporting, internal financial control, procurement and capital investment management.

At the same time it is important to in general strengthen the control environment. This is an approach in public spending securing that tax payers money are used in a more economic and prudent way. The Government has emphasised this in several budget documents. But, more needs to be done, especially in a situation where the budget is scarce, reforms have to be properly financed and the needs are high.

4.1 Financial Management and Control (FM/C) systems

FM/C is a comprehensive process which is integrated into the activities of the organisation. It is carried out by management and staff. FM/C should go beyond accountancy and financial functions focusing on operational results, efficiency and effectiveness in producing service for citizens. The aim of FM/C is to ensure that resources are being used to achieve organisational objectives.

4.1.1 Central Harmonisation Unit (CHU)/FMC

CHU/FMC is mainly responsible for securing consistent implementation of the PIFC policy amongst the Central Government Organisations and for continuous development of the FM/C principles and approaches.

As in the previous year, this unit was primarily focused on developing FM/C related to the legislation and to a less extent it was involved in supporting its practical implementation throughout BOs. To this end, it has developed a new set of financial rules and organised a training session for senior managers related to new FM/C requirements.

In the context of supporting FM/C practical implementation, it carried out its first FM/C pilot projects in two different BOs reviewing their established systems and practices. In addition to this it supported senior managers carrying out a self assessment of FM/C systems in seven municipalities.

FM/C self assessment checklists have been shared with BOs with the aim of supporting senior managers in assessing FM/C systems and practices in their own organisations. According to the current FM/C requirements, completed checklists should be sent back to the CHU/FMC each year. This will facilitate the follow up of the Government progress regarding the PIFC policy implementation. In practice, few checklists were returned and the quality of responses were weak in those rare cases when submitted.

ANNUAL AUDIT REPORT

In April 2012 the FM/C annual report 2011 was issued. In addition to this, CHU/FMC has committed itself to undertake actions to strengthen managerial responsibility and change leadership attitudes; to further develop the FM/C methodology; and improve training arrangements for senior public managers. It has developed a detailed action plan specifying objectives, priorities, responsibilities and timeframe to achieve this.

Conclusion

The FM/C system is operating but needs upgrading to fulfil user needs more effectively. To this end, MoF as a central authority shall enhance its efforts in driving ongoing FM/C reforms. It should own and centrally coordinate cross Government FM/C functions and systems. In doing this it should be giving prerequisites to the BOs so they can implement them more effectively. These could bring about better results in terms of securing sound financial management, good governance and transparency. However, it is encouraging to see steps taken forward to addressing all FM/C outstanding issues.

4.1.2 Reporting

In 2011, new guidelines were issued including: Financial Rule 04/2011 regulating the reporting of outstanding liabilities, Financial Rule 07/2011 on the annual reporting of BOs, and the Financial Rule 06/2011 on nine-month reporting of budget organisation.

Requirements for annual reports are determined each financial year. The reporting from any BO is of particular importance to the organisation's Management itself and to the central authorities such as the Government as the responsible one and the Assembly. Compared with previous years, the reporting system has significantly improved in a number of BOs with regard to financial reporting. In some other ones the quality of information in the annual financial statements still leaves room for development.

The development of operational reporting is slower. The process should be pushed forward in order to strengthen existing decision making and accountability mechanism.

Improved reporting quality makes the BOs and the Government, in a consolidated way, more accountable before the Assembly and the general public regarding their performance.

4.1.3 System for Public Investment Projects (PIP)

The budgeting and monitoring processes related to capital projects is of significant importance. A strong functioning process secures better and more transparent planning, budgeting and execution of public money.

The OAG has carried out an audit of the Public Investment Programme (PIP) in order to evaluate its operations for the years 2011-2012. During the audit, we tested the design of operational processes and reviewed the level of PIP's use by BOs.

In 2011, the amount of public investments managed through PIP for 36 central level organisations is €492,215,094; whilst for 37 municipalities it is €124,293,323.

MoF has made efforts to implement the PIP system since 2008. The system contains control and monitoring mechanisms. Despite some shortcomings, the system design meets the current needs of the budgeting process.

However, we are concerned that since its introduction the PIP system has not fully been utilised. In preparing and implementing the 2011 budget, the system was used only by central BOs, and in some cases only partly. In preparing and implementing the 2012 budget the system is used also by the municipalities.

At the same time, the Strategic Planning Office within the Government still had difficulties to address in terms of strategic priorities. This was due to the lack of legal framework but, the Government has taken the necessary measures for addressing these issues.

Furthermore, we have identified some shortcomings in the handling of PIP system within the MoF related to the way how the system was used in practice.

A significant weakness in the *design* of the PIP system is lack of correlation between data and reports.

Significant weaknesses in the *implementation* of the system are:

- Projects in the process of being implemented are recorded as new projects in subsequent years;
- Lack of cost/benefit analysis for large projects;
- The Public Investment Committee (PIC) has not been able to review all major public projects;
- Physical and financial progress of projects is not identified and reported, in order to ensure that it is properly monitored;
- All information in the PIP for transfers occurring from one project to another are not available;
- The period-based reports, reports of project monitoring and those based on government priorities are not updated; and
- We noticed lack of control and oversight of the PIP system throughout the process.

Conclusion

The weaknesses above need to be addressed before PIP can be considered as a fully functioning system. The partners involved in the system have not shown sufficient determination in getting the system working as intended. This indicates that the MoF, as the owner of the system, should as soon as possible take actions both within the ministry and in relation to other partners securing the efficiency of the system. This would enable a more efficient budget planning over time, which is of critical importance in times of scarce resources.

We emphasise that the MoF has, during and after the audit, taken measures to eliminate the shortcomings and to improve the process. We note its positive engagement and encourage it to continue developing in line with our recommendations.

ANNUAL AUDIT REPORT

4.1.4 Procurement

Around 15% of the Gross Domestic Product was used in Public Procurement in 2011, equivalent to 45 % of the Budget. Public spending has a big impact on the development of the domestic economy and procurements are consequently of key importance.

The public procurement system in general has been strengthened:

- A new LPP is harmonised with current EU Directives;
- Secondary legislation on Public Procurement is finalised; and
- The responsibilities in the central parts (Public Procurement Regulatory Commission (PPRC), Procurement Review Body (PRB) and Public Procurement Agency (now Central Procurement Agency within the MoF) of the system are adjusted and clarified.

The actual implementation of the different components of the system under a new Action Plan is still in an early stage. Progress is noted in several areas but actual procurement practices are also continuously changing

- Framework Contracts are used more frequently by Contracting Authorities; and
- Open procedures were used in 82.80% of the total value of contracts and the use of negotiated procedures without publication of contract notice has been reduced.

At the same time individual audit reports for 2011 reveal that the BOs still have major shortcomings in the procurement processes. Weaknesses remain from the initiation up to the final payments of projects. Shortcomings identified in our individual audits are numerous and related to:

- Procurement plans submitted to the CPA with delays;
- Needs statements and confirmation of availability of funds missing and invoices paid before funds were committed;
- Evaluation committees not adhering to set criteria , mathematic errors and manipulations with prices per unit not identified;
- Contracts signed despite a lack of required numbers of eligible bids and with Economic Operators (EO) which we assessed as ineligible;
- Contracts exceeded with items not included in the contract;
- Entering into contracts without performance guarantees;
- Insufficient monitoring of contract implementation and payments made before receiving goods;
- Contract execution deadlines exceeded without imposing penalties in accordance with contracts; and
- Lack of sufficient evidence proving goods were received.

Furthermore, in two specific audits we have assessed whether or not the central institutions have purchased stationery and IT equipment in an economic way. We analysed the reasons behind identified shortcomings and gave recommendations on improvements in this regard.

The central institutions use transparent procurement procedures, such as the open procedure.

However our concerns relate to the following:

- Most of the winning contracts in reality became more expensive than the others after the implementation of the contract;
- Prices paid for supplies are higher than the market prices in some cases;
- Needs assessments are insufficient; and
- Centralised procurements are seldom used for purchasing common goods.

Conclusions

The legal framework for procurement has been updated and some earlier gaps addressed. The legal amendments were considered as quite positive from the experts in this area.

The efficiency in handling requests, complaints, and answers asked from procurement institutions has increased. E-procurement is expected to be applied at the beginning of 2013. These are considered as positive developments in the procurement system.

The PPRC report states that the procurement system is becoming more transparent each year. However our individual reports shows that the procurement legal framework is not implemented at the satisfactory level yet.

Centralised procurement through the CPA is still limited and remains as a challenge to the Government. Such a mechanism may provide good value for money if used wisely.

