



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

ANNUAL AUDIT REPORT

2012

Prishtinë, September 2013

Table of Contents

ADDRESS BY THE AUDITOR GENERAL.....	5
EXECUTIVE SUMMARY.....	7
1 INTRODUCTION.....	11
2 EXTERNAL AUDIT AND ACCOUNTABILITY.....	12
3 THE ANNUAL FINANCIAL REPORT AND GOVERNMENT ACCOUNTABILITY.....	14
3.1 Audit Opinion on the Consolidated Financial Statements.....	14
3.2 Audit scope and approach.....	16
3.3 Audit opinions in the individual AFS.....	16
3.4 Progress of last year’s recommendations related to the KB/AFS.....	17
3.5 Analysis of KB/AFS 2012.....	18
3.5.1 Consolidated statement of comparison of budgeted and actual amounts.....	18
3.5.2 Statement of Cash Receipts and Payments.....	18
3.5.3 Consolidated Statement of Cash and Fund Balances.....	23
3.6 Assets and Outstanding Liabilities.....	23
3.6.1 Assets.....	23
3.6.2 Outstanding liabilities.....	24
4 FINANCIAL MANAGEMENT.....	27
4.1 Financial Management and Control (FM/C) systems.....	27
4.1.1 Current developments.....	28
4.1.2 Reporting process.....	29
4.1.3 Standard Integrated Government Tax Administration System (SIGTAS).....	30
4.1.4 Procurement.....	30
4.1.5 Management of Government Vehicles.....	31
4.1.6 Reform in the Civil Service and Remunerations.....	32
4.1.7 Medical Waste Management.....	33
4.2 The Internal Audit System.....	34
4.3 Overall Conclusions.....	36
5 EXECUTING THE BUDGET IN THE PUBLIC SECTOR.....	38
5.1 Central Authorities.....	38
5.2 Independent Institutions (Iis).....	41
5.3 Municipalities.....	45
5.4 Publicly and Socially Owned Enterprises.....	49
5.4.1 Publicly Owned Enterprises (POE).....	49
5.4.2 Socially Owned Enterprises (SOE).....	52
5.5 Privatisation.....	53
ANNEX I. DIFFERENT TYPES OF AUDIT OPINIONS.....	55
ANNEX II. AUDIT OPINIONS AND KEY MANAGERIAL SHORTCOMINGS.....	57

List of Abbreviations

AAR	Annual Audit Report	LSC	Law on Civil Service
AC	Audit Committees	LSCS	Law on Salaries of Civil Servants
AFS	Annual Financial Statements	MED	Ministry of Economic Development
AG	Auditor General	MEST	Ministry of Education, Science and Technology
BO	Budget Organisations	MIA	Ministry of Internal Affairs
CBK	Central Bank of Kosova	MoF	Ministry of Finance
CCK	Constitutional Court of Kosova	MoH	Ministry of Health
CEC	Central Election Committee	Mol	Ministry of Infrastructure
CPA	Central Procurement Agency	MNAO	Mitrovica North Administrative Office
COPF	Committee on Oversight of Public Finances	MPA	Ministry of Public Administration
CHU/FMC	Central Harmonisation Unit/ Financial Management Control	MTEF	Mid Term Expenditure Framework
CHU/IA	Central Harmonisation Unit/ Internal Audit	NAPPD	National Agency for Protection of Personal Data
EO	Economic Operator	NGOs	Non Governmental Organisations
EU	European Union	OAG	Office of the Auditor General
FM/C	Financial Management Control	OI	Ombudsperson Institution
HI	Health Institutions	OPM	Office of the Prime Minister
IA	Internal Audit	PAK	Privatisation Agency of Kosova
IAU	Internal Audit Unit	PAR	Public Administration Reform
ICMM	Independent Commission for Mines and Minerals	PEFA	Public Expenditure and Financial Accountability
IFRS	International Financial Reporting Standards	PIA	Prishtina International Airport
II	Independent Institutions	PIFC	Public Internal Financial Control
IMC	Independent Media Commission	PFM	Public Financial Management
IMF	International Monetary Fund	PRB	Procurement Review Body
IPSAS	International Public Sector Accounting Standards	PPRC	Public Procurement Regulatory Commission
ISSAI	International Standards of Supreme Audit Institutions	POEs	Public Owned Enterprises
KB	Kosova Budget	POEPMU	Publicly Owned Enterprises aPolicy and Monitoring Unit
KCCH	Kosova Council for Cultural Heritage	PTK	Post and Telecom of Kosova
KEK	Kosova Energetic Corporate	RTK	Radio and Television of Kosova
KFMIS	Kosova Financial Management Information System	RWC	Regional Waste Company
KJC	Kosovo Judicial Commission	SAI	Supreme Audit Institution
KJI	Kosovo Judicial Institute	SIGTAS	Tax Administration System
KPA	Kosova Property Agency	SOEs	Social Owned Enterprises
LPFMA	Law no. 03/L-048 on Public Financial Management and Accountability	SP	State Prosecutor
LPP	Law no. 03/L-241 on Public Procurement	TAK	Tax Administration of Kosova

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 2012 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.

The quality of the information in the Kosova Budget as well as in the underlying Annual Financial Statements has improved over the years. However, we are now facing higher expectations and requirements on the accuracy and validity of information and statistics related to Kosova's Euro-Atlantic ambitions. We can be proud of what Kosova has achieved in this area, but new challenges are occurring.

At the same time there is still a need for improving the focus on outputs and results achieved and associated financial management and control. As financial management approaches are developed, the legal framework is increasingly more consistent and assembly oversight is gradually strengthening. To roll out all of these objectives over the entire public sector will take time. But, more can be done under the current conditions with a more focused approach.

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

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 to promote improvements. We aim to act as an independent key driver for change in Public Financial Management.

Securing the implementation of the key prerequisites to ensure the consolidation and sustainability of these improvements and an approach adding value in the integration process will be the main focus of my exit strategy.

This report lays out key challenges that 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 2013

Executive Summary

My overall audit opinion is 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 2012”.

At the same time I draw the reader's attention to the presentation of assets. Notwithstanding Treasury reporting requirement that assets above €1,000 shall be presented in the KB/AFS at their net value, the information in the underlying AFS of the individual BOs and the KB/AFS are still not properly reconciled. The public assets in the KB/AFS are underestimated by around €2,850,000,000 in comparison with the underlying individual AFS. At the same time assets presented in the underlying AFS are not accurate in many cases resulting in 42 Emphasis of Matters on individual BO's. (ISSAI 400: **Unqualified Audit Opinion with an Emphasis of matter**).

I would also like to raise the following:

- In the KB/AFS the Treasury reported that it makes no consolidation of inter- department transactions in order to maintain the consistency of information presented within the AFS of BO's. This has the effect that the consolidated turnover is over estimated. In my view a consolidation should be made and described in a foot note; and
- Kosova receives various funds from third parties (donations) which are not subject to overnment's Financial Regulations (budget process and payments). Accounting standards and good international practices require that these types of transactions should be disclosed in both the KB/AFS and individual AFS. However, central guidelines are not clear enough and not consistent with accounting standards.

The above mentioned issues are not material, but implementation would result in a more transparent accounting regime complying better with standards and EU requirements.

In the following I summarise the Public Financial Management situation and the detailed recommendations given in the individual chapters

Chapter 3 (The Annual Financial Report and Government Accountability) indicates that financial reporting has improved and is more transparent, partly as a result of earlier recommendations being addressed.

At the same time ***I recommend the Government to ensure that:***

- Earlier recommendations are addressed properly;
- The basis of the Emphasis of Matter relating to the consolidation of assets is addressed as a matter of priority to ensure a marked improvement in the 2013 position;
- The unification of the two Central Government Asset systems ensuring more efficient management of assets;

- Proper solutions are implemented relating to the handling of bad, doubtful and un-collected debts, repayments of loans to public enterprises and levels of outstanding liabilities; and
- Budget considerations reflect the impact of reduced donations and barriers to budget execution.

I also recommend the Assembly to consider:

- Focusing on how effectively the Government addresses the recommendations given and requiring reports on the progress made well before the KB/AFS 2013 is drafted.

Chapter 4 (Financial Management), covers Financial Management and Control (FM/C) in both central and local government and the fulfilment of reforms related to external reporting requirements, the central procurement system, asset management, the use of cash, public administration reform and internal audit system.

While progress has been made in the legislative and institutional framework, implementation of the legal framework is still poor. The control environment has to be developed, ensuring monitoring by senior management as well as the effective implementation of lower level operational controls. The main theme of the recommendations is related to issues concerning the clarification of responsibilities, guidelines and reporting to enhance these controls.

In this chapter ***I recommend Government to ensure that:***

- FM/C requirements are practically enforced throughout the public sector organisations and individual managers are proactive in developing internal FM/C related guidelines;
- A framework model is created as a guiding tool for individual managers, reflecting external and internal audit input, and effectively applied;
- Good practices and experience gained from PIFC pilot projects are shared;
- Individual BOs develop and implement an effective risk management approach related to organisational objectives and its mission;
- Requirements on result reporting and cost indicators are developed as a priority area within the PFM reform. The possibility to merge this reporting with the financial reporting in the AFS should be analysed;
- An action plan to ensure full implementation of SIGTAS is developed;
- The legal framework for civil administration is implemented entirely. The establishment of a new payroll system should be brought forward, the job classification process finalised and the recruitment process merit based and carried on in an open way;
- Internal audit resources are used by individual managers in a more focused way and a study should be undertaken to determine how to build up a sustainable certification framework for the Internal Audit profession in accordance with internationally recognised standards; and
- A structured evaluation of Audit Committees' performance needs to be set up.

I also recommend the Assembly to consider:

- Facilitating a rapid introduction of electronic procurement which will increase transparency and reduce bureaucratic procedures;
- Pushing forward centralised procurements by the Government in order to ensure economy of scale and best value for money spent; and
- Finding a sustainable solution for internal audit services to smaller independent institutions fostering independence and accountability.

Chapter 5 (Executing the Budget in the Public Sector) presents improvements in Central Authorities, mainly due to progress in reporting and annual planning policies. Although a good control environment is established, there are still weaknesses in terms of monitoring and risk assessment. The management of expenditures is in need of enhanced internal management accountability, particularly in the areas of procurement and fund management.

The Independent Institutions are commended for having established adequate systems for financial management and control. There is however need for improving the annual budget planning and horizontal cooperation.

The municipalities, generally, have failed to address the recommendations from previous years, resulting in a slow improvement of public financial management. Municipalities are faced with managerial challenges and shortcomings such as a low level of budget execution for capital investments, entering into contractual obligations with insufficient budget resources, poor management of capital projects and delays in execution of works, as well as a lack of controls within procurement. Furthermore, the recording and disclosure of assets remains a challenge.

The majority of Publicly and Socially Owned Enterprises continue to operate with financial losses and depends on government subsidies. Procurement management is not in line with standards and human resources management remains ineffective. The municipalities, as owners of POEs, have failed to establish a supervisory role and enacting necessary legislation for them to be properly operational in the areas of waste management. Lack of integration and functioning of the SOE Trepça as a whole, indicates that further efforts are needed to provide unified financial reporting, transparency and accountability.

PAK are further facing challenges and insufficient controls. The distribution of 20% to the workers from the sales of SOEs has been delayed as also is the case in the privatisation and liquidation processes.

In this chapter ***I recommend the Government to ensure that:***

- Central Authorities are obliged to carry out FM/C self-assessments and report these to the MoF within 6 months and review gaps in the respective internal FM/C rules and guidelines;
- Central Authorities carefully review all audit recommendations and prepare a revised action plan for addressing them;
- Full transparency and more efficient communication with Independent Institutions;
- The Municipality Reporting framework is revised;

- Forums are established between the Government and enterprises to discuss challenges they facing and opportunities to improve performance and services;
- The report on the operations of POEs also includes a higher degree of information on their performance and achievement of objectives;
- A Higher degree of cooperation between Ministries in relation to implementation of policies and different policy areas;
- POEPMU conducts regular follow up on how POEs are addressing recommendations issued by the OAG; and
- Provides a procedure for selecting members of the Board of Directors in POEs.

I also recommend the Assembly to consider:

- Closer monitoring of how the Government is addressing the above mentioned issues through its select committees;
- Providing full support to and clarification of the role of the Liaison Office to the Independent Institutions within the Assembly ensuring sufficient information to Assembly committees;
- Reviewing the possibilities for creating new reporting requirements for the Independent Institutions, combining financial and operational reporting;
- Introducing an Executive Manager in the municipalities as the highest civil servant responsible for running the daily operations and services to citizens;
- Strengthening the oversight of the performance of the municipalities in offering service to citizens;
- Actively following the actions of the Government by looking into the performance of POEs in relation to the operative policies in place;
- Requesting from the Board of PAK to provide clear rules on the manner of administration, proper cooperation between managers of Trepça;
- Requesting unified Trepça AFS;
- Developing clear provisions that determine the timetables for selecting members of PAK Board of Directors not leaving gaps in the functioning of the Agency;
- That PAK keep all revenues from sales, transferring, liquidation of SOEs, with exception of surplus funds, in trust for owners and creditors as well as safeguarded; and
- Requesting from PAK to simplify the financial statements for the account of PF so that they are more understandable to the external readers.

Last, but not least, ***I recommend Municipal Assemblies to ensure that:***

- The executive produces detailed action plans including activities, time and person responsible for addressing recommendations of the External Auditor and the Internal Audit; and
- External Audit reports are discussed in municipal assemblies, and there is a follow up on the implementation of recommendations by the Auditor General.

1 Introduction

The OAG continued to actively address its key objective of contributing to sound financial management in public administration in the audit season of 2012. This was primarily achieved through the production of a range of statutory audit (Regularity Audit) and non statutory audit (Performance, Management and System Audit) reports which were presented to the Assembly. We have also undertaken a range of other activities to actively support this objective, including:

- Liaison and cooperation with a diversity of projects within the Public Financial Management (PFM) field;
- Support to Assembly Committees and the Government (foremost the Ministry of Finance) in areas intended to strengthen PFM;
- Participation in numerous activities aimed at awareness raising amongst politicians, civil servants and representatives of civic society and media; and
- A developing dialogue with the audited bodies, particularly regarding the follow up of earlier recommendations.

This report provides a summary of our audit work and incorporates the Auditor General's Audit Opinion (in accordance with ISSAI 400) on the Financial Statements of the Government of Kosovo for the Financial Year 2012. The report also highlights those issues which we consider that the Government and/or the Assemblies must actively address to enhance Public Financial Management. In many cases these recommendations reflect common themes identified in our audit of budget organisations (BO).

For regularity audits the production of high quality reports is the final stage of the annual audit process. Prior to this we provide an interim memorandum based on the nine month AFS giving early advice and guidance to the audited institutions. This process and constructive support at the final audit stage allows audited bodies to adjust errors in their financial statements and improve the quality of information disclosed. It also provides clear direction on those areas where Internal Controls must be enhanced.

A new audit report format has been introduced this season which more clearly links our audit findings and the associated risk to the audited body and our recommendation. This has been well received by audited institutions. In a significant number of audits, our recommendations were accepted without comment. Other forms of audit reporting are designed to be similarly constructive.

Last year's Annual Audit Report (AAR) was discussed and approved in the Assembly plenary session. It is foreseen that a similar process will be followed this year and to support a focused review of relevant issues we have organised the report as follows:

- Chapter 2 provides a wider explanation of the role of external audit and accountability requirements;
- Chapter 3 provides an opinion on the Annual Financial Statements of the Kosovo Budget (KB/AFS) and highlights issues arising from that audit;
- Chapter 4 focuses on conclusions about Public Financial Management (PFM) including the impact of the Central Harmonisation Unit in the context of both Financial Management and Control and Internal Audit; and
- Chapter 5 assesses budget execution across different types of public institutions.

This report also has two appendices. The first one provides the different types of audit opinions applied by the OAG while the second summarises the audit opinions given and the key managerial shortcomings within individual audited institutions. More information relating to the individual audit reports can be found on our website www.oag-rks.org.

2 External Audit and Accountability

External Audit

As a Supreme Audit Institution (SAI), the OAG supports the accountability process by producing opinions regarding the information quality in the Annual Financial Statements (AFS). In addition to this, the focus is on the:

- Proper and effective use of public funds;
- Development of sound financial management;
- Proper execution of administrative activities; and
- Communication of relevant information.

The OAG has a key role in promoting accountability between the Assembly, the Government and individual institutions as well as within the audited institutions. Our audit reports provide a base for holding the managers of individual BOs to account. The range of our coverage through the audits of Ministries, Municipalities and other public institutions provides comprehensive coverage across the public sector and is consolidated in our audit of the Kosova Budget.

By providing the Assembly with these audit reports we have supported the Assembly's role in holding the government to account for the management of public money. The increased number of reports considered by Assembly Committee for Oversight of Public Finances (COPF) further enhanced accountability within the public sector.

The starting point of our audit is the statutory regularity audit, in which we undertake extensive audit procedures to provide reasonable assurance on financial management and control and operational activities within the audited institutions. The regularity audit provides the basis for the AG's 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.

Alongside this work we provide advice on FM/C related issues to the overall public sector, thus continuing to contribute to the development of good governance.

The non-statutory Performance Audit work we undertake is intended to increase the economy, efficiency and effectiveness of government operations. Management audit is a form of performance audit focused on the quality of financial management or service provided. In System Audits we are focusing on the efficiency. These audits allow us to provide a wider commentary on BOs than simply as a result of our Regularity Audit.

Accountability and Change Management

The activities detailed above allow the Auditor General to promote principles of managerial accountability throughout the public sector. Recommendations made in OAG reports are directed to the relevant level of management and in this report to the Assembly or Government. Reports are published on the OAG website to ensure transparency and to further enhance accountability.

However, it is important that OAG actions in this area are supported by internal developments within the institutions owning specific systems and policies as well as in individual public institutions implementing these. This can be supported by PIFC and associated Public Financial Management developments including self assessments undertaken by the public institutions. However specific and continuous focus must be placed by the officers accountable on:

- The operational results of the institutions;
- Financial Management and Control systems covering all aspects of the institutions businesses; and
- A functionally independent internal audit unit with a broad focus including the risks associated with the non achievement of expected results.

This is particularly important as the public sector moves away from solely the traditional focus of ensuring that procedures were followed and budgets were spent. Emphasis going forward will be placed on managers being responsible for meeting organisational objectives while achieving best value for money. This requires effective risk management procedures supporting the use of resources.

3 The Annual Financial Report and Government Accountability

Introduction

The Ministry of Finance (MoF) should, on behalf of the Government, submit the Annual Financial Statements of the Budget of Kosovo (KB/AFS) for the fiscal year no later than 31st of March of the following year. The Government submitted them to the Assembly and to the Auditor General for review on 28th of March 2013.

The KB/AFS for the financial year 2012 should be drafted on the basis of the overall framework established from the Law on Public Financial Management and Accountability (LPFMA) and in compliance with the International Public Sector Accounting Standards (IPSAS). The final records in the General Ledger processed through the Kosova Financial Management Information System (KFMIS) managed by Treasury provide the information required for drafting the KB/AFS.

In the introductory statement, the Minister of Finance and the Director of Treasury declared: "This report (Annual Financial Statements) is fully in compliance with legal requirements and legal definitions of the Law on Public Financial Management and Accountability (LPFMA no. 03/L- 048), and in accordance with International Public Sector Accounting Standards, cash based. We consider and strongly believe that these financial statements give a true and fair view of the finances, transactions and financial situation of Kosova Institutions from Budget of Kosovo and other funds¹ under LPFMA management for fiscal year 2012".

The KB/AFS for the year ended on 31 December 2012 contains 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. This chapter addresses the AG's opinion and the main conclusions supporting the opinion.

3.1 Audit Opinion on the Consolidated Financial Statements

The summarised comprehensive audit opinion of the Auditor General concludes that:

"The Annual Financial Statements of the Budget of the Republic of Kosovo present, in all material aspects, a true and fair view of finances and financial situation for the fiscal year 2012".

As an Emphasis of matter we draw to you attention of an incorrect presentation of assets in the KB/AFS. Notwithstanding Treasury reporting requirement that assets above €1,000 will be presented in the KB/AFS in their net value, the information in the underlying AFS of the individual BOs and the KB/AFS still are not properly reconciled.

¹ Funds in trust, Donor designated grants and Borrowings

The public assets in the KB/AFS are underestimated by around €2,850,000,000 in comparison with the underlying individual AFS. At the same time assets presented in the underlying AFS are not accurate in many cases resulting in 42 Emphasis of Matters on individual BO's.

*(ISSAI 400: **Unqualified Audit Opinion with an Emphasis of matter**).*

Basis of the Emphasis of Matter

In analysing the KB/AFS consolidation process we have found that the KB/AFS and individual AFS of BO's are not fully consolidated, despite our recommendations in previous years. The value of assets in the KB/AFS is €3,506,347,833 while total value of assets of all BO's presented in their individual AFS is €6,356,716,095.

In addition many BO's are facing challenges in both estimating the value of and registering assets. The differences are likely to be even larger than indicated by the figures above. More detail is provided in section 3.6.1 below.

I have given the Government enough time to address the situation properly. A lack of real progress makes me conclude that an Emphasis of Matter is now needed to provide clear direction on action that is required to address this problem.

Other Consolidation Issues

KB/AFS should also address the following:

- In the KB/AFS the Treasury reported that it makes no consolidation of inter-department transactions in order to maintain the consistency of information presented within the AFS of BO's. This position of the Treasury has the effect that the consolidated turnover is over estimated. In my view a consolidation should be made and described in a foot note;
- Kosova receives various funds from third parties (donations) which are not subject to Government's Financial Regulations (budget process and payments). Accounting standards and good international practices require that these types of transactions should be disclosed in both the KB/AFS and individual AFS. BO's reporting of these payments are, at the best, stochastic. Central guidelines are not clear enough and not consistent with accounting standards.

The above mentioned issues are not material, but implementation would result in an accounting regime complying better with standards and EU requirements.

At the same time, the audit revealed a number of shortcomings related to budget implementation. These are included within comments on Financial Management and Internal Control System and are described in Chapter 4.

3.2 Audit scope and approach

Key information for producing the KB/AFS derives from the General Ledger managed by KFMIS. The AFS also contain additional information regarding balances, assets and liabilities generated by KFMIS and individual BO's financed by KB.

Receipts, payments and balances related to Central Bank of Kosova (CBK) and Savings Trust are not part of the KB AFS and therefore not included in the opinion.

The quality of the information in the KB/AFS is assessed through an analytical review (testing and analysis) based on the consolidation of the individual AFS's. 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 KB/AFS is made against the requirements of IPSAS and applicable laws and regulations. An overall conclusion is given based on the outcome of the individual regularity audits for 2012 including an assessment of errors and omissions identified at that level.

The AG gives his Opinion in line with the internationally recognised standards - ISSAI 400 and based conclusions from the above, gives recommendations to the Assembly and the Government.

3.3 Audit opinions in the individual AFS

We have carried out statutory regularity audit of the AFS for 89 BO's and two organisations outside the budget. The opinion given on each BO is reflected in the audit opinion on the KB/AFS. Their total impact is linked to the aggregate level of misstatements in the individual AFS and their impact on the KB. The opinions given are presented as follows:

Table 1: Types of opinions

Types of Opinion	Number of opinion
Unqualified Opinion	37
Unqualified Opinion with Emphasis of Matter	42
Qualified Opinion	2
Qualified Opinion with Emphasis	5
Disclaimer of opinion	3
Total:	89

79 out of 89 opinions were unqualified and the remaining 10 were not (individually or in total) material to the overall audit opinion for the KB/AFS. In addition our 15 non statutory audits carried out give us input for analysis of Public Financial Management (PFM) in the public sector.

3.4 Progress of last year's recommendations related to the KB/AFS

The AAR for 2011 made a number of key recommendations to the Government and Assembly, to be addressed within a reasonable timescale.

The Committee on Oversight of Public Finance (COPF) improved its approach in developing and applying accountability by holding public hearings with BO's officers/Ministers accountable regarding OAG audit reports, providing guidance and proposing appropriate corrective measures. A special focus of the Committee was addressing the implementation of recommendations by BO's.

In the audit of KB/AFS 2011 a total of 11 recommendations relating to these statements were given. Of these, 10 were directed to the Government, whilst one was directed to the Assembly. Of the recommendations given: three have been addressed, four are in process of being addressed and four have not been addressed yet.

Recommendations addressed were:

- Adjustments of individual BO's AFS are secured in due time;
- The reasons for 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.

By addressing these issues financial reporting has been improved and is now more transparent. Addressing the issue of outstanding liabilities has led to a decrease in 2012.

Recommendations in the process of being addressed are:

- Taking prompt actions to resolve non-compliances within E-assets and KFMIS systems and steps taken to resolve weaknesses within depreciation module in E-assets system;
- Fully depreciated assets still in use are revalued;
- Taking actions by the MoF to increase public awareness for the requirements for evaluation and reporting on assets; and
- Implementation of Action plans in the revenue sector and the Governments further actions related to KEKs debt to the state.

An effective implementation of these recommendations will ensure that asset registration and associated valuations are improved and a more accurate estimation of outstanding taxes to be collected.

Recommendations not yet addressed are:

- Bad tax debts are written off;
- A government proposal is developed on how to handle the bad and doubtful tax debts linked to the public enterprises;
- KEK's debt to the state is regulated in due time before the privatisation; and
- Intergovernmental transactions are consolidated properly (see section 3.1 above).

The non implementation of these recommendations will potentially result in financial loss and on-going inaccurate reporting.

3.5 Analysis of KB/AFS 2012

The approval of the budget for 2012 (Law no.04/L-079) was done within the legal deadlines December 11, 2011. In the middle of the year the budget review was undertaken and a number of adjustments were made.

With the budget review, changes occurred at the general level and at the level of BO's. In addition, there were also changes across different economic categories. Besides this, the Government during the year took a number of decisions that have reduced funds and allocations of different BOs. The implementation of the budget this year is followed by various shortcomings. Due to reduction of funds and allocations by the government, a number of projects were carried forward to be implemented in the following year. Out of 97 approved capital projects tested, the budget for 12 of them was not implemented at all.

3.5.1 Consolidated statement of comparison of budgeted and actual amounts

Table 2: Budgeting and collection of receipts in relation to payments (€000)

Description	Initial budget	Outturn	Percentage
Receipts	1,544,606	1,537,955	98.8%
Payments	1,547,912	1,466,457	94.7%
Surplus/Deficit	(3,306)	71,498	-

The budget projections show that the planned revenues (receipts) within the initial budget were lower than the planned expenditures. In the Budget Law for 2012 a deficit of €3,306,000 was planned. The deficit was foreseen to be covered by surplus accumulated during the previous years.

Actually the revenue collection was lower than planned (98.8%) at the same time as the payments were even more lower (94.7%) leading to a surplus of €71,498,000.