The procurement process management was weak in some areas and the above mentioned findings indicate that this process has room for further improvement from the initiation stage to the finalisation and payment stage.

Management controls over procurement processes, activities and decisions are generally not developed sufficiently. The Management did often not pay due attention to need analysis, the progress of the procurement process and the quality of project execution. Consequently many irregularities have occurred.

4.1.5 Certification system

According to the LPFMA, the Certifying Officer (CO) is responsible for “ex-ante” verification of individual payments in order to define whether they meet the legal requirements on payment authorisation.

The CO is expected to independently verify whether all proposed expenditures are in line with Financial Rule and legal framework before the payment is certified. The CO may be deemed to have accomplished the main objectives when payments that have not met the legal requirements are prevented.

ANNUAL AUDIT REPORT

Despite the preventive role of certification, most of the individual audits have identified shortcomings in the processing of payments. We have found cases where payments were certified:

- Despite incomplete supporting documentation;
- At the same time as they were classified into wrong economic codes;
- Although the Terms of the Contract were not met; and
- When expenditures were not in line with Treasury Guidelines.

These shortcomings show that payment certification process is not effective yet when it comes to preventing irregular payments.

Conclusion

The certification system, despite improvements, is not at a satisfactory level. The payments certification process was not implemented in an effective manner and did not achieve the prevention of illegal or irregular payments. Therefore, this is an ineffective element in the Government financial management system. The control system is still insufficient to secure the quality of the payment processes within the certification process, which increases the risk for errors and irregularities.

4.1.6 Asset Management System

The management of fixed assets is an important part of the Financial Management and Control in the Public Sector. The objectives related to the handling of assets are related to safeguarding and effective management of assets including keeping accurate and complete records of all assets

Assets recorded in 2011 in the KFMIS accounting register of BOs at central level (Ministries and Independent Institutions) and the local level (municipalities) had a net value of €2,776,493,443.

We have reviewed whether, the recording process, the way registers were maintained and the management of non-financial assets is consistent with AI no. 21/2009 on Management of Government Assets.

The value of assets recorded in KFMIS for BOs at the central level for 2011 shows a significant increase compared with 2010: from a net value of €893,042,682 to €1,376,827,220. This is an increase in net value of € 483,784,538.

When comparing the value of assets recorded in KFMIS in 2011 and 2010 at the local level there is also a significant increase. At the end of 2010 the net value of the assets registered in KFMIS at the local level was €1,135,733,311. In 2011 the assets registered in KFMIS was €1,399,666,223, an increase in net value of €263,932,912.

Despite progress in asset registration at central and local level we identified several weaknesses related to the assets management and registration within the BOs.

The Ministry of Public Administration (MPA) is the owner of the e-asset system. This is an

integrated electronic system where all public institutions of Kosovo are able to internally record all assets. This system should support effective asset management. It maintains accurate data to be used in evaluating and reporting the assets at the same time as it gives a base for a better management and monitoring of stocks. Several BOs have installed the system during 2011.

Last year we highlighted that the system is not compatible with KFMIS. The effect of this is that the users have to register the information separately in two systems. This increases the risk of errors and mistakes.

The depreciation module was still not working during the year. Our request for explanations by MPA regarding the functionality of this module has not been responded to yet.

Other challenges are the following:

- Failure to fully and accurately record the assets within the KFMIS;
- Failure to reconcile the data between the Accounting Registry and Asset Registry;
- Failure to re-evaluate assets which have zero values in books or KFMIS books and still are in use by the Bos;
- Some BOs did not establish asset inventory committees, some have partially carried out the inventory and some did not prepare overall reports on assets inventory;
- There is a lack of internal guidelines on valuation of BOs assets which do not have a carried forward value, value of damaged assets and assessment of requests for writing off the assets; and
- A large number of usable assets are stored in the central depot over time at the same time as needs in the public sector are high.

Conclusion

Despite the improvements from year to year in the asset management system, this system is not efficient yet. Weaknesses regarding this system range from:

- Failure to fully and accurately record assets in assets system;
- Lack of complete and accurate data or reports on assets; and
- Lack of clear and concrete guidelines that regulate how assets should be handled when not any longer needed and in case of writing off, depreciation or damage.

These shortcomings following the system do not allow effective management and full control over the assets and safeguard them from loss and misuse.

4.1.7 Petty Cash

Petty cash is a small amount of funds kept by BOs and is used to cover small expenditures and purchases including unexpected ones. The amount of petty cash expenditure varies in BOs depending on their needs over the years.

The value of petty cash spent in 2011 was €788,719 compared to €1,018,479 in 2010. The difference of €229,760 or 23% shows a declining trend.

ANNUAL AUDIT REPORT

BOs have made progress in the process/controls of petty cash expenditures compared with previous years. In most BOs recommendations given for petty cash expenditures were addressed, and in some organisations are in process of being addressed. This shows the willingness of management to continuously improve the management of petty cash.

Individual audits outlined shortcomings in only a few BOs regarding the management and use of petty cash as follows:

- Payments mostly made on food and beverages although a regular contract existed; and
- Payments of invoices over €100.

Conclusion

Reducing petty cash expenditures from the previous year is an indication that the management of petty cash is improved. Weaknesses still present should be addressed.

Petty Cash carries risk in itself, therefore BOs management should take measures to reduce petty cash payments to lowest possible level. At the same time the Government should analyse the possibilities to extend the use of credit cards amongst high officials in Kosovo.

4.1.8 Civil Service Reform and Remunerations

The handling of remunerations should be considered in the context of the Civil Service reform. The latter is a component of a wider Public Administration Reform (PAR) 2010-2013, approved in September 2010.

An Action Plan for implementing the public administration reform strategy was adopted by the Government in May 2012.

The Government's priorities in the public administration are, amongst others, to establish a civil service administration which is sustainable, functional, effective and professional in implementing policies and to delivering quality and timely services at a lower cost for institutions, citizens, businesses and civil society.

The slow progress in producing the Action Plan has had an impact on the implementation of different reform components. The responsibilities of the main parties have not been sufficiently clarified and consequently consistency, coordination and financial priorities have suffered. With the Action Plan in place the likelihood for a more effective implementation is in place.

One of the components is the Civil Service reform. The main legal framework consists of the Law on Civil Service and the Law on Salaries of Civil Servants. The Ministry of Public Administration (MPA) is responsible for producing secondary regulations for the implementation of these laws. There is a need for around 30 regulations and to date little progress has been achieved. During 2011, a total of six regulations were produced, regulating mainly the fields of employment, files and central registry, disciplinary and complaint procedures and civil servants leaves.

The *Payroll system* is a centralised software system for which the MPA is responsible. It shall process and calculate salaries of public employees based on information produced monthly by the individual budget spenders.

Table 12 Salary Expenditures in 2011 in the Payroll System (in €)

Description	Regular salaries 2011	Retroactive salaries paid 2011	Salaries 2011	Salaries 2010
Total of salaries	383,699,560	1,213,667	384,913,227	313,412,315
Net salaries	329,194,212	1,050,908	330,245,119	270,920,876
Taxes on Salary	16,860,552	49,257	16,909,809	11,775,239
Pension contribution-employee	18,246,061	56,751	18,302,812	14,898,688
Pension contribution-employer	18,246,061	56,751	18,302,812	14,898,688
Trade union fee	1,152,675		1,152,675	918,824

According to the AFS OF KB for 2011 the number of employees was 75,374 in December 2011. According to information from MPA the public sector of Kosovo, at that time consisted of 77,790 employees. The difference of around 2,400 is mainly related to the fact that employees hold more than one job position.

Wages and salaries during 2011 according to the AFS OF KB were €388,303,333. Of this €385,033,000 came from the KB and €3,270,000 from donations. €384,913,227 was processed through the payroll system. The remaining €3,390,106 was processed through KFMIS. This sum was paid to a) employees receiving a regular salary through the payroll system, b) for persons engaged temporarily to perform a job and c) for businesses services.

26 entities have paid salaries directly from KFMIS outside the payroll system, including central level organisations, independent institutions and municipalities.

Salaries paid outside the payroll system shows that the system is not used as intended. On the one hand additional payments to employees outside the payroll system are not transparent and the actual costs are underestimated. On the other hand, using funds dedicated for Wages and Salaries for business services overestimates the costs.

Besides reducing the information quality in the AFS OF KB, the transparency of actual salaries paid is limited when payments are made outside of the payroll system.

In addition, the lack of transparency can also be questioned regarding the so called “Brain Fund” (BF). This scheme was introduced as a temporary scheme in 2008. It enables higher payments for civil servants of priority and of strategic importance. In the selection process the ministries should provide justification for the proposals. A regulation on the Brain Fund is in place defining duties, responsibilities, assessment criteria and payment levels. The budget of the Brain Fund for 2011 was €1 million, €642,465 was spent.