Another concern is the fact that the final budget compared to the initial one had increased by €50,000,000, while the initial budget was not implemented. This shows that the process of budget planning and implementation has room for further analysis and improvements.

3.5.2 Statement of Cash Receipts and Payments

Analysis of Cash Receipts

This financial analysis is based on the data presented in the KB/AFS, compared with data included in KFMIS. Other receipts include: fund deposits, fines and fees, dividends, immediate financing return of loans by POEs.

During the year €1,537,955,000 (96.3% of budget) were collected. Donor designated grants in the amount of €11,322,000 and deposits of €1,338,000 are not included. The increase of the receipts compared to 2011 is a result of higher tax collection, additional securities, IMF loans and financing from PAK, etc. The following table presents receipts collected in relation to planning, compared with the two previous periods.

ANNUAL AUDIT REPORT 2012

Table 3: Budget and collection of receipts by different sources for 2012 (in €000)

REVENUES AND OTHER RECEIPTS	Final Budget	Outturn 2012	% Budget execution	Progress compared with previous year	Outturn 2011	Outturn 2010
	A	B	C= (B/A)	D= (B-E/E)	E	F
Revenues from Customs	874,700	844,861	96.59%	2.07%	827,704	700,657
Refunds from Customs	(2,200)	(2,074)	94.27%	86.51%	(1,112)	(1,272)
Revenues from TAK	287,800	283,915	98.65%	8.72%	261,134	221,234
Refunds from TAK	(32,800)	(32,763)	99.89%	10.04%	(29,774)	(27,017)
I. Total tax revenues	1,127,500	1,093,939	97.02%	3.40%	1,057,952	893,602
Non tax revenues – central level	48,100	41,145	85.54%	-9.6%	45,525	47,412
Municipality own source revenues	62,819	59,448	94.63%	6.88%	55,621	52,028
Central level own source revenues	51,100	44,835	84.74%	-25.16%	59,912	48,451
II. Total non-tax revenues	162,019	145,428	89.76%	-9.7%	161,058	147,891
Dividends	45,000	45,000	100%	-25%	60,000	85,000
Revenues dedicated to PAK	16,248	16,248	100%		-	-
PAK immediate financing	28,934	28,934	100%		-	-
Return of loans by POEs	4,000	4,000	100%		-	-
Receipts from securities	74,000	73,313	99.07%		-	-
Loans from IMF	104,000	93,677	90.07%	1,745%	5,076	22,093
Budget support grants	35,000	37,417	106.9%	94.47%	19,240	30,000
III. Total other receipts	307,182	298,589	97.20%	254%	84,316	137,093
Total receipts I+II+III	1,596,701	1,537,955	96.32%	18%	1,303,326	1,178,586

a) Tax revenues generated from Customs

Planned revenues from Customs for 2012 were €873,700,000 and €842,787,317 was collected or 96.5%. The level of revenues in 2012, compared with 2011 increased by 2%.

When it comes to the process of revenue collection, Customs have shown progress in relation to the previous year. In particular, the accurate calculation of fees for taxes and revaluation of the revenue base have improved. However, delayed reporting by economic operators on the situation of stocks and lack of customs agents' licensing remain issues for improvement.

Individual audit reports show that the Custom's controls appear to be well designed, implemented as planned and operate effectively.

In general, increased prices in the global market in particular higher oil prices had an impact on the continuous increase of customs revenues over the years since 2010.

b) Tax revenues generated from TAK

Planned revenues from TAK for 2012 were around €288,000,000, whilst around €284,000,000 was collected, or 99% of the plan. When compared to 2011, the payments have increased by 8.7%.

Debts older than six years amount to around €104,000,000. It covers the period from 2000 to 2006. This year an additional €22,000,000 has become legally uncollectible by exceeding the six year threshold. Non collection of these liabilities will have a significant impact on the total Kosova budget.

The high level of uncollected debts and poor attempts to address this situation, especially old debts hinder the chances of their collection.

c) Dividends

The Government is the only authorised shareholder for dividends declared by Post and Telecom of Kosova (PTK) and Prishtina International Airport (PIA). In the 2012 budget, revenues from dividends were planned in the amount of €46,000,000 whilst €45,000,000 was received.

The revenues from dividends, compared with the previous year are smaller by €15,000,000. Among the main reasons for this is the increased competition in the telecommunications services market.

Analysis of cash payments

The planned expenditures (without donations and deposits) for 2012 for all categories were €1,585,744,000 whilst €1,466,457,000 or 92.48% of the planned amount were executed.

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

Description	Final Budget	Execution 2012	%	Comparison 2012-2011	Execution 2011	Execution 2010
Wages and Salaries	415,285	407,706	98.17%	5.89%	385,033	311,417
Goods and Services	193,161	169,362	87.68%	8.18%	156,559	162,635
Utilities	23,445	21,558	91.95%	5.80%	20,376	19,516
Subsidies and Transfers	292,475	280,120	95.78%	9.35%	256,166	252,679
Capital expenditures	623,551	550,245	88.24%	4.18%	528,186	455,344
Reserves	361	0	0.00%		-	-
Sub total	1,548,278	1,428,991	92.30%	6.14%	1,346,319	1,201,591
Debt payment	21,416	21,416	89.68%	95.51%	11,491	10,083
Loans for POE	15,000	15,000	100.00%	-50.00%	30,000	60,000
Membership into IFI ²	1,050	1,050	0.00%		-	169
Sub total	37,466	37,466	93.55%	-9.70%	41,491	70,252
Total	1,585,744	1,466,457	92.48%	5.67%	1,387,810	1,271,843

² The value of €1,050,000 in the column of 2012 is Kosova's membership fee in EBRD. Whilst the value of €169,000 in the column of 2010 is the membership fee in International Monetary Fund (IMF).

The table shows that during 2012 compared with final budget, we had a lower level of execution of plan especially related to Goods and Services with 87.68% and Capital Investments 88.24%. The low budget execution is a result of continuous challenges in implementing the procurement processes and weak project planning.

Shortcomings were also present in the budget implementation dynamics, as there were inconsistencies between expenses and the cash flow plan. In most of the BO's a tendency was noticed for increased expenditures in the last months of the year, thus trying to avoid a budget surplus. Due to this, some payments were made in contravention with the Budget Law.

Table 5: Total payments including donations

Description	Outturn 2012	Outturn 2011	Outturn 2010
Payments without donations (table 4)	1,466,457,000	1,387,810,000	1,271,843,000
Payments from Donations	9,427,000	11,729,000	14,050,000
Wages and Salaries	1,539,000	3,270,000	4,782,000
Goods and Services	3,120,000	5,032,000	4,523,000
Utilities	3,000	12,000	12,000
Subsidies and Transfers	197,000	311,000	805,000
Capital investments	4,568,000	3,104,000	3,928,000
Returns of deposited funds	190,000	922,000	1,632,000
Total of payments	1,476,074,000	1,400,462,000	1,287,525,000

As shown in the table above, over the last three years there was a trend of Government expenditures increasing while donations reduced. This may increase the budget gap if not properly addressed.

a) Wrong classification of economic codes

We have identified that a number of BO's still have problems with classification and registration of expenditures into economic codes and categories. Expenditures in Goods and Services and Capital Investments are incorrectly recorded. Such cases were noticed within eight Ministries, seven Municipalities, nine Independent Institutions, Office of the Prime Minister (OPM) and the Office of the President (OP).

Reasons for incorrect classification in some cases related to officers' insufficient knowledge of the Treasury's Charter of Accounts, but in other cases were to cover delayed payments. This results in a misstatement of information within Financial Statement, even though these are not material for the respective AFS.

b) Subsidies and Transfers

The amount paid for subsidies and transfers in 2012 was €280,317,000. From these, €52,184,000 was paid for public entities.

Analytical review of subsidies, with particular emphasis on those for public entities, highlighted that economic code 'Subsidies for public entities' also recorded individual beneficiaries, NGOs and businesses, who are non-public beneficiaries.

The amount of registered non-public beneficiaries as public beneficiaries (in €) was the following:

- Individual Beneficiaries764,082
- Non-Governmental Organisation.....16,774,165
- Businesses752,659
- **Total** **18,290,906**

BO's did not properly register expenditures into appropriate economic codes. There were cases when subsidies for public entities were not registered in public. Furthermore, the Treasury reconciliations with BO's expenditure accounts included errors not corrected.

c) Loans to Publicly Owned Enterprises

During the period 2005-2011, the Government loaned funds to KEK in the amount of €187,539,992 requiring the return of both principal and payment of interest in return.

Despite the fact that expected payments have not been received, the Government loaned an additional amount of €15,000,000 to KEK.

In an agreement of 2005, the loan granted of €10,000,000 was to be paid back by KEK by the end of the fiscal year 2008.

The MoF, in October of 2011 entered into a "Settlement Agreement" with KEK whereby the amount of €10,000,000, should be repaid in instalments, €4,000,000 in 2012 and €6,000,000 in 2013. Although delayed, in March 2012, KEK made a payment in the amount of €4,000,000. A Loan Amortisation Plan runs to 2022.

The OAG has followed the repayment process for several years with the aim to assist in finding a solution regarding the repayment. At the time of reporting, while a repayment process has started, there has been no significant progress. Loans are not returned within the deadlines foreseen in the loan agreement.

3.5.3 Consolidated Statement of Cash and Fund Balances

Cash consists of funds mainly kept in CBK, Commercial Banks and BO's cash-boxes. We have analysed the consolidated statement of cash assets and fund balances comparing the balances of the previous year.

Table 6. Cash Assets and fund balances

in (€'000)

Description	Balance 2012	Balance 2011	Balance 2010
Central Bank of Kosova	73,697	89,326	48,796
Securities	45,996	0	84,586
Term Deposits in CBK	152,007	105,042	140,000
Term Deposits in Commercial Bank	0	0	11,000
Funds in Commercial Banks - NLB Prishtina	0	41	767
Cash in transit	5,115	7,074	4,278
Embassies' accounts	448	961	526
Cash in hand (cash-box)	907	1,184	885
Total cash assets	278,170	203,628	290,838

The table shows an increase in Cash at the end of the year of €74,542,000 in cash which primarily relates to the cash generated at the end of the year. Cash at the beginning of 2012 was €203,628,000, whilst at the end of 2012 was €278,170,000.

3.6 Assets and Outstanding Liabilities

3.6.1 Assets

Assets of central and local BO's recorded in the accounting system KFMIS at the end of 2012 were in the net amount of €3,506,347,833. From these the asset value in the central level BO's was €1,790,114,595, while that of local level BO's was €1,716,233,238.

Compared to 2011, central level assets had increased by €413,287,375, while at the local level by €316,567,015.

When comparing the KB/AFS for 2012 with data presented in the AFS' of BO's for assets, we identified that in 27 BO's and data of individual AFS did not correspond to those of KB. This reflected inconsistency and differences in approach when reporting assets. Some BO's presented assets with purchasing value, some with net value, while some others have re-valued their assets, but they were not adjusted in KFMIS (asset module).

Some BO's are not adequately handling their assets in the accounting records, or they do not report them in line with the accounting policies of the Government. Accounting standards and Treasury guidelines require that the value of the assets is transferred to the General Ledger from year to year, by subtracting depreciation for the current year.

In four BO's (municipalities)³ -Non-financial assets are not reported at all, and no value is recorded. Some BO's, especially those at the local level (municipalities) still have un-registered assets and have not presented assets such as school premises, land and other property in their possession.

Among the reasons for not reporting these assets is a failure to clearly define the owner/property owner due to disputes inherited from the previous system.

Improper and incorrect presentation of non-financial assets in the AFS of BO's and KB resulted in material underestimation of public assets of €2,850,368,262. The value of assets in the KB/AFS is €3,506,347,833 and total assets of all BO's gathered from respective AFS are in value of €6,356,716,095. This occurred as a result that the KB/AFS used KFMIS data not AFS data from individual BO's. However this variation is likely to be understated as a result of the net effect of:

- some BO's have presented the gross value of assets
- a failure to register all assets in individual AFSs (resulting in a total of 42 Emphases of Matter)

Other challenges that need to be handled regarding assets management system are:

- Incomplete recording of assets in the accounting register KFMIS and in the Assets Register;
- Failure to reconcile data between accounting register and asset register;
- Not all BO's had established committees or completed the assets inventory process;
- Failure to reconcile asset register with the inventory report; and
- Overvaluation of assets upon co-financing.

In order to ensure more efficient assets management, the Assembly Committee on Oversight of Public Finances, following our recommendation, have requested the Ministry of Public Administration (MPA) and MoF to establish a common working group to overcome the inconsistency between the two electronic systems for management of government assets (KFMIS and e-Assets). We have participated regularly in group meetings as observers and up to the completion of this report, the group has met several times to discuss the unification of these two systems in order to avoid the need for double recording. Results remain to be seen in the following months.

In the beginning of this year the module for assets depreciation within this system was put in place paving the way for a more accurate reporting of the assets values.

3.6.2 Outstanding liabilities

We have compared data reported for outstanding liabilities for BO's from Annex 9 of the KB/AFS, and Article 15 Note 28 from individual AFS.

From the analysis made, a reducing trend of outstanding liabilities is noticed when compared with the previous year. Additional actions to improve this issue were taken by the Treasury Department as a result of the OAG recommendations in previous years. A Regulation related to liabilities matter was updated by the Treasury at the end of May 2013.

³ Leposaviq, Zveqan, Zubin Potok and Kllokot

ANNUAL AUDIT REPORT 2012

But, despite these actions, still there are BO's which have increased outstanding liabilities when compared with previous year. The following table shows an overview of liabilities over the last three years.

Table 7: Outstanding liabilities compared with last three years

(in €)

Description	2012	2011	2010	Reduction between 2011 and 2012 (%)
Central Level	13,875,768	21,072,571	15,912,553	34
Local level	12,811,832	18,123,248	12,623,776	29
Total	26,687,603	39,195,819	28,536,329	32

The most common stated reasons for non-payment is that the individual BO's have a lack of funds (despite in some cases budget is under-spend), weak planning and insufficient controls on payments for services occurring in December. But, there are also other causes behind related to the commitment requirements and cumbersome procurement processes. There are also cases when unpaid invoices belong to earlier months and years, despite the requirements of Treasury Rule 04/2011, were not paid in time. This is partly a result of insufficient internal controls and partly a matter of prioritisation.

The following table presents liabilities of the 21 BO's who carried forward the largest amounts into 2013.

Table 8: Outstanding liabilities for 2012 (in €)

Budget Organisation	Final Budget 2012	Outstanding Liabilities 2012	% of Final Budget
Ministry of Internal Affairs	95,319,726	2,881,123	3.02%
Ministry of Infrastructure	281,164,542	2,828,839	1%
Ministry of Health	91,304,015	2,630,047	2.88%
Ministry of Education, Science and Technology	48,619,545	2,328,054	4.79%
Ministry of Culture, Youth and Sports	18,592,289	750,375	4.04%
Ministry of Economic Development	42,935,749	365,531	0.85%
Ministry for Kosova Security Force	34,311,877	238,417	0.69%
University of Prishtina	26,262,998	226,396	0.86%
Kosova Judicial Council	18,265,527	199,007	1.09%
Gjilan	19,018,422	3,291,930	17.31%
Skënderaj	10,644,759	1,503,086	14.12%
Mitrovica	18,250,442	1,301,000	7.13%
Shtërpca	4,300,521	1,076,158	25.02%
Prizren	32,714,018	933,000	2.85%
Peja	19,505,559	727,000	3.73%
Gjakova	19,740,824	710,798	3.60%
Deçan	6,765,377	594,000	8.78%
Lipjan	11,992,178	464,818	3.88%
Ferizaj	21,546,567	405,690	1.88%
Prishtina	79,126,542	375,000	0.47%
Podujeva	17,010,746	280,260	1.65%
Total:	917,392,223	24,110,529	2.63%

These debts amount to 90% of total liabilities. The municipality of Shtërpca, Gjilan, Skënderaj, and the institutions MIA, MoI, MoH, and MEST have outstanding liabilities amounting to over €16,000,000.

There is a real risk that BO's do not present at all some of the liabilities incurred during over the last three years. If we refer to the individual audit reports, it is noticed that invoices from 2010 and 2011 have been paid but not presented at all in the respective financial statements.

Overall recommendations

Some of the recommendations made in 2011 have not been addressed and the same weaknesses are repeated 2012:

I recommend the Government to ensure that:

- Earlier recommendations on identified control weaknesses and inefficient management are addressed properly;
- The basis of the Emphasis of Matter relating to the consolidation of assets is addressed as a matter of priority. A specific Task Force should be established and report to the Assembly within a three month period and consider both the consolidation issue and the weaknesses at BO level in recording and valuing assets. An Action Plan should be implemented to achieve a marked improvement in the 2013 position at both the KB and individual BO level. This should also address the provisions of guidance on , for example, the depreciation of assets and the valuation of public properties where ownership is in dispute etc;
- MoF and MPA undertake further actions until the unification of the two Central Government Asset systems so that these systems are compatible with each other ensuring more efficient management of assets;
- A proper solution on the handling of bad, doubtful and un-collected debts is developed and implemented during 2013;
- MoF closely oversees the implementation of agreements and loans to public enterprises to ensure that repayments are made within the defined deadlines ;
- The transparency in the KB/AFS is developed by:
 - All expenditures, with special emphasis on subsidies, are categorised and recorded in the adequate codes of expenditures;
 - Inter-governmental transactions are consolidated; and
 - Third party payments are fully included.
- The impact of reduced donations on the future expenditure plans is reviewed particularly in respect of payroll costs while recognising the financial framework agreed with the IMF;
- Causes behind the outstanding liabilities are thoroughly analysed and proper actions are taken in order to bring them down at an individual BO level; and
- A separate Task Force should be set up to consider budget execution and the actions that can be taken particularly related to procurement process and project planning to remove barriers to increasing the level of budget execution. Particular emphasis should be placed on the barriers to effective execution of the capital investment budget.

I recommend the Assembly to consider:

- Focusing on how effectively the Government addresses the recommendations given and require reports on the progress made well before the KB/AFS 2013 is drafted.

4 Financial Management

Public Financial Management should include a comprehensive system consisting of interrelated components and processes, integrated in the daily operations of public institutions. This starts with planning and budgeting, encompassing the budget execution phase and associated internal controls up to the reporting follow up and audit stages. The basis for doing this is the Law on Public Financial Management and Accountability (LPFMA) and the Public Internal Financial Control (PIFC) policy documents.

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

This chapter covers Financial Management and Control (FM/C) in both central and local government level and the fulfilment of reforms related to external reporting requirements, the central procurement system, asset management, public administration reform and internal audit system.

4.1 Financial Management and Control (FM/C) systems

FM/C is an integral part of the PIFC. FM/C processes are created and applied to obtain assurance over the achievement of an entity's objective. This includes the effectiveness and efficiency of operational activities, reliability of financial reporting, and compliance with applicable laws and regulations.

It is responsibility of the Ministry of Finance, as the owner of the FM/C systems and activities, to secure a smooth and effective implementation of the on-going reform. The Ministry should provide support to individual BOs in the practical enforcement of the requirements and expectations as well as delivering proper training and coaching.

Senior managers of individual organisations are responsible for the practical implementation of FM/C requirements within their respective organisation and underlying institutions. They should establish and implement FM/C in all structures, programs, operations, and processes ensuring effective implementation of the legal framework, appropriate financial management, and transparency. In doing so, individual managers should develop internal guidelines on how to implement and adjust government wide FM/C rules in a specific working environment. As part of this, risk management policies and procedures should be developed and effectively applied.

In general, public institutions have neither paid proper attention to identifying and assessing risks that are associated with their respective objectives, nor to developing risk⁴ management strategies.

In practice, risk assessment is only done to a limited degree by internal auditors (even though their main focus is on legal compliance), but without focusing on institutional objectives set in strategic plans.

⁴ Risk is the probability for an event or action to have negative impact on the organisation and make fulfilment of its mission impossible. Assessment and risk management is defined as a process of identification and analysing of relevant risks against the achievement of entity's objectives, and determining the appropriate reaction.

The fact that budget institutions have not yet managed to fully implement FM/C procedures is indicated by shortcomings found in almost all significant areas of the budget process. Except for the annual budget circular issued by the MoF, BO's are lacking regulations or internal guidelines on how to prepare the budget process. In this sense, strategic plans, the Mid Term Expenditure Framework (MTEF) and the annual budget should be interlinked with one another. Weaknesses are also apparent in the development of public procurement activities, certification of payments, reporting, personnel management and control of assets.

Central and local government levels have made some progress in addressing previous audit recommendations although much remains to be done at the latter level. Directing more effort towards this will help the BO managers in implementing improved FM/C and achieving improved operational results.

4.1.1 Current developments

During 2012 the CHU/FMC function was a subsidiary unit within the Department of Treasury in MoF. Its positioning has been a challenge for a long time, highlighted in several AARs. This unit is responsible for coordinating the development and implementation of FM/C principles in all public sector entities.

This issue was taken into consideration when the LPFMA was amended in mid 2013. The two CHUs (FM/C and Internal Audit) were merged to one, with the Head of the Unit reporting directly to the Minister.

CHU/FMC capacities and its strategic focus are areas to be further developed. The progress in 2012 was limited in this respect.

In last year's AAR we recommended that the Government created a special high level Task Force to ensure the implementation of the FM/C Action Plan, securing ownership, consistency and prioritisation and reporting directly to the Minister of Finance. Such a task force has not been established. Merging the CHU/FMC and CHU/IA into one single department positioning directly under the Minister of Finance might prove to be a practical alternative. We will follow up and analyse the result of the implementation of the amendments during the coming audit season.

Last year we reported that the FM/C legal framework had been put in place in terms of a number of rules and regulations issued and areas covered. Previous PIFC projects have supported the MoF in developing a legal and institutional framework and providing training to FM/C staff. What has been done is important, but not sufficient.

In principle, BO's have adapted general internal management and control systems. But in practice, they have not been properly adjusted to the specific circumstances in the individual policy areas and institutions and not effectively applied. Management controls in the aspect of managing planning and budgeting, procurement, projects, revenues, subsidies and assets are all in need of further development.

Based on experiences gained and in order to meet new expectations and requirements following the European Integration agenda and the decentralisation of IPA, FMC approaches and tools needs to be updated.

The new PIFC project is mainly focused on further support to the CHU/FMC and CHU/IA, development of FM/C in budget organisations and development of Internal Auditors. The new project will work on FM/C implementation as pilot projects in three BOs. In addition 10 pilot internal audits will be carried out covering different areas in the same Bos.

4.1.2 Reporting process

Reporting is a process of significant importance through which the Government monitors implementation of budget by BO's, and creates basic financial information for the Assembly about the budget implementation in general.

Most BO's have fulfilled legal requirements on external reporting by submitting budget requests; quarterly, nine-monthly and annual reports; reports on debt; as well as the plan for addressing external audit recommendations.

An essential part of development and implementation of FM/C procedures is self-assessment of system effectiveness, based on centrally produced checklists. Completed checklists are submitted to the CHU/FMC for review. The implementation of this process is not yet satisfactory. Few organisations have implemented it while others have done it with insufficient quality

Alongside the continuous improvement of the, external reporting system, the trend, when it comes to the quality of the information presented, is also positive. Information was mostly presented in accordance with the applicable legal framework issued by the MoF. However, in some cases we have come across shortcomings, especially related to disclosures (see chapter 3).

Requirements for annual performance reporting are established by the LPFMA and "Financial Regulation no. 05/2011 on Annual Reporting by Budget Organisations". The main purpose of annual reporting is managerial accountability, particularly to the Assembly.

Through these reports information should be provided to the Assembly, other stakeholders, media and the general public, on organisations' annual performance compared to expected results, services provided, as well as organisations' effectiveness in achieving results. Some BO's have prepared annual performance reports but many others have not.

Despite the progress made, the types and the quality of information have to develop further. This will make Government activities more transparent and open to the general public. It will enable the Assembly to hold the Government accountable for budget execution, policy implementation and results achieved. In addition, it will meet new requirements stemming from the European Integration agenda.

Financial reporting, in relation to the current requirement is improving. The introduction of annual reports, where financial and operational results are presented will contribute to transparency. This will also pave the way for a more result oriented budget process and place emphasis on output and costs, allowing comparisons as an integrated part of setting political and administrative priorities.

4.1.3 Standard Integrated Government Tax Administration System (SIGTAS)

For Kosova taxes, the management information process is administered through SIGTAS. Its proper functioning should ensure good management and sufficient transparency on taxes.

We have audited the functioning of SIGTAS in order to assess its effectiveness against the needs and expectations set by TAK. Its design and implementation were assessed.

Despite some shortcomings, the system design in general meets the needs to administer information on taxes. TAK started using SIGTAS in 2001 with a certain number of modules, while some new modules were added with an updated version in 2010.

However, despite the introduction of a new version of SIGTAS the implementation process had setbacks and shortcomings. After three years of implementation some modules are still not functional. Shortcomings relate to the system design and the implementation is related to:

- The information managed in and reported by the system;
- Delays in processing information in the system;
- Lack of linkage between activities within the system; and
- Lack of reconciliation of the information system with another tool (Share point) used by the TAK.

The above-mentioned shortcomings have to be addressed before the system can be considered a fully functional tool enabling more efficient information management on taxes and revenues collected.

4.1.4 Procurement

Over 15% of GDP or about 50% of the KB budget was spent on procurement in 2012. Public expenditure has a significant impact on the domestic economic growth. Effective procurement has a key role in developing the private market.

In general, the procurement system in terms of the legal framework has continuously been strengthened and the roles between the central actors further clarified⁵.

The application of the new Law in Public Procurement and the secondary legislation has started to be better understood and implemented. Although established at the end of 2011, the Central Procurement Agency (CPA) is only now attempting to start with two centralised procurements at the central level. It remains to be seen how successful this will be.

Procurement has shown progress in some areas during 2012, while in other areas significant challenges remain. Progress can be identified when it comes to:

- Reduced use of negotiated procedures without publication of a contract notice;
- Increased use of framework contracts; and
- Continuous training on the advanced procurement level was provided to 499 candidates. A five week training of trainers in public procurement was also held with 26 participants.

⁵ The central procurement institutions such as PPRC, PRB have continued issuing Administrative Instructions (AI) and labour regulations. During the year PPRC has issued AI01/2012 on Delivery of Procurement Planning and Additional Information and the AI02/2012 concerning the clarification of some of LPP provisions; and PRB has approved its new work regulation. All these affect further clarification of procurement procedures.

Some procurement issues still remain a challenge for the Government and the Contracting Authorities. We consider that important procurement challenges are both the electronic procurement and centralised procurement.