ANNUAL AUDIT REPORT

In the implementation we have identified:

- A lack of sufficient information to the Review Panel for proposed positions;
- Review Panel always lacked a civil society representative;
- Funds transferred without selected candidates ;
- Irrelevant working experience accepted;
- Payment limits exceeded; and
- Reports were not submitted.

The payroll system in 2011 included in total 1,444 positions and 461 grades. Inconsistencies within the system complicate a broader reform on salaries. The current practices in adding allowances to the gross salaries do not make the situation easier.

The payroll system is not designed to automatically calculate the employees' salaries based on the working hours. As such there is an absence of verifications between worked hours and actual payments.

The average gross salary in the public administration was €429 in 2011 but there is a significant difference between the average monthly salaries in different categories of BOs as follows:

• The Assembly	€1,543
• Members of the Assembly	€2,913
• Administration and supporting staff	€674
• The Office of the President	€692
• The Office of the Prime Minister	€490
• 19 Ministries	€451
• 30 Independent Agencies	€762
• 37 Municipalities	€368

While all these differences might be justifiable, they should be transparent. Furthermore, the differences between the same categories of professionals are also significant.

The progress in developing a transparent and widely accepted salary system has been slow until now. The flaws in the system create opportunities for using it for other than intended purposes and incentives for finding solutions outside the system.

Our audit has also revealed challenges in the administration of personnel issues. These are mainly related to *recruitment* procedures and *maintenance and updating of personnel files*. It is likely that the slow pace in producing and disseminating proper prerequisites for the BOs have contributed to the lack of progress in this regard.

Conclusion

The required legal framework in implementing public administration reform for civil servants is not completed delaying implementation of the reforms.

While awaiting the introduction of a new payroll system a first positive step would be to process all remunerations possible through the existing system. Exception from this should be made only after written notice from the responsible ministry to ensure trust and fairness.

We are also concerned about insufficient controls over the payroll system and the quality of the inbuilt controls within the system identifying problems and create a base for corrective actions to be taken.

4.1.9 Budget Management

The budget process for 2011 is characterised with delays in the approval of the Law on Budget due to delays in the political elections. According to the legal calendar, the law should have been approved in December 2010 but it was approved on 31st of March 2011. This affected also the process of midyear budget review. At the same time it caused difficulties in implementation of projects.

During the year, budget transfers occurred based on Government Decisions by reducing the funds of categories and projects budgeted by the Law and having them transferred to other categories and projects. The major part of it was related to the financing of the Highway Merdar-Morinë. This was as a result of the Government Decision to reduce the allocations for expenditures in many BOs. This is reflected in the difference between the initial budget and the final budget in the KFMIS. The value of this difference is around €28 million.

In 2011, shortcomings related to the budget planning process were repeated at both general level and project level. This indicates that the overall planning approach still needs to be improved.

The Budget for 2011 was executed by 92%, a lower figure than in 2010 when it was executed by 94%.

Cases when BOs did not spend the planned budget by the end of the year have been repeated. Failure in fully executing budget was a particular problem mostly in capital investments. Cases when expenditures increased in the last quarter of the year have also been repeated this year. The unsolved ownership issues were the key problem in the completion of infrastructure projects.

Conclusion

The budget execution of over 90% represents a relatively good level. However, the BOs could have better planned and executed the budget. The budget accumulation and increased commitment to spend it at the end of the year indicates that they are mostly mobilised at the end of the year in order to avoid the under spending.

All these indicate that, during 2011, there was poor management and insufficient control over budget planning particularly in respect of capital investments.

The political solutions and delayed approval by the Assembly have had a negative impact on the implementation of budget 2011. This experience should serve as a lesson on how to handle similar situations should they occur in the future again.

ANNUAL AUDIT REPORT

4.2 Internal Audit System

The existence of Internal Audit (IA) is a cornerstone of good governance in the public sector. It should provide professional and objective assessment to the highest management level whether public resources are used in a responsible and effective manner, promoting appropriate ethics and values for the concerned organisation.

In our view development of IA in the public sector is going in the right path and significant improvements have been made compared to previous years. Despite this progress, IA in the public sector need to address some of the challenges presented under the following.

Establishment and Functioning of IAU

Around 10 % of the BOs required to have an internal audit unit had not established it. The Ministry of European Integration established a unit in the beginning of 2012 while three Independent Institutions and four Municipalities have not done it yet.

In regard to the internal audit service, a positive trend has been noticed amongst the 15 Independent Institutions which were not legally required to have established an IAU. Nine of them requested such a service from MoF and CHU/IA. This indicates an increased level of awareness amongst managers for better usage of public resources and better performance. At the same time this solution do not fit with the accountability design for institutions independent from the Government.

However, some of existing IAUs were not properly resourced and they need to increase staff capacities. In two cases Head of IAU was recruited from the organisation internally and not in line with the legal requirements.

Audit Committee Oversight

Audit Committees (AC) have a valuable contribution to make in improving the governance, the performance and accountability, of BOs.

Comparing to the previous year the number of ACs has increased. However, around 22% of the ACs were not functional during the year and as such they couldn't add value in supporting the introduction of effective control, risk management and governance processes. This is reflected in the low quantity of implemented recommendations and lack of support for IA activities.

About 16% of local and central level BOs still lacks an AC, these are mainly small municipalities and Ministry of Diaspora and Ministry of European Integration.

Internal Audit Plans and activities

Most BOs have not yet installed a proper risk management framework in use. Due to this, the IA's annual planning process relies heavily on internal audit professional judgment and experience to identify areas of highest priority. Due to this it will be necessary for IA to promote, or provide advice on the establishment of a risk management framework.

The quality of IA plans needs improvement and they need to be applied more specifically to the business of the BO. In some of 15% of audited bodies IA plans failed to identify high risk areas and there is generally no focus on the current challenges to the organisation.

When it comes to IA focus, there is evidence of progress compared to previous years but still some of 20% need to be more focused on current processes instead of focusing in previous year.

Some IAUs could not fulfil IA plans. The certification program had considerable impact on this issue as well as IA undertaking ad hoc audits by management request.

Improvements have been identified in the quality of IA reports especially at the central level. Appropriate recommendations were made in most cases but the level of management action in addressing these remains at an unsatisfactory level.

IA Skills and continuous professional development

The program of International Training and Certification ended in 2011 and 32 internal auditors including CHU/IA, managed to get certificates by CIPFA⁴. 12 internal auditors have been certified in the course training the trainers with the purpose to continue the program for international certification for the second group of internal auditors.

However, this certification is the minimum standard for the practice of internal audit. This is not a certification at the level of the certification given by the Institute of Internal Auditors, giving the benchmark for IAs worldwide. Furthermore, the profession requires ongoing training in order to maintain and develop professional competency. This is necessary to meet expectations and deliver professional service.

Cooperation between OAG and Internal Audit

The current approach to cooperation with internal audit is in the form of discussion and review of documents to gain an understanding of an entity's operation. The OAG looks forward to developing operational coordination and cooperation where certain basic criteria are met.

Conclusion

Despite progress in the development of the IA System:

- Internal audit professionalism needs to be improved;
- There remains a lack of IA mainly in agencies and small municipalities;
- The number and the effectiveness of ACs need to be increased;
- There is insufficient and inappropriate staff resourcing of IAU;
- IA plans do not always prioritise high risk areas; and
- There is a need for continuous professional development.

⁴ The Chartered Institute of Public Finance and Accountancy, United Kingdom

ANNUAL AUDIT REPORT

4.3 Overall Conclusions

When it comes to the PIFC policy, a sound legal and institutional framework is in place. The process for creating secondary legislation is completed. Issuance of two government requirements related to the nine month reporting by the budgetary organisations and the FM/C self assessment by the senior managers using readymade checklists is a step forward.

The effectiveness and consistent application of financial management still remains a challenge. Different approaches and attitudes are needed.

Senior managers throughout the BOs are not adjusted yet to the PIFC requirements in relation to the managerial accountability for value for money, results and impact. The current Financial Management approach is more process oriented and far less focused on objectives and results. More related trainings on FM/C for managers and staff are needed.

Delegation of responsibilities in the BOs has not been carried out in full compliance with a new Government FM/C approach. Internal Control Systems in some cases were not efficiently designed and in some other cases were not effective in practice. Risk management in the BOs is underdeveloped and requires further support. When it comes to the budget planning, execution and monitoring, Government FM/C requirements are not yet fulfilled.

Despite the efforts made, financial management and control systems are not functioning effectively. Application of the PIFC policy is not yet delivering intended results. Therefore, much more needs to be done to build up both technical and professional capacities and securing more focused implementation of the FM/C approach.

4.4 Recommendations

I recommend the Government to ensure that:

- A special Task Force for the implementation of the CHU/FMC Action Plan is organised reporting directly to the Minister of Finance;
- The Minister of MoF undertakes measures which would facilitate the use of PIP System's potential and reports periodically regarding the progress made;
- The Certifying Officer function is either strengthened or reconsidered;
- The E-asset system is upgraded to ensure accurate asset handling. In addition, a practical solution should be found for the current non compatibility between KFMIS and the E-asset systems;
- The new Procurement legal framework is rolled out effectively by the central procurement authorities in accordance with the planned timelines;
- The appropriate level of resources for investment in people and tools in the central procurement authorities are considered with a view to raise efficiency and transparency in the procurement processes;
- Awareness raising measures for management responsibilities and the business community in procurement processes are initiated;
- Indicators on costs and results of procurements are considered as standard disclosures to the BOs AFS';

- Best procurement practices are developed and disseminated to relevant parties;
- Centralised procurements and framework contracts are properly introduced for goods common in public authorities where economy of scale is apparent;
- A thorough analysis is carried out of the causes behind the lack of administrative measures taken in cases of mismanagement and waste of public money;
- The time lines in the Action Plan on Implementing the Public Administration Reform are met. In doing this a higher pace in producing secondary legislation should be considered;
- The practice of entering into temporary contracts without applying recruitment procedures are minimised;
- Appropriate measures are taken ensuring that all public sector employees are paid through the Payroll System and internal controls of and inbuilt controls within the payroll system are urgently developed;
- More focus on an approach of networking within the IA profession, dissemination of professional information and sharing best practices;
- “How to do notes” on addressing audit recommendations and how to assist management in establishing and implementing the risk management framework are developed and disseminated; and
- That internationally recognised internal auditing standards are used as the base for the development of a sustainable and locally owned solution for professional certification and continuous professional development.

I recommend the Assembly to consider:

- Tightly following the further implementation of the Action plan and the Governments actions on getting the processing of remunerations more effective; and
- Closely follow how the Government addresses the factual shortcomings in the procurement field and requires immediate actions for gaining confidence in the way procurements are handled in the public sector.

5. Executing the budget in the Public Sector

5.1 Central Authorities

We have carried out regularity audit of 24 Central Authorities. Our audits resulted in:

- 13 Unqualified Opinions; and
- 11 Unqualified Opinions with an emphasis of matter.

The AFS' present, in all material aspects, a true and fair view. They were prepared in accordance with the Financial Rule no. 07/2011 on the Annual Reporting of BOs as well as in compliance with the requirements of Financial Reporting under Cash Basis of Accounting.

Improvements are noticed in financial management and control. This is also shown by the progress achieved in addressing the previous year's recommendations. Most of them are implemented, whilst others are in the process of being addressed. A good example is the Ministry of Community and Returns who have introduced positive changes within the financial and administrative field.

Challenges

Although there is an overall satisfactory level of budget execution, there were also cases with a lower budget execution, for example in the Office of the President (49%), the Ministry of Diaspora (58%) and the Ministry of European Integrations (59%).

Considerable progress has been achieved in asset recording. The gross value of assets recorded in the Accounting Register for 2011 was €2,676,390,666, compared to €1,029,035,559 in 2010, an increase of €1,647,355,107. This increase is a result of the registration of assets previously held.

In general, the Central Authorities have a good control structure with properly segregated duties and responsibilities. However, the implementation of procedures, the control system and the managerial control were not sufficiently up and running. One important reason behind this is in most cases a lack of internal guidelines specifying general laws and AIs to the specific situation and needs in the individual BO.

Procurement continues to be a sensitive area. Shortcomings were found throughout the process from the initiation of procurement procedures up to the contract execution. The Tender Evaluation Committees did not demonstrate a high level of professionalism and integrity in their work. This led to contracts signed despite the lack of eligible bids and, in many cases, to contracts signed with ineligible EO. In addition, shortcomings exist during the contract execution the monitoring of which was insufficient.

The certification process also had shortcomings in some BOs. This process was not as effective as it should be. As such, it could not prevent payments not in accordance with contracted terms from being executed and certified despite a lack of completed documentation.

The reporting on the use of subsidies leave room for improvement and the monitoring of the beneficiaries is in general not sufficient. There is also a need for more firm actions in cases of deviations from terms and conditions.

When it comes to Government agencies with executive autonomy, accountable before a ministry, the accountability lines in theory are rather clear. But, in practice both the internal control and the responsibilities are not transparent.

Conclusion

During 2011, the Central Authorities have shown progress in the reporting area. The AFS' for all Central Authorities presents a true and fair financial situation. Shortcomings in the AFS are related to insufficient disclosure of information, but do not materially affect the three main financial statements.

The budget spent by 93% indicates the improvement of policies on annual budget planning and execution by Central Authorities.

The shortcomings in implementation of procedures, the control system, the managerial control and the lack of internal guidelines specifying general laws and AIs to the specific situation and needs in individual policy areas and BOs should be taken into consideration in all reforms.

In order to rapidly strengthen the administrative and financial efficiency the accountability lines between ministries and executive agencies should be clarified as well as the handling of subsidies. New guidelines should be developed in this regard.

The gaps between requirements and current practices in procurement and certification should rapidly be closed.

Recommendations

I recommend the Government to ensure that:

- Actions are taken closing the gap between FM/C requirements and practical application in procedures and managerial control;
- Internal guidelines specifying general laws and AIs to the specific situation and needs in individual policy BOs are developed;
- The accountability lines between ministries and executive agencies related to them are clarified;
- New guidelines are developed for the handling of subsidies; and
- The gaps between requirements and practice in procurement and certification should rapidly be closed.

I recommend the Assembly to consider:

- Requiring feed back from the Government on how the above given recommendations are handled.

ANNUAL AUDIT REPORT

5.2 Independent Institutions

We carried out regularity audit of 25 independent institutions' AFS for the year ended in 2011. Our audit opinions resulted in:

- 18 Unqualified opinions;
- 7 Unqualified opinions with an Emphasis of Matter; and
- 1 Qualified opinion.

Compared with the two previous years there have been an improvement of the quality of information disclosed in AFS for 2011. The Independent Media Commission is one positive example in this regard.

Audit results indicate that the vast majority of Independent Institutions have attained good progress in terms of financial management and in establishing, developing and applying controls in general. The Judicial Council and the Civil Aviation Authority (CAA) are good examples.

Recommendations were addressed at a satisfactory level compared to previous year. Concrete measures undertaken for the improvement of administrative and financial performance contributed to this end. Procedures and internal guidelines were produced in areas where shortcomings were noted.

Managerial weaknesses and shortcomings were observed in newly established institutions. Institutions generating revenues have not yet managed to build adequate systems for registration, maintenance and reporting.

Review and consolidation of internal controls to ensure compliance with new Financial Management and Controls requirements was a recommendation issued to almost all Independent Institutions.

We have also noted that operational expenditures, such as: phone, travel and fuel expenses were relatively high, thus we recommended CEOs of Independent Institutions to carry out regular reviews and analysis in relation to these operational expenditures.

Challenges in budget implementation

Independent institutions face a number of challenges that relate to their (functional, financial and operational) independence, their accountability and status in the wider budget process. Independent Institutions lack a unified financing system. Most of them are financed directly from the Kosova budget. Some of them have a mandate to collect revenues from taxes and licenses, however only some of them are allowed to keep all revenues.

Budget and staffing

Although LPFMA provisions provide for financial independence of Independent Institutions, the Government in accordance with the powers given in the Budget Law for 2011 reduced the budget of most independent institutions through direct budget cuts or reduction of allocations.

A model has to be found where proposals for the budgets of Independent Institutions are reviewed and discussed by the Assembly, with the Government providing the technical support for this process. The role of the Assembly during 2011 was that of the formal approval of the budget.

The number of approved staff in most Independent Institutions is harmonized with the current number in payroll.⁵ MoF in some cases imposed budget constraints in the category of wages and salaries.

Due to these constraints some Independent Institutions entered into various agreements with BOs' providing administrative service.

In some cases, administrative support was provided on a voluntary basis and free of charge, such as the agreement entered into between the Ministry of Justice and the State Prosecutor and the agreement entered into between the Water and Waste Regulatory Office and the CAA.

In other cases, such as the one with the Railway Regulatory Authority, the staff engaged based on such agreements was remunerated with a fixed monthly salary processed from the category of Goods and Services. We consider that this payment method had no legal basis and there was no evidence at hand on payment of taxes in Kosovo.