We noticed that BO's have shortcomings in carrying out procurements, starting from the initiation of procurement processes up to the complete implementation of contracts and our procurement management audits highlighted that procurement rules were not adhered to. The most common shortcomings identified in individual audits relate to:

- A lack of Statement of Needs and Availability of Funds as well as cases where the commitment of funds was insufficient;
- Dividing tenders for purchasing identical items to avoid procurement procedures;
- Drafting technical specifications in violation with procurement rules;
- Entering into contracts where the performance security did not cover the obligatory amount, or in cases when it had expired;
- Entering into contracts with ineligible Economic Operators (EOs) and not informing eliminated Eos;
- Delays in establishing evaluation committees;
- Exceeding the limit for additional works;
- Lack of plans for contract management and no appointment of a procurement manager;
- Supplies outside the contract and in violation with specifications; and
- Delays in implementation of projects in accordance with deadlines foreseen under the contract.

A new legal framework has filled in some existing gaps and the efficiency of handling requests, staff training, complaints and responses requested by the procurement institutions has increased.

Current attempts by the CPA to start centralised procurements are encouraging.

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

4.1.5 Management of Government Vehicles

An important category of capital assets are government vehicles and the Administrative Instruction no. 03/2008 regulates the use of these. MPA has established a specific unit monitoring how Government vehicles are used and BO's have to submit to this unit a monthly report on the use and management of vehicles. It then drafts a monthly summary report.

This unit has not functioned properly. It does not have accurate records on the total number of government vehicles or complete and accurate information on their use. This is because respective government institutions did not submit regular monthly reports and a lack of action in order to change the situation. In order to fulfil its duties the unit was reorganized at the beginning of 2013.

Despite continuous efforts aiming at improving the functioning of the system, it continues to be inefficient. The shortcomings highlighted above make it impossible to apply effective management controls over vehicles and avoid financial loss.

4.1.6 Reform in the Civil Service and Remunerations

One of the objectives of the Public Administration Reform is better management and development of Human Resources. The aim is to create a professional, impartial and independent civil service based on merit and oriented towards service to citizens and businesses.

The Strategy for training civil servants (2011 – 2013) of the public administration is an important component of this reform aiming to create a professional and effective public administration.

Implementation of a new salary system aims at unification and reconciliation of salaries for the positions with the same level of responsibility. However, the Regulation 05/2012 on Job positions was not implemented, thus delaying the introduction of a new salary system.

Progress has been made in establishing an adequate and comprehensive legal basis. Some legal acts that derive from the Law on Civil Service (LCS) and the Law on Salaries of Civil Servants (LSCS) were completed. These create preconditions for adequate implementation of LCS and LSCS as well as the progress of reforms in general.

The payroll system is managed by the MPA. The Central Civil Servants' Registry is a system that interacts with the database of the payroll system and the database of compulsory pension insurance. The BO's are required to create electronic files for their employees, but have not met the requirements fully. This makes a proper maintenance and updating of files, as well as management of personnel in general, difficult.

The total number of public sector employees approved with the reviewed budget law for 2012 was 78,954. According to payroll list (Payroll-MPA) the number of public employees in the last month of the year was 77,780. Out of these, 22,759 employees were civil servants.

The following table present the annual expenses of regular and retroactive salaries according to Payroll for 2012 and 2011.

Table 9: Annual expenses for wages and salaries (in €)

Description	Regular salaries 2012	Retroactive salaries 2012	Total salaries 2012	Total salaries 2011
Net salaries through the payroll list	347,135,732	1,280,079	48,416,031	330,245,119
Tax withheld on source salaries	18,281,527	56,856	18,338,383	16,909,809
Pension contributions by the employee	19,265,665	69,610	19,335,275	18,302,812
Pension contributions by the employer	19,265,665	69,610	19,335,275	18,302,812
Payments for trade union	1,209,922	-	1,209,922	1,152,675
Total	405,158,732	1,476,155	406,634,886	384,913,227

The expenses for Wages and Salaries for 2012 were according to the KB/AFS €409,245,000. Of this, €407,706,000 was paid from the Kosova Budget and €1,539,000 from donor designated grants.

The difference between the payments made through Payroll (€406,634,886) and the payments from the Kosova budget stated in the KB/AFS (€407,706,000) is €1,071,114. The difference is due to the fact that salaries also are paid through the KFMIS. Paying salaries through KFMIS and avoiding the payroll system indicates a lack of appropriate mechanisms and controls in this area. At the same time the total costs for remunerations are not sufficiently transparent.

For 2012, the overall average monthly salary in the public administration was €448. The average monthly salary varies between budget organisations and employees carrying out similar responsibilities. Lower level of average monthly salary appears in local level/municipalities.

Delays in applying systematisation and classification of job positions in the civil service, hinders the development of fair, understandable and transparent remunerations. At the same time it hinders the introduction of result based incentives.

The management and internal controls in this area are not sufficiently effective. This is indicated by the issues raised in the individual audit reports. Shortcomings were encountered mainly in:

- Recruitment procedures;
- Payments of salaries and incorrect calculations;
- Payments of allowances without being properly justified and proved;
- Payments of salaries from the category of goods and services;
- Calculations of salaries for maternity leave;
- Preparations of contracts, and in some cases failure to apply contracts;
- Job titles of the contracts not in reconciliation with the titles on the payroll list;
- Being in acting duty positions past the legal deadline; and
- Preparation and maintenance of personnel files.

4.1.7 Medical Waste Management

Proper medical waste management is pivotal for a sound health system, protection of public health and environment. Despite the existence of a legal framework and clarified procedures and responsibilities, the management of this type of waste, in most cases, departs from the set standards and is still far from the objectives.

Almost all activities, whether it is segregation, collection, transportation or final disposal, are performed on an ad-hoc basis. In principle the medical waste is not being segregated from the general waste stream. The Health Institutions' (HI) inadequate approach on the issue determined the flow of the entire process.

In terms of inspection, the Environment Inspectorate (MESP) is understaffed to adequately monitor all HIs. The management process requires mobilisation of the entire mechanism; securing that the entire process is functional and effective.

All in all, immediate measures must be taken by concerned parties to raise the awareness of involved staff regarding the importance of a proper waste management in order to reduce the impact on public health and the environment.

4.2 The Internal Audit System

Internal Audit in Public Sector

The development of internal audit in the public sector is going in the right direction. At the same time the new challenges in public sector have led to increased expectations on internal audit from its stakeholders.

Providing advice on controls and processes and providing recommendations before their implementation can be very important support to management in their decision making. This is of the utmost importance now when public administration is undergoing reform processes. An Internal audit with experience and knowledge on controls, governance and risk can be used as a facilitator in different management activities or to provide advice on particular risk and control issues.

The responsibilities of the CHU/IA do not include the Publicly Owned Enterprises (POE's). The development of the internal audit in these organisations, which provide very important public services to citizens, is a missing link in the current system. Other donor projects are involved in this area. A sustainable approach development of Internal Audit profession (in general and in the public sector) is still to be introduced.

The figures in this chapter are just related to the internal auditors within BO's and do not include the around 30 internal auditors within the POE's.

Quality in planning

The internal audit plans are not always driven by robust analyses of the needs of the organisation. Around 18% of reviewed internal audit plans failed to identify high risk areas. This is partly due to the lack of proper risk management framework in the BO's. Internal auditors are still relying on their own assessment of high risk areas and their professional judgement.

In general internal audit assignments were planned to provide assurance through compliance testing and, to a very small degree, include effectiveness and efficiency issues, advisory and consulting work.

When it comes to internal audit focus on the current period, the situation is similar to the previous year, where around 21% of internal audit units concentrated their activities more on past periods instead of in the current year.

The majority of IAUs did more audits this year compared to previous year. Some IAUs provided additional audit activities based on management request. The quality of internal audit reports is improving but further developments are required.

Capabilities

Currently 32 internal auditors including CHU/IA are certified, and these make up around 24% of the BO's internal auditors. A second group of internal auditors started the certification scheme on April, 2013. However, this certification should be considered as the minimum standard of skills and knowledge needed for internal audit practice. On-going training is required in order to maintain and develop professionalism.

Currently certification training is delivered by CHU/IA and internal audit staff. The scheme itself includes only theoretical knowledge and is not linked to any practical experience. However in addition to this, under a new PIFC project, CHU/IA has started to develop a new CPD program for internal auditors.

The internal audit function is still facing resource and expertise constraints. Internal Audit services in the field of information technology and risk management are underdeveloped.

Resources

During 2012, there were 133 internal auditors working in the BO's and around €1,000,000 was spent.

Due to budget constraints, internal audit units are still not equipped with the number of internal auditors deemed necessary. Therefore, they are challenged to use existing resources more efficiently focusing on high risk areas showing that they can do more with existing or fewer resources.

The Ministry of Diaspora, seven municipalities and one independent institution have not yet established internal audit.

MoF still provide internal audit services for a small number of Independent Institutions. In 2012 discussions started based on recommendations given in earlier AARs about introducing an internal audit service in the Assembly to provide support to the smaller Independent Institutions. The result remains to be seen.

Audit Committees (AC)

ACs still do not provide the support that they are supposed to do for boards, municipal assemblies, ministers and executive management.

Compared to the previous year the number of ACs has increased but some 15% of them were not functional during the year. About 20% of institutions, mainly municipalities, still have not established an AC.

Since the December 2012 the payment of AC members is regulated with the Government regulation 34/2012. It is to be seen if this will provide BOs with more functional ACs in the future.

4.3 Overall Conclusions

The Government has made progress towards defining and clarifying the legislative and institutional framework for PFM by providing an appropriate platform for continuous development. However, BO's are not fully implementing the regulatory framework. This needs to be addressed alongside actions for further development in the framework.

Managers of BO's have not yet established the necessary elements for creating a suitable internal control environment. This environment has to be developed further. This includes monitoring activities undertaken by senior management and lower level operational controls. Better control environments will support improved operational performance, service quality and value for money.

The main institutions with central responsibilities must further develop good prerequisites, approaches and tools to support effective implementation of the legal framework.

Recommendations

I recommend Government to ensure that:

- FM/C requirements are practically enforced throughout the public sector organisations based on principles of delegation of responsibilities and accountability for financial and operational objectives and results;
- Individual managers should be proactive in developing internal FM/C related guidelines in order to adjust central Government rules into a specific environment;
- MoF should create a framework model as a guiding tool for individual managers. Furthermore, its effective application should be under constant managerial assessment. External and internal audit input should be used as a base for continues FM/C development;
- Spreading out good practices and experience gained from PIFC pilot projects to other organisations should be prioritised in a strategic perspective;
- Individual BOs develop and implement an effective risk management approach related to organisational objectives and its mission. This should be used as a base for strengthening and developing an appropriate and effective control environment;
- Requirements on result reporting and cost indicators are developed as a priority area within the PFM reform. In doing this the possibility to merge this reporting with the financial reporting in the AFS should be analysed;
- Minister of Finance encourages development of an action plan to ensure full implementation of SIGTAS;
- The legal framework for civil administration is implemented entirely. This will speed up and increase the progress of public administration reform in general. The process of establishing a new payroll system should be brought forward, the job classification process finalised and the recruitment process merit based and carried on in an open way;
- Internal audit resources are used by individual managers in a more prospective way to maximise the effectiveness of a risk based audit approach. A Continuous Professional

Development (CPD) program for internal auditors in addition to the basic certification scheme should be developed tailored to the internal auditors' needs and priorities. Sharing the internal audit experiences would increase the effectiveness of internal audit;

- Initiating a study on how to build up a sustainable certification solution for the overall Internal Audit profession in accordance with internationally recognised internal audit standards; and
- Staff rotation of internal auditors or their co-sourcing may be considered in order to gain experience and knowledge needed in order to increase the effectiveness of internal audit units in public sector. Besides this, a structured and formal evaluation of Audit Committees' performance needs to be set up.

I recommend the Assembly to consider:

- Facilitating a rapid introduction of electronic procurement which will increase transparency and reduce bureaucratic procedures;
- Pushing forward centralised procurements by the Government in order to ensure economy of scale and best value for money spent;
- Finding a sustainable solution when it comes to carrying out internal audit services to small independent institutions directly accountable to Assembly which will foster independence and accountability; and
- Closely follow measures taken within competent authorities and the Health Institutions addressing given recommendations regarding the management of medical waste in order to overcome the risks to public health and the environment.

5 Executing the budget in the Public Sector

5.1 Central Authorities

All 22 Central Authorities⁶ were covered by our regularity audit. It resulted with 14 Unqualified Opinions and 10 Unqualified Opinions with emphasis of matter.

Table 10: Audit opinions during last three years

Audit Opinions	2012	2011	2010
Unqualified	14	13	10
Unqualified with Emphasis of Matter	10	11	12
Qualified			1
Qualified with Emphasis of Matter			
Adverse			1
Total	24⁷	24	24

The AFS presented a true and fair view in all material aspects and were prepared in compliance with requirements of Financial Rule 07/2011 on annual reporting. However, cases with an emphasis of matter mostly related to issues about the information quality, which is expected to be improved in the following year.

Overall, improvements from the previous reporting period have also been noted in the reporting system and in the establishment, development and implementation of internal controls in general. Their overall budget performance was good, with a budget execution of 94%⁸.

Despite the good financial and operational performance, there are a number of challenges that CAs continues to face which are presented below.

Challenges

The number of recommendations addressed by these institutions is steadily getting better. All CAs produced action plans for addressing the recommendations of 2011. Out of the 204 recommendations given 160 were addressed (65 fully and 95 in the process of being addressed), while 44 remained unaddressed. Not fully addressing the recommendations has led to similar shortcomings as the previous year.

⁶ The 22 CAs include the Assembly Administration, the Office of the President, the Office of the Prime Minister and the 19 Ministries. However, there were 24 opinions for the CAs, as opinion were issued separately for the two Agencies under the Ministry of Finance, namely Kosova Customs and the Tax Administration of Kosova.