Furthermore, a part of professional staff and the whole administrative staff in the Independent Institutions are civil servants. However, practices regulating Independent Institutions staff salaries are inconsistent. Some of Board chairmen and members are remunerated per diem for each meeting attended while others receive a fixed salary.

The salaries differ significantly. While the average salaries in CAA and Constitutional Court was around €1,000 per month, in majority of others it was around €500. The highest remuneration paid in the individual institutions also shows great discrepancies, from around €8,000 to €786 per month. The salary level of some administrative and professional positions differs from an institution to another without any clear reasons.

Work premises

Work premises are often inadequate and do not provide basic standards for work. Fifteen out of 25 audited institutions are accommodated in private buildings.

Lack of sufficient premises in some cases resulted in an inability to recruit the necessary staff. Support of the Assembly and governmental mechanisms in this regard is limited and appropriate solutions are not often found.

The institution of Ombudsman was forced to enter into a lease agreement without necessary approvals. In spite of the approved budget for construction of a building, the Independent Commission for Media had failed to implement the project due to the non allocation of land by the Municipality of Prishtina. Furthermore, the Competition Commission and the Independent Oversight Board are accommodated in the premises of other institutions with insufficient work space limiting their full functioning.

⁵ Number of employees in these Independent Institutions is 4,992.

ANNUAL AUDIT REPORT

Appointment of senior officials

Appointment and renewal of contracts to senior public positions (boards and the executive level) constantly faced delays. Positions for senior public levels remain open for long periods of time causing setbacks in the functioning of institutions. Furthermore, failure to renew mandates of senior positions in due time resulted in individuals carrying out the functions and receiving salaries without a legal basis. In our view, this occurred due to lack of communication and cooperation between Independent Institutions and the Assembly as well as failure of the latter to take appropriate measures in time.

The Independent Media Commission carried out its activities in 2011 without five Board members out of seven approved. Due to delayed renewal or no new appointments, five Deputy Commissioners in the Legal Aid Commission continued to exercise their function throughout 2011 despite of the fact their mandate expired in July 2010. In addition, the Chief Inspector of Mines in Independent Commission for Mines and Minerals continued exercising his function until December 2011 in spite of the fact his mandate expired in early 2011.

Conclusion

Our conclusion is that Independent Institutions have managed to introduce adequate financial management and control systems in 2011. However, these systems weren't fully functional in practice. Some of the measures taken in 2011 included drafting of procedures, policies and internal guidelines as well as action plans for addressing our recommendations up and running.

The Assembly should have a more proactive approach:

- Securing transparent and sustainable solutions for the Independent Institutions, taking the need of independence into account;
- Appointments and extension of Boards and its members' mandates has to be carried out timely; and
- In holding Independent Institutions to account.

Recommendations

I recommend the Assembly to consider:

- Establishing a tracking system to inform Assembly committee's on expiration of Board's and their members' mandates;
- Installing more effective accountability mechanisms between the Assembly and the Independent Institutions;
- Consider drafting a legal framework for Independent Institutions determining criteria guaranteeing independence; and
- Improving the budget dialogue and establishing new reporting requirements combining financial and operational reporting.

I recommend the Government to:

- Ensure full transparency in any budget related Government decision.

5.3 Municipalities

We carried out statutory audits of all municipalities (37) for 2011. In 18 cases we contracted out the audit to two private audit firms.

34 municipalities submitted AFS' for 2011. Three municipalities (Leposavic, Zubin Potok and Zvecan) did not.

Unqualified opinions were given in 16 municipalities (out of which 14 cases were with Emphasis of matter), Qualified Opinions for 18 municipalities. In three (3) municipalities a Disclaimer was given.

The progress in terms of quality of the AFS' may be noticed by the audit opinions given the last three years.

Table 13 Development of Opinions in last three years

Audit Opinions	Viti 2011	Viti 2010	Viti 2009
Unqualified	2	0	0
Unqualified with emphasis of matter	14	12	2
Qualified	18	16	2
Disclaimer of opinion	3	9	29
Total:	37	37	33

Local Self-government and responsibilities

The annual budget of the Municipality is approved according to the Law on budget appropriations. Besides grants from the central level the municipalities' financial resources consist of revenues from taxes, operation grants, grants for extended competencies, emergency grants and benefits of municipal loans. In a few cases financial assistance is given from the Republic of Serbia.

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

Financial report for the municipal budget

Each Mayor is required to prepare quarterly reports and submit them to the Municipal Assembly throughout the financial year. Such reports are submitted to the Municipal Assembly, with a copy to the Government. These reports are published on the municipality's web site.

Each quarterly report must contain a report of revenues and expenditures, information on investments and debts, and a summary of the situation of all projects for capital expenditures.

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

ANNUAL AUDIT REPORT

Financing of Municipalities

The total expenditures of the municipalities for 2011 were €363,782,562 or 27% of the total KB expenditures. In 2010 they were €304,589,889, an increase of 19.4%. Own source revenues collected by the Municipalities was €55,621,478. Financing of Municipalities from own source revenues is estimated at only 15% within the overall financing structure. Compared with 2010 own source revenues increased by 7%. The final Municipalities' budget was spent in the average level of 90.5%.

Implementation of prior year recommendations

The record of addressing our recommendations is poor.

The audit of 2010 resulted in 227 recommendations to the 34 municipalities (not including Leposaviq, Zubin Potok and Zvecan). During 2011 only 38 of these recommendations or 15 % were fully addressed, 83 partially whilst 106 or 47 % were not addressed at all. The recommendations given were mainly related to preparation of AFS, property and equipment management, revenues and expenditures.

Greater commitment in implementing the recommendations was noticed within the municipalities of Gjilan, Peja, Vushtrri, Fushe Kosove and Viti, while the municipalities which handled the recommendations less well are Prishtina, Drenas, Kacanik and Ranilug.

Furthermore, 12 municipalities failed to prepare action plans for addressing the recommendations. Such an approach shows a lack of accountability and responsibility of municipal senior officials.

The insufficient handling of recommendations by the Municipalities is quite concerning and requires the involvement of the Assembly (COPF), in order to propose corrective measures.

Reforms in Local Government Public Financial Management

PFM reform⁶ began in 2009 at the Government level and in 2010 continued in the local government level. PFM performance assessment was initially carried out in the period June 2010-May 2011 in the municipalities of Prishtina, Podujevo, Vushtrri Mamusha and Strpce. From June 2011 up to February 2012 it continued with the assessment of six other municipalities: Peja, Istog, Gjakova, Gjilan, Ferizaj and NovoBrdo.

The whole assessment process was developed under the MoF sponsorship and supported by the external donors USAID and DFID. As a result a PFM Action Plan was produced and the development of individual plans for these 11 municipalities was foreseen by the end of August 2012. The reform included 7 PFM components.

The Action Plan contains indicators and grades based on municipalities strengths and weaknesses; actions to be taken and institutions responsible for implementation. The implementation is foreseen up to the end of 2013. Similar assessments are expected in other municipalities.

⁷ The PFM reform based on the methodology of public expenditure and financial accountability (PEFA)

Key audit findings

Most of the key audit findings are linked to deficiencies in the preparation of the AFS'. These deficiencies impacted the audit opinion in many cases. For example:

- There were incomplete accounting records, which meant that Annual Financial Statements of some municipalities had to be constructed using Treasury records;
- There was extensive non-disclosure of, or non-presentation, of the financial values of assets;
- Some municipalities reported little or no Own Source Revenues in their accounting records;
- Many of the expected reconciliations between collected revenues and those figures for collected revenues recorded in the accounts were not conducted;
- In general, Municipalities did not keep the records of payments from third parties;
- Lack of disclosures for receivables and stocks;
- In most Municipalities, the handling of non-financial assets is not in accordance with legal requirements;
- Weak handling of procurement processes;
- Most of the Municipalities have not established audit committees; and
- The three municipalities given Disclaimer of opinion still need to build up the administration and staff skills in accordance with general requirements.

Legal requirements on financial reporting

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

- Only 16 have prepared AFS in line with Financial Rule no. 07/2011 on annual reporting of the budget organisations;
- 3 have not submitted quarterly financial reports to the Minister of MoF; and
- Only 8 have prepared their AFS in two official languages.

Conclusion

Our audit reports include recommendations aimed at helping the Municipalities to improve. Many recommendations have not been addressed properly. The same weaknesses are repeated year to year resulting in slow progress in developing public financial management and delivering service to citizens.

Among the main challenges we identified were: weak management and oversight of projects, advance payments prior to finalizing the works, low level of budget execution, numerous payments in the last quarter, weak management of revenue and receivables.

In addition to these management weaknesses, there are also numerous deficiencies in the area of reporting by Municipalities. Reporting lines from Departments to senior management and revenue reconciliation still remain areas for further improvement. In general internal reporting did not function properly.

ANNUAL AUDIT REPORT

While the asset registration and their disclosure remains a long-term objective, the Municipalities face the problem of registering revenues and disclosure of third party payments. This is more difficult since the concept of what should be included in this category is not quite clear.

Recommendations

I recommend the Government to ensure:

- The requirements on disclosure of third party payments are clarified and that best practices are developed and disseminated for this;
- The development of a generic internal reporting system which would handle revenues, interests, third party payments and project implementation;
- Better coordination amongst all relevant actors in the implementation of the PFM reform; and
- That the PFM reform is extended to include all municipalities.

I recommend the Municipality Assemblies to ensure that;

- The executive is producing Action Plans on external audit recommendations in due time; and
- The External audit report is reviewed in the Assembly.

I recommend the Assembly to consider:

- Introducing an Executive Manager as the highest civil servant responsible for running the daily operations and services to citizens; and
- Strengthening the oversight of the performance of the municipalities in offering service to citizens.

5.4 Publicly and Socially Owned Enterprises

Publicly Owned Enterprises (POEs) are categorised as:

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

The Central and Regional POEs are fully owned by the state. They include nine Central POEs, six Regional Water Companies and two Regional Irrigation Companies.

The Ministry of Economic Development (MED) is responsible for oversight of the Board of Directors business and Audit Committees of the individual POEs. The Government is accountable before the Assembly for competencies and responsibilities towards POE's. It shall report to the public and the Assembly on how they are managed.

POEs are organised as Joint Stock Companies in line with Law on Business Organisations. POEs should report in line with International Financial Reporting Standards and applicable laws. The POE's must comply with the Administrative Instructions issued by Treasury for the preparation of financial reports.

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

Actions taken on earlier recommendations

Last year we gave numerous recommendations on improving the performance of POEs. They were:

- Clarifying accountability lines;
- Strengthening the monitoring of boards and executive managers and holding them to account;
- Strengthening the role as owner and developing better prerequisites for the enterprises;
- Analyse reasons behind shortcomings in the service to the citizens;
- A general guideline on financial management in POEs is developed; and
- Facilitating better functioning and proper reporting.

Amendments to the Law on Public Enterprises are now made. To a certain degree they address some accountability issues. But, in general these recommendations are not addressed yet and no major developments have been noticed during 2011.

Challenges that POEs are facing

Our audits identified that financial management and control systems were not sufficiently developed. Furthermore, that the internal controls in place were not implemented effectively.

MED, as the representative of the shareholder, did not ensure sufficient monitoring of the POEs performance. The Ministry did not publish all required data as required by the law, thus the level of transparency is not as expected.

Weaknesses and challenges faced by the audited entities are as follows:

- Selection of Board members and audit committees was not done in a transparent manner by the Government securing that all members have required professional knowledge in order to increase efficiency in water management companies;
- Not all POEs held Annual General Meeting as required and certain decisions should only be taken in such meetings;
- A number of POEs have constantly operated with financial losses. Their permanent dependence on Government subsidies indicates uncertainty regarding the financial viability of on-going businesses in current form;
- The management of revenue collection is weak. Lump sum invoicing is still being used in many cases;
- Water companies face huge losses of produced water. In some companies water losses reach up to 61 %;
- Procurement management in some POEs was not in accordance with applicable requirements;

ANNUAL AUDIT REPORT

- Human resource management was lacking controls and during recruitment processes the oversight was ineffective;
- Asset Management was not effective and there was a lack of regular valuation and registration; and
- An operational control environment is not put in place in all cases.

Our audit of Trepeca revealed that:

- There has been progress in improving controls in the southern part by introducing regulations and internal guidelines, building capacities for the registration and management of assets and strengthening of internal controls;
- The main weakness continues to be the limited cooperation between the northern and the southern part; and
- Weaknesses in the processes of revenues, procurement and lack of transparency in recruitment are still apparent.

At the same time the management of Trepeca north this year cooperated with and gave access for the audit. Trepeca north had a positive revenue trend in 2011, while the costs have increased significantly. As a result the net profit is drastically reduced.

Conclusion

The Government in many cases failed to select competent Boards of Directors able to, in practice, secure efficiency in managing the companies towards positive operative and financial results.

In cases when the engagement of the Boards has been high, the financial results are still poor. These negative results threaten the continuity of these enterprises in the current form.

Furthermore, lack of adequate controls in human resources management, procurement and handling of assets is a challenge.

The re-organisation of SOE Trpeca is a challenge for PAK. The process should aim to merge the companies and introduce uniform approaches and methods for managing the business. In general further efforts are need by the PAK Board and SOE Trepeca management to secure implementation of recommendations and proper management.

Recommendations

I recommend the Government to ensure that:

- The accountability structure in the amended Law on POEs is implemented in practice;
- Adequate systems for managing and oversight are introduced and the accountability system in general is strengthened;
- The companies' overall situation is analysed by the Boards and that concrete actions on the overall performance are taken when it comes to adequate controls, functioning of revenues process, complete and reliable financial reporting; and

- A unified management guideline is produced supporting the companies to foster transparent and adequate control environment including management of personnel, procurement, assets, revenue handling as well as internal audit.

I recommend the Assembly to consider:

- Closely follow the quality and sustainability of service to citizens by public enterprises; and
- Requesting from the Government to submit a report on the performance of the public enterprises and how the accountability mechanisms introduced in the legal framework are implemented in practice.

5.5 Privatisation

PAK is also responsible for the privatisation of the SOEs, including their sale, transfer and liquidation of enterprises and assets. The results have an impact on Kosovo's market restructuring and economic development as well as improved welfare for citizens.

By end of December 2011, 124 SOEs were privatised through privatisation and sale of assets through liquidation. However, the processes have been slow.

In order to create better prerequisites for the operative work of PAK in timely reaching the objectives of the privatisation process the Assembly has adopted a new legal framework.

Privatisation of SOEs that have sustainable business is made through the Spin-off method. The assets and limited liabilities of a SOE are transferred to a new company (NewCo) established from the original SOE.

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

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

The balance of accounts on 31 December 2011 was €585,762,669. The Privatisation Funds increased by €63,569,370 in 2011.

PAK prepared a Business Plan for 2011 foreseeing the activities and strategies of the Agency related to the Privatisation Fund. In 2011, 61 new enterprises or 94% of those planned were sold through privatisation while 63 units or 75% of these planned were sold through liquidation.

ANNUAL AUDIT REPORT

Examples on challenges that PAK is currently facing related to the privatisation process are:

- Procedures regarding the qualification of operators: the bid evaluation committee qualified bidders who failed to meet the criteria in the tender rules and in the cases of "Fan Besiana Hotel" and the new enterprise "Koretniku-Supermarket Bresana LLC" the sale was done despite the lack of the required three bidders;
- The Eligible Bidders book was not properly updated securing reliable data;
- Shortcomings in managing enterprises: In the case of "Germia" it was used by an illegal user before it was announced for privatisation; and
- Not adhering to policies and regulations in some cases: weakness in handling of complaints and distribution of 20% to employees.

Conclusion

Board of Directors together with management failed to secure transparent procedures in some cases during the privatisation and eliminate weaknesses.

The process of privatisation or sale of the respective SOEs through privatisation and liquidation was close to the planned level. We noticed several weaknesses in procedures and deviation from its policies and rules in this process. This was also noticed in the review of complaints and the distribution of 20% of employees.

Recommendations

I recommend the Board of PAK and the Executive Manager to ensure that:

- Basic documents are verified for all bidders before the evaluation of bids is made to ensure they are valid and that the bidders meet the requirements of regulation;
- The Eligible Bidders Book is updated through regular review and verification in order to ensure that competition in the sale involves eligible bidders;
- Physical examinations are undertaken on enterprises under the PAK control to ensure that they are securely maintained and not operated by unauthorised persons;
- The sales process is structured with sufficient number of bidders to generate an acceptable value for the enterprise for sale; and
- Controls are set over the process of distribution of 20% of revenues to employees from the sale of SOEs, fully in compliance with applicable legal framework.

I recommend the Assembly to consider:

- Requiring more concise and transparent information about the annual results of the privatisation process.