⁷ Customs and TAK included in the audit

⁸ Although majority of them had a very good budget execution, exceptions were the Office of the President, with a budget execution of 55%, Ministry of Trade and Industry with 61%, and Ministry of Finance with 76%.

The management of revenues was followed by different shortcomings. Revenues were recorded and reported with delays and registries and source documents were not fully reconciled. In certain cases revenues generated did not comply with tariffs set.

Procurement continues to remain the most challenging area in 2012. Besides weaknesses in the planning and contracting stage, weaknesses were noticed at the contract execution as well. Tender Valuation Commissions did not show a sufficiently high degree of responsibility and objectivity in their work, which led to entry into contracts with lack of eligible bids or, in some cases, with ineligible economic operators. Price quotation procedures were used to excess this year in order to avoid open procurement procedures. In many cases they were used for the same goods and services for several times within the year. During execution there were cases when goods and services received had not been foreseen in the contracts. Such shortcomings were due to weak controls over contract monitoring.

We have also found that the certification process was not sufficiently operational in the CAs. There had been payments in contradiction to the contracts as well as payments without properly completed documentation. The management of advance payments is also a shortcoming, as there were numerous cases when they were closed with delays.

Management of Human Resources also faced problems. There were recruitments not meeting the criteria set in the vacancy advertisements. One of the noted problems was that a great number of positions continue to be covered by acting staff, far beyond the period allowed by law, which may lead to poor performance and poor quality in delivered services. Remuneration of staff for overtime work without having supporting evidence also poses a financial burden to the budget.

Monitoring of expenditures on subsidies and transfers was almost entirely lacking. In numerous cases the beneficiaries of these subsidies had either not submitted reports on expenditures or these reports were incomplete, which leads to the risk of these funds not reaching the intended purpose.

Considerable improvements have been noticed in the assets management compared to the year before. Some of the institutions have completed their accounting registers within this year. However, irregularities in their registration and reporting continue to be noticed in some of them.

Because of the high financial impact, we have covered vehicle management in all individual audits. We have found cases when vehicles were used 24 hours without approval and that procedures for their use were not adhered to. The most worrying was the poor management of the Police vehicles, where nearly 1,400 vehicles had no proper controls in place, and a large number of vehicles, waiting for servicing for a long period⁹, which is a worrying trend considering the limited life of Police vehicles.

There is a better situation when it comes to outstanding liabilities as most of the institutions managed them properly. However, some of the institutions had not fairly reported such liabilities, which may lead to the execution of double payments or even to default from payment of liabilities towards contractors.

⁹ In the audit of the Police we found that 173 vehicles had been waiting for servicing for a long period, some of which ever since 2009.ely for the two Agencies under the Ministry of Finance, namely Kosova

Specific challenge remains in respect to accountability line between Ministries and autonomous agencies operating under them. In particular, there is an unclear segregation of duties between General Secretary (GS) of a Ministry as a parent institution and Director of an autonomous agency. The GS of parent Ministries are often circumvented and a direct political interference incurs in the agencies. Due to this, GS have often problems directing changes and requiring measures in such an agency. In addition, these agencies are not required to produce and publish AFS. This at the same time as a number of them needs to produce both financial and operational annual external information due to the European agenda. The current regime cannot be deemed transparent enough.

CAs has mainly shown progress in the reporting area, including the internal and external reporting. Their AFS presented a true and fair view in all material aspects. Shortcomings were mainly related to the disclosure of certain information having no material impact on the AFS in general.

In general, CAs has established a relatively good control environment, but we have noticed weaknesses in control activities and monitoring, and a good risk assessment was lacking. Operating with a high number of acting staff indicates that there was no established sustainable internal control system where accountability would operate effectively.

When it comes to expenditures management, the management controls in place are still not sufficient. In particular, internal management accountability and responsibility were not sufficiently developed. The handling of procurements is of special importance to mention. Management and monitoring of funds granted for subsidies was also weak, leading to the risk of misuse. The Certification Function had also failed in its duty by certifying these payments with the problems presented.

Therefore it is crucial that the central authorities set the tone when it comes to business wise decisions and prudence in spending given the scarce budget situation.

Considering this, during 2013 the Government should focus more on the areas where shortcomings have continued to occur and monitor the addressing of these issues by the Cas.

Government should make lines of external communication clearer and introduce a requirement for agencies as Police, Tax Administration, Customs and Statistics, to produce AFS and get statutory annual audit in place. These four could be considered as pilots in introducing annual external reporting where financial and operational information is merged in the AFS, due to their importance for the taxpayers.

Recommendations

I recommend the Government to ensure that the Cas:

- Will be obliged to carry out FM/C self-assessments and report these to the MoF within 6 months;
- Review gaps in the respective internal FM/C rules and guidelines, taking into account the specific needs of the individual CA are put in place securing a clear segregation of duties and proper accountability mechanisms; and
- Carefully review all given audit recommendations (internal and external) and prepare a revised action plan for addressing recommendations, with initial focus on the most important recommendations.

I recommend the Assembly to consider:

- Closer monitoring of how the Government is addressing the above mentioned issues through its select committees.

5.2 Independent Institutions (IIs)

We have carried out regularity audits for 26¹⁰ Independent Institutions and given 24 Unqualified Opinions (six with Emphasis of Matter) and three Qualified Opinions (one with Emphasis of Matter). The table below shows that after the progress that had been made in 2011 compared to 2010, we notice a lack of progress in external reporting for 2012.

Table 11: Audit opinions during last three years

Audit Opinions	2012	2011	2010
Unqualified	18	18	4
Unqualified with Emphasis of Matter	6	7	10
Qualified	2	1	1
Qualified with Emphasis of Matter	1		
Adverse			2
Total	27	26	17

The table above shows that the Financial Statements of Independent Institutions for 2012 have presented a true and fair view in all material aspects. The three qualifications are opinions given due to irregular payments of remuneration.

We have also identified shortcomings within quality of information which mainly relate to lack of adequate disclosures regarding assets owned by IIs.

The majority of Independent Institutions continue to show their commitment to improve management of public finances by putting in place, developing and implementing controls in general. All IIs had drafted action plans to implement our recommendations and level of addressing these recommendations was at a satisfactory level in most of IIs

However, there is a need for increased management control and monitoring by key accountable officials in IIs in the field of budget planning, management of wages and salaries and asset management, securing sustainable management of public money.

In most of the cases institutions generating revenues managed to build up adequate systems for recording, maintaining and reporting revenues¹¹. The need for consolidation of control in the field of financial management is noticed in newly established institutions. This lack of consolidation and functionality in these institutions is mostly as a result of insufficient staff, lack of budget support and not appointing senior public officers on a timely basis.

¹⁰ Although we have issued the audit of Kosova Privatisation Agency (KPA) and the Privatisation Fund as a single report, we have issued two audit opinions, one for each of the two entities.

¹¹ An exception is the Independent Commission for Mines and Minerals (ICMM) where the system still does not meet the needs.

Self-assessment was formally carried out in most IIs; however, the benefits of this process were not used in order to identify advantages and weaknesses of existing systems and potential aspects for development and improvement.

As a result of our earlier recommendations, almost all IIs during 2012 had taken into account the review of operating expenses to ensure more efficient services with lesser cost.

The reporting of the IIs to the Assembly and its Committees is also not well regulated and in majority of cases they produce Operational Reports of their performance separate from their financial reports, and at different times. Besides being time consuming for the IIs, it is also time consuming for the Assembly Committees, which have to review the two separately, and this also does not provide an efficient process of holding to account managers of IIs.

Key shortcomings and challenges of IIs during 2012

Budget planning and execution

IIs face a number of challenges which relate to their independence (functional, financial and operating), accountability and their status in the wider process of budgeting. Compared to 2011, budget cuts and reduction in allocations by MoF during 2012 was applied to a lesser degree. This, in conjunction with the introduction of financial reporting of IIs on their budget request and financial reporting forms of budgetary requirements to the Assembly Committee for Budget and Finance, is an indication of an increasing level degree of financial independence for IIs.

However, budget support for institutions such as National Agency for Protection of Personal Data (NAPPD) and Kosova Council for Cultural Heritage (KCCH) was not provided at the level needed during 2012 and as a result there was a budget deficit within these two institutions.

The initial budget for 26 independent institutions audited by the OAG for 2012 was €80,204,056 whilst final budget was €84,931,330. Annual expenditures were €70,759,018 or 83% of the final budget.

The budget for wages and salaries was executed almost completely. Besides regular payments for staff, decision makers in some IIs issued decisions for additional remunerations which were not in accordance with Legal Framework¹². As a result of these decisions €136,477 was paid.

The majority of the unspent budget resulted as a failure to implement capital projects. Our audit for 2012 indicated that some capital projects were not implemented at all, while some projects were changed under budget review and therefore could not be executed till the end of 2012.

¹² This was initially noted in the Independent Media Commission (IMC), Constitutional Court of Kosova (CCK) and Central Election Commission (CEC), and overtime was applied almost in all IIs.

Inter-institutional Coordination

Because most IIs are small and mostly comprise of professional operational staff, they need to look for other solutions in order to cover some administrative tasks that are common for most and that is allowed for under applicable law. Although there have been some efforts, very little was done to address this issue.

During 2012, the Assembly and CPA provided support services in procurement for some IIs¹³. In some cases there is an agreement between IIs to use joint services of the internal audit¹⁴, or in some cases these services continue to be provided to some IIs by the CHU/IA of the MoF.

In some cases this cooperation between IIs for common administrative support is more than necessary in fulfilling the institutional strategic objectives. This is the case with institutions in the judicial system¹⁵, between the ICMM in one hand and Prosecutors, MIA, MESP and Municipalities on the other hand to support law enforcement for mines and minerals.

Working space

Working spaces are often inadequate and do not provide basic working standards. From 26 audited institutions, 16 of them are located in private buildings. There is a need to raise this issue both at the level of the Assembly and the Government as the budget of €1,294,966 currently used for rent of these IIs could be used for other operational and professional activities.

Independence from appointing and fulfilling senior public positions

In order to adhere to fundamental principles of independence, it is important that the appointment and dismissal of Board members and Executive Directors in IIs is only carried out through votes in the Assembly¹⁶. The lack of adherence to this principle leads to the possibility of appointment of senior public officials that are not fully independent and not accountable to the Assembly.

The Assembly should also take into special consideration the need for timely appointment and extension of contracts for senior public positions (boards and executive level). Sometimes positions for senior public officials remain open for a longer period of time causing obstacles in functioning of institutions or some members not having a clear legal mandate¹⁷.

¹³ The Assembly provided services to the National Agency for Personal Data Protection and Kosova Council for the Cultural Heritage, while the CPA offered services to the Election Complaints and Appeals Panel.

¹⁴ As is the case between IMC and OI.

¹⁵ Cooperation between KJC, KJI, SP and the Ministry of Justice

¹⁶ We have noticed that the appointment of the Board and Executive Director within Kosova Civil Aviation Authority is made by the Government. Further on, the Chief Inspector of Mines in ICMM was appointed by the Government. Similarly, while it is clear that the Assembly nominates members of the Board of PAK, the process of who nominates these members to the Assembly is not sufficiently clarified.

¹⁷ Delays in the appointment of members of the Board of Directors in the KPA had put the privatisation process at halt, as all important decisions had to be signed by the Chairman of the Board of Directors. The other case is when the IMC during 2011 and 2012 was working in absence of the board of IMC Commissioners and in KCCH five of seven Council members were not appointed as foreseen. Because of lack of action in extending their contracts, Chairperson and one member of KCCH were paid for three additional months, although their mandate expired.

A positive development within the Assembly is the establishment of the Coordination Office with IIs within the Assembly which can support the Assembly and respective Assembly Committees by giving timely notification of expiring mandates of Boards and members. This will help relevant committees to prepare for appointing processes before the mandates expire.

Conclusion

During 2012 IIs have generally managed to build up adequate systems for financial management and control. Furthermore, the review of operating expenses securing cost effective services shows the commitment of key accountable persons for management of public money. However, increased controls and monitoring is needed to secure full sustainability and continuity of the system.

Budget spending of 83% indicates the need for improving annual budget planning and execution policies by IIs. Special attention should be noted to securing sufficient budget allocation, and by improving horizontal cooperation in provision of joint administrative services to smaller IIs.

We have noticed a greater commitment of the Assembly in taking more proactive measures and further development of IIs compared to previous reporting periods. We hope that the establishment of the new Coordination Office shall tackle the issue of delays in appointing and extending mandates for boards and board members. Furthermore, the accountability of the key Managers within IIs is increasing, in which regard the COPF and Committee of Budget and Finance have played an active role.

To improve the process of budget planning and execution, and contribute further to the increased level of accountability of IIs a modification of the external reporting requirements could be analysed. The basic idea is that the IIs should present their operational performance and financial performance in a single report, which shall be audited before it is submitted to the Assembly. This would support in understanding of needs and challenges of IIs, holding to account for the performance, and make the work less cumbersome.

Recommendations

I recommend the Government to:

- Ensure full transparency and be more efficient in communicating with Independent Institutions with aim to timely inform them for requests and new procedures in force.

I recommend the Assembly to consider:

- Providing full support to and clarification of the role of the Liaison Office to the Independent Institutions within the Assembly ensuring sufficient information to Assembly committees;
- An increased communication with the Independent Institutions and handling budget requests with special attention to secure sufficient funds to fully exercise their scope; and
- Review the possibilities for creating new reporting requirements, combining financial and operational reporting thus paving the way for a more developed budget dialogue. This should support in increasing the level of accountability of Independent Institutions in spending public money.