Annex I. Different types of Audit Opinions (Extract from ISSAI 400)

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

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

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

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

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

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

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

ANNUAL AUDIT REPORT

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

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

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

Annex II. Audit Opinions and Key Managerial Shortcomings

Table 1: Unqualified Opinions

Auditees	Final budget (million euro)	Main management shortcomings
Ministry of Internal Affairs	91.83	Failure to fully address the OAG recommendations; Incompliance with LPP; Poor controls over the KP Fleet management; Incomplete and inaccurate recording of assets.
Ministry of Finance	57.21	The issued loans were returned in time; Shortcomings in the personnel management; Incompliance with LPP; Shortcomings in the subsidies management.
Ministry of Economic Development	56.90	Entry into contractual liabilities without financial funds; Expenditures in contradiction to the Law on Publicly Owned Enterprises; Around half of assets' value is zero.
Ministry of Kosova Security Forces	33.67	Shortcomings in contracts management; shortcomings in the payments certification; shortcomings in the vehicles management.
Prizren	32.95	Failure to fully address the OAG recommendations; Shortcomings in the collection of revenues; Incompliance with LPP; incomplete and inaccurate assets register.
Ministry of Justice	20.15	Failure to fully address the OAG recommendations; Incompliance with LPP; Irregular payments certification; Poor planning and management of subsidies; Incomplete assets registers
Ministry of Public Administration	18.28	Failure to fully address the OAG recommendations; Poor budget planning; Incompliance with LPP; incomplete and inaccurate assets register; Poor control over use of vehicles
Kosova Judicial Council	18.01	Poor budget planning; Incompliance with LPP.
Assembly of Kosova	16.74	Incompliance with LPP.
Ministry of Culture, Youth and Sports	13.01	Failure to fully address the OAG recommendations; shortcomings in the revenues management; Incompliance with LPP; Irregular payments certification; Poor monitoring of projects; Poor monitoring and management of subsidies; Poor debts management.
Customs	9.48	Application of the wrong tariff code and inaccurate calculation of customs charges; Failure in improving the statement and funds not returned after the re-evaluation; Unjustified re-evaluation of custom base; Unique Custom Documents not supported with additional documents; Shortcomings in the procedure with economic impact (Customs warehouses); Around half of assets' value is zero; Lack of back-up for the TIMS application data.
Privatization Agency of Kosova	8.94	Failure to fully address the OAG recommendations; Recruitment procedures not adhered to; Incompliance with LPP; Irregular payments certification; Untrue presentation of outstanding liabilities; Poor monitoring and management of subsidies.

ANNUAL AUDIT REPORT

Ministry of Trade and Industry	7.25	Failure to fully address the OAG recommendations; Poor controls over the issuing of licenses; The accounting software was not up and running
Ministry of Communities and Returns	7.16	Incompliance with LPP; Irregular payments certification; Poor monitoring of capital projects and subsidies; Incomplete reports on the assets net value.
Central Elections Commission	6.86	Incompliance with LPP; Lack of professional staff; The IAU not established.
Tax Administration	6.64	Control over the prevention of tax evasion not functioning; Weaknesses in collecting debts within the foreseen deadline; Delays in tax refunds; Assets not re-evaluated.
Kosova Property Agency	2.07	Discrepancies between the personnel job positions and payroll lists; shortcomings in the KFMIS accounting register.
Ministry of European Integration	1.68	Incompliance with LPP; Irregular payments certification; Recruitment criteria not adhered to.
Telecommunication Regulatory Authority	1.59	Shortcomings in the procurement planning; Tendered capital projects not processed through PIP; Incomplete and inaccurate assets register.
Constitutional Court of Kosova	1.53	Lack of routine controls over the finance sector; Use of telephony services with high costs.
Independent Commission for Mines and Minerals	1.50	Inadequate system of management of the revenue. Non implementation of agreements with operators related to debt settlement. Delays in closing advance payments;
Ranillug	1.47	Shortcomings in the receivables management; Shortcomings in the procurement process; IAU not established
Independent Media Commission	1.15	Incompliance with LPP; Incomplete and inaccurate accounting register; Shortcomings in the vehicles management.
Civil Aviation Regulatory Office	0.76	Shortcomings in the assets management; Insufficient controls over payments process.
Energy Regulatory Office	0.68	Failure in adapting all acts, decisions, and regulations with the new legal requirements; Poor management of receivables; Payments not executed in time.
Kosova Judicial Institute	0.62	Incompliance with LPP; Shortcomings in the assets management; Expenditures registered in the wrong economic codes.
Ombudsperson	0.61	Discrepancies between the personnel job positions and payroll lists; Mobile telephony spending limits exceeded; Payments with petty cash not properly documented; E-assets system was not up and running.
DANIDA	0.56	Low level of budget execution.
Academy of Science and Arts	0.48	Incomplete and inaccurate assets register; Incompliance with LPP; Liabilities entered into without financial means available.
Anticorruption Agency	0.40	Discrepancies between the personnel job positions and payroll lists; Assets not recorded in the respective category.
Public Procurement Regulatory Commission	0.32	Failure to fully address the OAG recommendations; Decisions not harmonised with the Government's instructions on mobile telephony; E-assets system not applied.

Water and Waste Regulatory Office	0.33	Shortcomings in debts collection; Shortcomings in the vehicles management.
Legal Aid Commission	0.29	Commissioner's and members' mandate renewed following the expiry of contracts; Incompliance with LPP.
Public Procurement Agency	0.16	Shortcomings in the revenues management; Poor implementation of internal controls; Decisions not harmonised with the Government's instructions; Lack of assets stocktaking.

Table 2: Unqualified opinions with emphasis of matter

Auditees	Final budget (million euro)	Reason for emphasis of matter	Main management shortcomings
Ministry of Infrastructure	288.53	Fixed assets register is not reliable yet	Failure to fully address the OAG recommendations; Salaries paid without valid employment contracts; Incompliance with LPP; Poor controls over the supervision of projects execution; Improper segregation of duties; Incomplete and inaccurate assets register;
Ministry of Labour and Social Welfare	190.10	Incomplete information disclosed on fixed assets and stocks.	Failure to fully address the OAG recommendations; Shortcomings in Human Resources management; Weak monitoring of subsidies; Files of pension beneficiaries not updated; Poor assets management; Incompliance with LPP; Poor management of contracts.
Ministry of Health	82.64	Incomplete information disclosed on fixed assets, stocks, and payables	Weak revenues management; Incompliance with LPP; Shortcomings in debts management; Weak assets management; Weak medicines management
Prishtinë	75.81	Incomplete and inaccurate information disclosed in the AFS	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Incompliance with LPP; Shortcomings in contracts management; Incomplete and inaccurate assets register; Shortcomings in debts management.
Ministry of Education, Science and Technology	41.80	Incomplete information disclosed on fixed assets, and accounts payable	Failure to fully address the OAG recommendations; Irregular payments certification; Incompliance with LPP; Payments for special service in contradiction with LPFMA; Shortcomings in debts management
University of Pristina	25.23	Insufficient controls over own source revenues.	Failure to fully address the OAG recommendations; Poor budget planning, monitoring and execution; Poor monitoring and use of subsidies; Irregular payments certification; Contracts entered into with officials without a legal basis; Remuneration for overtime work without evidence and to the academic staff in cases when they did not attend lectures; Incomplete and inaccurate assets register.

ANNUAL AUDIT REPORT

Ferizaj	20.75	Information disclosed on assets was incomplete and inaccurate	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Poor contracts management; Lack of a regulation for granting subsidies; Poor contracts management; Incomplete and inaccurate assets register.
Mitrovicë	20.09	Incomplete and inaccurate information disclosed on fixed assets, accounts receivable and stocks; limited audit extent in regard to the administration of north Mitrovica.	Poor controls in execution of projects; Incompliance with LPP.
Gjilan	19.66	Incomplete and inaccurate information disclosed on assets and contingent liabilities	Failure to fully address the OAG recommendations; Incompliance with LPP; Irregular payments certification; Poor management of subsidies; Incomplete and inaccurate assets register.
Gjakovë	18.87	Incomplete and inaccurate information disclosed on fixed assets and stocks	Poor controls over collection of debts; Shortcomings in contracts management; Poor management of subsidies.
Ministry of Foreign Affairs	16.56	Expenditures on goods and services incurred by the Consular Diplomatic Mission in the amount of €386,089 not recorded.	Shortcomings in revenues management; Incompliance with LPP; Irregular payments certification; IAU not manned with the necessary staff.
Podujevë	16.31	Incomplete and inaccurate information disclosed on assets	Failure to fully address the OAG recommendations; Incompliance with LPP; Irregular payments certification; Lack of a regulation for granting subsidies; Shortcomings in debts management.
Ministry of Agriculture, Forestry and Rural Development	14.04	Incomplete and inaccurate information disclosed on fixed assets and accounts receivable	Shortcomings in collection of revenues; Poor monitoring and reporting on subsidies for NGOs; Incomplete disclosure of assets in the AFS.
Vushtri	12.82	Incomplete and inaccurate information disclosed on assets and contingent liabilities	Irregular payments certification; Shortcomings in contracts management; Poor management of subsidies; Shortcomings in debts management.
Skenderaj	10.65	Uncertainties regarding the ownership rights on properties defined between the municipality and other various government agencies, lack of ownership documents, and fair disclosure of assets value in the AFS without any valuation report.	Failure to fully address the OAG recommendations; Incompliance with LPP; Shortcomings in the recording and valuation of assets; Poor control on expenditures and payments.

OFFICE OF THE AUDITOR GENERAL

Gllgoc	10.08	Incomplete and inaccurate information disclosed on fixed assets and stocks.	Shortcomings in contracts management ; Fixed assets not presented; Stocks not disclosed
Office of the Prime Minister	9.15	Incomplete information disclosed on accounts receivable	Failure to fully address the OAG recommendations; Shortcomings in the collection of revenues; Incompliance with LPP; Shortcomings in the payments certification process; Shortcomings in the management of subsidies; Incomplete assets register.
Ministry of Environment and Spatial Planning	8.22	Incomplete and inaccurate information disclosed on fixed assets	Non reconciliation of revenues between departments and invoices from the Archive; Recruitment criteria not adhered to; Shortcomings in the vehicles management; Irregular payments certification.
Ministry of Local Government	8.04	Incomplete information disclosed on assets	Failure to fully address the OAG recommendations; Poor management of subsidies; Shortcomings in the personnel management; Shortcomings in the procurement process.
Klinë	7.39	Fair disclosure of assets value in the AFS without any valuation report.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Incompliance with LPP; Poor management of accounts receivable; Poor control on expenditures and payments; Audit Committee not established.
Gračanicë	5.84	Incomplete and inaccurate information disclosed on assets.	Failure to fully address the OAG recommendations; Non reconciliation of revenues; Incompliance with LPP; Shortcomings in contracts management; Poor management and reporting on subsidies; Lack of an Assets Officer; Audit Committee not established.
Kaçanik	5.74	Incomplete and inaccurate information disclosed in the AFS	Shortcomings in revenues management; Incompliance with LPP; Poor management of accounts receivable; Shortcomings in the assets management.
State Prosecutor	4.90	Incomplete and inaccurate information disclosed on fixed assets	No fulfilment of key positions of jobs. Lack of controls in the payments sector. Incomplete and inaccurate assets register
Shtërpçë	4.41	Incomplete and inaccurate information disclosed on assets.	Failure to fully address the OAG recommendations; Lack of procurement plan, Lack of a regulation for granting subsidies; Audit Committee not established.
Office of the President	2.54	Incomplete and inaccurate information disclosed on fixed assets.	Incompliance with LPP; Poor controls over payments process; Shortcomings in the assets accounting register.

ANNUAL AUDIT REPORT

Novo Bërdë	2.99	Incomplete and inaccurate information disclosed on assets.	Failure to fully address the OAG recommendations; Lack of a regulation for granting subsidies; Lack of assets register and Assets Officer; Audit Committee not established.
Ministry of Diaspora	1.02	Incomplete and inaccurate information disclosed on assets	Low level of budget execution; Incompliance with LPP; Irregular payments certification; Payments to officials in contradiction to the legal basis; Recruitment criteria not adhered to; Poor management of subsidies; Incomplete and inaccurate assets register.
Elections Complaints and Appeals Panel	0.26	Incomplete and inaccurate information disclosed accounts receivables.	Payments for servicing of vehicles without any contract.
Kosova Competition Commission	0.22	Assets not disclosed in the AFS	Poor budget planning and execution; Incomplete and inaccurate assets register; Shortcomings in the procurement planning; Shortcomings in the vehicles management.
Oversight Board for Civil Servant	0.22	Incomplete and inaccurate information disclosed on fixed assets.	Incompliance with LPP; Poor controls over payments process.
Railways Regulatory Office	0.16	Fixed assets not recorded in the KFMIS	Payments for contracted services in contradiction with the legal framework; Irregular payments certification; Lack of and Assets Officer.
Privatization Fund	0	The 20% of the employees lists was not, in some cases, distributed in compliance with set rules.	Failure to address the OAG recommendations; Shortcomings in the bids evaluation process; Poor management of the enterprise under the KPA; Incompliance with LPP.

Table 3: *Qualified Opinions*

Auditee	Final Budget (million euro)	Reason for qualification of opinion	Main management shortcomings
Pejë	19.09	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in own source revenues management; Incompliance with LPP; Incomplete and inaccurate assets register; Lack of policies on subsidies; Lack of accounts receivable register
Suharekë	12.35	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Poor control on expenditures and payments; Incompliance with LPP; Lack of policies on subsidies; Poor management of accounts receivable; Inaccurate assets register.
Lipjan	12.00	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Shortcomings in the personnel management; Poor contracts management; Lack of policies on subsidies; Shortcomings in debts management; Incomplete and inaccurate assets register.
Rahovec	10.00	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Shortcomings in contracts management; Lack of policies on subsidies; Poor personnel management.
Malishevë	9.81	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Incompliance with LPP; Shortcomings in the personnel management ; Poor contracts management; Incomplete and inaccurate assets register.
Viti	8.52	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Incompliance with LPP; Shortcomings in the personnel management; Lack of policies on subsidies; Incomplete and inaccurate assets register; Receivables not recorded
Istog	7.52	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Poor management of accounts receivable; Incomplete and inaccurate assets register; Audit Committee not established.
Fushë Kosovë	6.45	Comparing information for 2010 and 2009 was not properly designed.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Lack of procurement plan; Weaknesses in the internal control;
Obiliq	5.16	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Incompliance with LPP; Shortcomings in contracts management; Incomplete and inaccurate assets register; Audit Committee not established.

ANNUAL AUDIT REPORT

Shtime	4.77	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Incompliance with LPP; Shortcomings in the personnel management; Subsidies given in contradiction with the internal regulation; Incomplete and inaccurate assets register.
Kllokot	1.86	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in the collection of revenues; Irregular payments certification; Shortcomings in contracts management; Lack of records on receivables; Lack of Assets Officer; Incomplete and inaccurate assets register; Audit Committee not established.
Hani i Elezit	1.80	Complete amounts on assets were not disclosed in Note 30 of the AFS	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Incompliance with LPP; Incomplete and inaccurate assets register; Audit Committee and IAU not established.
Junik	1.56	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Incompliance with LPP; Poor management of accounts receivable; Shortcomings in the assets recording and evaluation.
Partesh	1.40	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Incompliance with LPP; Lack of an internal regulation on subsidies; Lack of assets register and Assets Officer; IAU not established.
Mamusha	1.10	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Poor contracts management; Lack of policies on subsidies; Audit Committee not established

Table 4: Qualified Opinions with emphasis of matter

Auditee	Budget (000 euro)	Reason for qualification of opinion	Main management shortcomings
Kamenicë	7.70	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Incompliance with LPP; Poor management of accounts receivable; Shortcomings in the assets recording.
Deçan	7.16	Information disclosed in the AFS was incomplete and inaccurate	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Incompliance with LPP; Poor management of accounts receivable; Shortcomings in the assets evaluation.
Dragash	5.72	Information disclosed in the AFS was incomplete and inaccurate.	Failure to fully address the OAG recommendations; Shortcomings in revenues management; Incompliance with LPP; Poor management of accounts receivable; Shortcomings in the internal control; Shortcomings in the assets recording and evaluation.
Procurement Review Body	0.25	Information disclosed in the AFS was incomplete and inaccurate.	Shortcomings in revenues management; Non reconciliation of procurement plan with budget allocations; Incomplete and inaccurate assets registers.

Table 5: Disclaimer of opinions

Auditee	Final budget (million euro)	Reason for disclaimer of opinion
Leposaviq	2.88	Not presented in the PVF
Zubin Potok	2.08	Not presented in the PVF
Zveçan	1.81	Not presented in the PVF

Për informata të mëtejshme, ju lutem kontaktoni:
Za vise informacija, molimo vas kontaktirajte:
For further information, please contact:

Ilire Daija - Buza
ilire.daija@oagks.org
+381 (0) 38 25 32 121

Qëndresa Mulaj
qendresa.mulaj@oagks.org
+381 (0)38 25 32 262

ZYRA E AUDITORIT TË PËRGJITHSHËM

Adresa: Rr. "Musine Kokollari" , nr 16
10000 Prishtinë, Kosovë

Telefon: +381 (0) 38 25 35 217
Faks: +381 (0) 38 25 35 122
<http://oag.rks-gov.net>