5.3 Municipalities

We have carried out statutory audits of all 38 municipalities for 2012¹⁸. Out of these 11 were contracted out to be audited by an internationally recognised private audit firms.

Unqualified opinions were given to 30 municipalities (25 with an Emphasis of matter); Qualified Opinions for five municipalities and in three municipalities a Disclaimer of Opinion were given. In overall this shows progress compared to previous years.

Table 12: Development of opinions in last three years

Audit Opinion	2012	2011	2010
Unqualified	5	2	0
Unqualified with Emphasis of Matter	25	14	12
Qualified	5	18	16
Disclaimer of Opinion	3	3	9
Total	38	37	37

Local self-government and responsibilities

Besides grants from the central level, approved according to the Law on budget appropriations, municipalities' financial resources consist of revenues from taxes, operational grants, grants for extended competencies¹⁹, emergency grants and benefits of municipal loans. In a few cases some municipalities also receive financial assistance from the Republic of Serbia.

Mayors are required to prepare quarterly reports and submit them to their respective Municipal Assemblies throughout the fiscal year, and a copy sent to the MoF. These reports are then published on the website of municipalities. Each quarterly report contains the report of revenues and expenditures, investments and debt information, and a summary of the status of all capital expenditure projects.

Mayors shall submit to the Municipal Assembly a final report on the budget of the current year as well as for the past two fiscal years.

Financing of Municipalities

The total expenditures of the municipalities for 2012 were €367,296,565²⁰, or 25% of the total KB expenditures. During 2012 the Municipalities collected €59,447,721 own source revenues, which comprises only around 15% of the overall financing of Municipalities, but which marks an increase of 6.8% compared to 2011. The final Municipalities' budget was spent in the average level of 89%.

¹⁸ Including the Mitrovica North Administrative Office (MNAO).

¹⁹ The types of extended competences are in detail described in Articles 19-23 of the Law on Local Governance, No.03/L-040, articles 19-23, while the budgeting for extended competencies are described in Article 6 of the Law on Local Government Finance, No.03/L-049.

²⁰ In 2011 it was €363,782,562.

Implementation of prior year recommendations

Though we notice a slight improvement in the level of addressing of recommendations during 2012, we are still not fully satisfied with the results.

In the reports issued to 34 municipalities²¹ for 2011 we issued 299 recommendations, out of which during 2012 63% were either fully or partially addressed, and 37% were not addressed at all²². Moreover, five municipalities did not prepare action plans for addressing recommendations²³.

Further on, in the AAR for 2011 we gave the recommendation that the position of Executive manager should be reintroduced in the municipalities in order to apply a longer planning horizon and a better focus on citizen's needs. This has not been implemented.

Reforms in Local Government Public Financial Management

Reform in Local Government Public Financial Management (PFM)²⁴ began in 2010. This reform began by assessing the PFM according to PEFA methodology divided into two rounds. The first round was executed during the period June 2010 - May 2011 and included the municipality of Prishtina, Podujeva, Vushtrri, Mamusha and Shtërpca. The second round was executed during the period June 2011 - February 2012 and included the municipality of Peja, Istog, Gjakova, Gjilan, Ferizaj and Novo Bërda.

This reform was developed under the MoF sponsorship and supported by the external donors. The PFM assessment project covered seven key PFM components:

- Budget Credibility;
- Comprehensiveness and transparency;
- Policy-Based Budgeting;
- Forecast and Control of Budget Execution;
- Accounting, recording and reporting;
- Review and external audit; and
- Donor practices.

This process resulted in a PFM Action Plan containing indicators and grades based on municipalities' strengths, weaknesses, required actions and institutions responsible for implementation.

Progress was achieved in several municipalities in the improvement of budget performance by reducing the percentage of deviation from budgeted expenditures; realistic planning of Municipality's own source revenues, increased debt collection from property tax; making the IAU functional and operational; as well as attempts to increase the number of implementation of recommendations given by internal audit;

²¹ Not including Administrative Office in North Mitrovica, Leposaviq, Zubin Potok and Zvečan.

²² Greater commitment for implementing the recommendations was noticed in the municipalities of Prishtina, Malisheva, Gracanica, Ranillug and Vushtrri, while municipalities that were less focussed on addressing our recommendations were municipalities of Skënderaj, Decan, Kacanik and Podujeva.

²³ Those were the Municipalities of Gjakova, Kllokot, Rahovec, Obiliq and Junik

²⁴ PFM reform is based on the methodology of public expenditures and financial accountability (PEFA)

preparation of financial statements in line with IPSAS; and, improvements in exercising the function of oversight of municipal assemblies against municipal governments in terms of local (municipal) finances²⁵.

Despite the progress achieved in implementing the PFM reform in municipalities involved in this program, there is still a long way before we can consider the reform implementation. This report identified areas where further improvements are still needed. It also concludes that there are issues which cannot be addressed within short-term period but require long-term commitment by the responsible institutions until they are fully implemented.

The major challenges regarding implementation of the reform in local governments are:

- Establishing budget processes guided by priorities and strategic policies;
- The high level of outstanding liabilities and the risk of not fully recording and reporting these;
- Poor links between the MTEF and annual budgets of municipalities;
- Analysis of accounts and budget by the elected representatives due to lack of capacity;
- Weaknesses in internal control systems;
- Poor functioning of internal audit, audit committees and low level of implementation of their recommendations;
- Lack of understanding of the importance of PIFC by senior management;
- Timely implementation of the OAG recommendations; and
- Strengthening coordination with external donors and the Ministry of European Integration.

Legal requirements on external financial reporting

Some municipalities have failed to meet some of the key legal requirements in the area of financial reporting. These are as follow:

- Eight Municipalities did not prepare AFS in line with Financial Rule no. 07/2011 on annual reporting of the Bo's;
- Three Municipalities have not met the obligation for periodical reporting to MoF and did not prepare AFS at all; and
- Only 17 Municipalities have prepared their AFS in two official languages.

Key audit findings in municipalities

During the audit of municipalities for 2012, we identified other serious weaknesses in certain areas. The following are some of the key issues:

- Failed to address audit recommendations given by OAG;
- Insufficient internal controls within procurement system in many municipalities;
- Lack of control over supervision of capital investment contracts and weaknesses in certification of payments;

²⁵ Although it is still at an unsatisfactory level, we have to note that municipal governments have significantly improved the process of handling OAG recommendations.

- Funds designated for capital investments are spent on subsidies and training purposes;
- Entering into contractual obligations without sufficient funds budgeted;
- Obligations of most municipalities have increased;
- Some municipalities face the problem of presenting and disclosing third party payments;
- Granting subsidies not in line with internal municipal regulations and lack of feedback from beneficiaries on how the subsidies were used;
- In some Municipalities, the execution of the plan for collection of own source revenues was poor due to a lack of effective mechanisms for collection of own revenues, mainly from debtors of property tax, business licenses and leased properties;
- Incomplete and unreliable Asset Registers;
- In some municipalities IAUs have failed to fulfil their audit plans and did not cover high-risk areas, such as procurement procedures, management of large construction contracts, receivables from own revenues; and
- The Management, in many Municipalities, did not produce action plan for implementing the recommendations given by the IAU.

Recommendations

I recommend the Government to ensure that:

- Reporting framework is revised, which would clear the way for presentation and disclosure of third party payments and good practices are developed and communicated to budget organisations;
- The Public Financial Management reform includes all municipalities; and
- There is a greater commitment in coordinating all stakeholders in implementing the Public Financial Management reform.

I recommend Municipal Assemblies to ensure that:

- The executive produces detailed action plans including activities, time and person responsible for addressing recommendations of the External Auditor and the Internal Audit; and
- External Audit reports are discussed in municipal assemblies, and there is a follow up on the implementation of recommendations by the Auditor General.

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

5.4.1 Publicly Owned Enterprises (POE)

Publicly Owned Enterprises (POE's)²⁶ are a property of the Republic of Kosovo and are categorised as Central and Regional POE's, and Local POE's.

While Central and Regional POE's are supervised and monitored directly by the Ministry of Economic Development (MED)²⁷ as a representative of the owner, Local POE's are owned by a municipality or in some cases by a number of municipalities together. It is the obligation of each municipality to introduce an ownership policy that presents Municipality's general objectives regarding the ownership of Local POE's and its role in the corporate governance. The Boards of Directors have the obligation to oversee the work of management so that objectives are met and the POE's produce results.

Shareholder rights of a municipality are exercised through the Municipal Shareholder Committee (MSC), which consists of one member appointed by the Mayor and two other members appointed by the Municipal Assembly. If a Local POE provides services to more than one municipality the ownership percentage of each municipality shall be equal to the percentage of registered customers of this POE in that municipality.

The OAG has the power to undertake statutory audits of POE's. As an exercise of this right, the AG decides annually on which and duly informs the MED. Besides the statutory audits, the OAG also carries out performance and management audits to look deeper into the quality of management and of services provided.

Actions on previous year's recommendations

For the financial year 2011 we published five (5) audit reports²⁸ for 12 audited bodies with 49 recommendations in total. These recommendations were given (to the Government and the Assembly) with the aim of improvement of the performance of POE's. The Majority of the audited entities had produced action plans for implementation of recommendations issued²⁹.

In the AAR of 2011 our four main recommendations to the Government were:

- To raise the level of accountability by enforcing the implementation of the amended Law on POE's in practice;
- Strengthen accountability by introducing adequate systems of management and oversight;

²⁶ There are a total of 61 POE's, of which 17 are Central POE's and 44 are Local POE's.

²⁷ Within the MED the Publicly Owned Enterprises Policy and Monitoring Unit (POEPMU) was established in order to support the Government in exercising responsibilities over the Publicly Owned Enterprises and supervision of boards on the performance achieved. It reports to the Assembly and the public on the manner they are managed.

²⁸ Of which one was a statutory audit and four management audits.

²⁹ An exception was the RTK, which did not produce an action plan within the required timeframe. The action plan to address our recommendation was produced after the pressure from the Assembly (through COPF) after almost one year.

- Focus on the actions of Boards in improvement of performance, POE's to ensure functioning of revenues process and a reliable financial reporting; and
- Produce unified management guidelines which would support POE's to foster transparent and adequate control environment.

Our two main recommendations for the Assembly were to closely follow the quality and sustainability of service to citizens by public enterprises; and to request from the Government to submit a report on the performance of the public enterprises³⁰.

As response to a request from the Assembly such a report was produced by the POEPMU. Although there are still areas of performance that should be addressed in this report, we consider this as a positive first step in raising the level of accountability regarding the POE's performance and services delivery. When discussing the performance, the POEPMU should also include a follow up on how POE's are addressing the recommendations by the AG.

Challenges faced by Central POE's

We have identified a number of weaknesses in the performance of central POEs³¹.

The identified weaknesses and challenges are as follows:

- Audited POE's have constantly operated with financial losses and shown dependency on government subsidies, which indicates uncertainty concerning the financial opportunities to continue business as in the current manner;
- In great number of cases procurement management in these Enterprises was not in compliance with applicable requirements;
- There were a lack of controls in management of human resources with highly ineffective supervision during the recruitment process;
- Asset management was not efficient and had shortcomings during their evaluation and recording; and
- Generally there was no operational control environment.

Challenges faced by Regional Waste Companies (RWC)

Apart from some general weaknesses presented above, we have identified a number of weaknesses that apply specifically to waste companies at the local level, such as:

- Organisation and controls in the companies providing these services were insufficient;
- A significant part of the population continue not to receive adequate services of waste collection by these companies;
- Waste collection services are not extended in the entire areas of respective municipalities³², which results with creation of numerous illegal landfills; and

³⁰ The aim of this report should be to assess how the accountability mechanisms introduced in the legal framework are implemented in practice.

³¹ These weaknesses also apply to the local POE's alike.

³² We have noticed that the trend is to concentrate in urban areas, leaving rural areas almost completely uncovered.

- Although obliged by law, companies have failed to produce annual reports on customer satisfaction, which would offer feedback to both companies and municipalities on the level and the quality of services provided.

Challenges faced by municipalities in managing RWC³³

- As shareholders, they have failed to issue a sufficient number of legal acts and secondary legislation in order to organise the local waste management system properly;
- They have not secured adequate locations for placing containers and have not organised the process for waste classification; and
- A MSC of RWC Çabratı has not played the role of the supervisor towards the waste company and the Board.

Conclusion

In spite of the engagement by the boards of publicly owned enterprises, the performance of these companies has continued to be accompanied by significant losses. This negative performance puts at risk the continuity of these enterprises.

Inadequate controls in general indicate that the managements of these enterprises have not yet ensured a functional environment in order to provide effective and efficient management of public funds.

Weaknesses were noticed in the management of human resources, procurement, and handling of assets, which present a challenge. These should be the focus of both the POE's and Local Governments to increase the efficiency in these activities and too engaged in strengthening these areas where shortcomings occur most.

In general, the system relating to administration and management of waste is not designed properly for an effective process of collection and disposal of waste.

Municipalities have not managed to create sufficient preconditions for RWCs to carry out their business activities and have not implemented sufficient supervision to ensure a better performance of these companies. Meanwhile, the companies have shortcomings in delivering quality services in accordance with standards. Reporting relating to management is weak in all institutional levels involved and as a consequence is lacking clear accountability concerning the problems and waste management.

I recommend the Government to ensure that:

- There are forums established between the Government and enterprises to discuss challenges they facing and opportunities to improve performance and services;
- The report issued by the POEPMU on the operations of POEs also includes a higher degree of information on the performance of POE and their contribution to fulfilment of set objectives;
- Higher degree of cooperation between Ministries in relation to implementation of policies and different policy areas; and
- POEPMU conducts regular follow up on how POEs are addressing recommendations issued by the OAG.

³³ Although some RWCs sometimes cover more than one single municipality, they are considered to be Local POEs.

I recommend the Assembly to consider:

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

5.4.2 Socially Owned Enterprises (SOE)

Socially Owned Enterprises (SOEs) are represented by the Privatisation Agency of Kosovo (PAK). The function of the PAK is administration and privatisation of SOEs and their assets³⁴.

For the first time we have carried out a statutory regularity audit of both parts of Trepça (south and north)³⁵ in order to give a full picture of it as a unit. We have identified that:

- Progress has been made as for the first time integrated financial statements were produced for the two parts Trepça. These statements were prepared under the direct monitoring of PAK, however although legally an administrator, PAK has not taken any actions to integrate and cooperate the two parts into one enterprise;
- PAK has not provided clear rules on the manner of administration and carrying out its obligations that derive from the Law on the Reorganisation of Certain Enterprises and Their Assets;
- Besides the reporting deviations, no proper information was given concerning the administration and the reorganisation phase of the company. A list of its assets and obligations does not exist, increasing the uncertainties regarding possible claimants;
- Other weaknesses identified relate to the accuracy and completeness of assets value, disclosures concerning the mineral reserves of the enterprise and tax issues with TAK;
- The financial statements of SOE Trepça do not contain sufficient and comprehensive information; and
- Numerous weaknesses were also identified in the process of revenues, procurement, personnel management and functioning of internal controls.

The reorganisation of SOE Trepça is a challenge for the PAK. Shortcomings identified in the PAK cause uncertainty in Trepça's reorganisation and administration process, and have a negative impact in the future business of the enterprise. Lack of integration and functioning of the SOE Trepça as a whole, indicates that further efforts are needed by the PAK Board and Trepça management to provide unified financial reporting, transparency and accountability concerning the activities of the enterprise as a whole.

³⁴ This authorisation includes the authorisation for sale, transfer and liquidation of enterprises and their assets.

³⁵ Although these were audited separately, because they operate in two separate venues, we consider it as a single SOE and have issued one opinion for Trepça as a whole.

Recommendations

I recommend the Assembly to consider:

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

5.5 Privatisation

PAK is an independent public body which shall carry out its functions and responsibilities in full autonomy in implementing the programme of privatisations. Results of SOE's privatisation potentially have a great impact on Kosovo's market restructuring and economic development as well as improved welfare for citizens. The mandate of the PAK is expected to end in 2016, after completion of its objectives in privatisation and liquidation.

The financial information provided by the PAK includes a large amount of information that is hard to understand by the majority of decision-makers, increasing the risk of a lack of transparency. We have requested in the audit report of 2011 that the financial information provided by the PAK Board and Management is simplified to make it understandable for external readers, however no action has been taken so far.

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. After the sale of NewCo to an investor the revenues are 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.

Through voluntary liquidation, the assets of SOEs are liquidated according to the law and Agency's operational policies. Voluntary Liquidations allow an expeditious exit from the market for those enterprises that clearly have no prospects of survival. PAK can initiate such proceedings where it deems the proceedings are in the interests of preserving the remaining value of enterprises, and of any ownership or creditor claimant's interest in those.

The balance of accounts on December 31, 2012 was in the amount of €549,403,359. Total income during 2012 in the Privatisation Fund (PF) was in the amount of €170,611,996,

The challenges that PAK is currently facing are:

- Delays caused in the privatisation and liquidation process due to the absence of the Board of Directors;
- Insufficient controls over the distribution of 20% to the workers from the sale of SOEs;
- Using funds of SOEs in liquidation for PAK's administrative services, before the liquidation of enterprises takes place;
- Simplifying financial statements and making them transparent and readable for external readers; and
- Fulfil the objective of finishing its mandate by 2016.

Recommendations

I recommend the Government to:

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

I recommend the Assembly to consider:

- Developing clear provisions that determine the timetables for selecting members of Board of Directors not leaving gaps in the functioning of the Agency;
- That all revenues from sales, transferring, liquidation of SOEs, with exception of surplus funds, are kept in trust for owners and creditors as well as safeguarded by the Agency; and
- Requesting from PAK to simplify the financial statements for the account of PF so that they are more understandable to the external readers.

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.

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

No.	Types of Opinions	Number of opinions
1	Unqualified Opinion	38
2	Unqualified Opinion with emphasis of matter	42
3	Qualified Opinion	2
4	Qualified Opinion with emphasis of matter	6
5	Disclaimer of Opinion	3
	Total	91

Table 2: Unqualified Opinions

Auditees Organizations	Final budget (000. euro)	Key management shortcomings
Ministry of Education, Science and Technology	53,00	Incomplete addressing of OAG recommendations; shortcomings in the supply with text books; shortcomings in the management of capital investments; poor debts management.
Ministry of Economic Development	46,49	Incomplete addressing of OAG recommendations; Expenditures not registered in the adequate economic codes; Contracts entered into with EO without funds committed beforehand; Delayed payment execution; Poor control over receiving of goods in the central warehouse; Agreement on subsidies not fully adhered to; Assets reports not reconciled; Delayed payment of liabilities.
Ministry of Security Force of Kosova	34,31	Poor contract management and monitoring; Poor management of advance payments; Shortcomings in the personnel management.
Ministry of Public Administration	20,70	Low level of budget execution; Lack of internal policy and regulation on subsidies; The Unit for monitoring the use of official vehicles was not operational; Incomplete registers on non-capital assets.
Ministry of Finance	19,12	Incompliance with LPP; Low level of budget execution; Purchase contracts were not in the standard form; Oil price not determined by the competent body (PLATTS); Expenditures not registered in the adequate economic codes.

OFFICE OF THE AUDITOR GENERAL

Kosova Judicial Council	18,32	Incomplete addressing of OAG recommendations; Expenditures not registered in the adequate economic codes; Nine-month Financial Statements not prepared according to the Financial Rule 06/2011; Shortcomings in the procurement process; Delayed closing of advance payments; Shortcomings in the personnel management; Assets register not harmonised; Audit Committee not operational
Podujeva	17,46	Incomplete addressing of OAG recommendations; Low level of revenues collection; Shortcomings in procurement management; Subsidising procedures not in compliance with internal Regulation; Expenditures not registered in the adequate economic codes.
Kosova Assembly	17,00	Performance self-assessment not carried out; Penalties not imposed in cases of delayed execution of works;
Suhareka	13,65	Incomplete addressing of OAG recommendations; Poor planning of revenues and non-compliance with LPP.
Lipjan	12,01	Lack of regulations on Subsidies and Transfers; Shortcomings in the collection of revenues; Shortcomings in planning of expenditures; Incomplete and inaccurate assets registers.
Office of the Prime Minister	11,05	Low level of budget execution; Shortcomings in the procurement procedures and contracts management; Expenditures not registered in the adequate categories and economic codes; Delayed closing of advance payments; Poor monitoring and reporting of subsidies; Shortcomings in the registration and management of non-capital assets and stocks.
Customs	9,12	Incomplete addressing of OAG recommendations; Expenditures not registered in the adequate economic codes; Poor budget planning; Untimely reporting of stocks by EO using the Customs Warehouses; Representation Agencies not licensed; Assets not registered in the accounting register.
Tax Administration	7,85	Lack of control over collection of debts, particularly the critical ones.

ANNUAL AUDIT REPORT 2012

Ministry of Communities and Returns	7,85	Low level of budget execution; Shortcomings in procurement management; Irregular certification of payments.
Ministry of Trade and Industry	7,55	Incomplete addressing of OAG recommendations; Low level of budget execution; shortcomings in the registration of revenues and receivables; Signing of unplanned contracts; Lack of Technical Acceptance Commission; Delayed payment of liabilities; Shortcomings in personnel management; Inadequate vehicles management.
Ministry of Local Government	6,79	Incomplete addressing of OAG recommendations; Shortcomings in budget execution; Expenditures not registered in the adequate economic codes; Incompliance with LPP; Shortcomings in the control over official travel expenditures; Agreements on subsidies neglected; Incomplete assets register; Not timely reporting to the CHU/IA.
Shtime	4,77	Incomplete addressing of OAG recommendations; Low level of revenues collection; Subsidies procedures not in compliance with the internal regulation; Expenditures not registered in the adequate economic codes.
Kosova Property Agency	3,50	Expenditures not registered in the adequate economic codes; Vehicles (donation) not included in the KFMIS.
Ministry of European Integration	1,55	Shortcomings in the management of advance payments; Shortcomings in personnel management and subsidies management.
Independent Commission for Mines and Minerals	1,51	Incomplete addressing of OAG recommendations; Poor budget planning for capital projects; Poor revenues management; Shortcomings in personnel management; Assets inventory not carried out; Action plan on implementation of IAU recommendation not prepared.
Constitutional Court	1,43	Shortcomings in procurement management; Delayed inventory of assets; Shortcomings in the expenditures on wages and salaries.
Ministry of Diaspora	1,42	The budget for capital investments not executed according to cash flow time schedule; Expenditures on goods and services incurred without any procurement procedures; Poor management and monitoring of subsidies; Shortcomings in the recruitment process.
DANIDA	1,25	Small administrative flaws and delays caused by the prolongation of procurement procedures.

OFFICE OF THE AUDITOR GENERAL

Ranillug	1,23	Shortcomings in the recruitment process; Delayed deposition of funds in the bank account; Recruitment procedures not adhered to.
Kosova Academy for Science and Arts	0,82	Shortcomings in procurement planning.
Aviation Regulatory Authority	0,79	Internal Audit not conducted.
Regulatory Authority of Electronic and Postal Communications	0,77	Incomplete addressing of OAG recommendations; Poor budget planning; Shortcomings in the procurement process; Expenditures not registered in the adequate economic codes; Assets with zero remaining value not valued; IAU not established.
Ombudsperson	0,70	Incomplete addressing of OAG recommendations; Shortcomings in procurement management; Poor management of petty cash.
Energy Regulatory Office	0,68	Self-assessment checklists not filled out; Inventory of assets not carried out; Bar codes not placed in all assets.
Kosova Judicial Institute	0,56	Shortcomings in the procurement process,
Anti Corruption Agency	0,40	Poor budget planning; Incompliance with LPP; Inventory of assets not carried out.
Regulatory Office for Water and Waste	0,33	Shortcomings in procurement planning.
Public Procurement Regulatory Commission	0,33	Incomplete addressing of OAG recommendations and E-assets system neglected.
Procurement Review Body	0,29	Delayed submission of procurement plan to CPA; Lack of records on own source revenues; Inventory of assets not carried out.
Legal Aid Commission	0,29	Shortcomings in the handling of outstanding liabilities.
Railways Regulatory Authority	0,24	Annual Performance Report not prepared; Poor planning of expenditures on goods and services; Contracts not executed according to the procurement plan; Delayed payment of liabilities.
Supervisory Independent Council for Civil Servant	0,22	Supply with mobile phone top-ups without contract in place.
Protection of Kosova Heritage	0,18	Lack of control over execution of budget on payments; Petty cash spent on fuels; Salaries paid regardless the expired mandate; Lack of control over budget execution for salaries; Expenditures for fuels from petty cash; Salary paid regardless the expired mandate; Shortcomings in calculating and approving the overtime work.

Table 3: Unqualified Opinions with emphasis of matter

Auditees	Final Budget (mil. euro)	Reason for Emphasis of matter	Key management shortcomings
Ministry of Infrastructure	281,16	The fixed assets register incorrectly includes the amount of €69,327,710 of co-financed assessed which should be presented in the Municipalities assets registers	Incomplete addressing of OAG recommendations; Shortcomings in the reporting and collection of revenues; EOs for transport of goods and technical control were not licensed in accordance with the rules; Shortcomings in the procurement management; Shortcomings in the personnel management; Shortcomings in the assets recording.
Ministry of Labour and Social Welfare	210,02	Information disclosed on assets under €1000 and accounts receivable was not complete.	Incomplete addressing of OAG recommendations; Shortcomings in the internal reporting; Shortcomings in the capital investments management.
Ministry of Internal Affairs	95,32	Information disclosed on assessed was not complete and accurate.	Shortcomings in the procurement management; Positions manned with acting persons; Shortcomings in the granting of subsidies; Poor management of the fleet (maintenance and servicing of vehicles in the Kosovo Police).
Ministry of Health	92,57	Assets and stocks were not fairly disclosed in the AFS	Incomplete implementation of OAG recommendations; Shortcomings in the internal financial and operation reporting; Shortcomings in the planning and distribution of medicines from the essential list; Shortcomings in the capital investment management; Shortcomings in the calculation of night shifts.
Prishtina	79,32	Accounts receivable were not accurately and completely disclosed; presentation of undervalued stocks	Incomplete addressing of OAG recommendations; Shortcomings in the debts collection; Low level of budget execution; Poor management of construction contracts; Expenditures not registered in the adequate economic codes; Weak performance eIAU.
Ministry of Environment and Spatial Planning	61,15	Fixed Assets Registry is still not fully reliable	Incomplete addressing of OAG recommendations; Shortcomings in the procurement management; Advance payments paid without insurance coverage; Lack of accurate and complete assets registry.

OFFICE OF THE AUDITOR GENERAL

University of Prishtina	27,16	Disclosed information on assets was incomplete	Shortcomings in revenues reporting; Poor procurement management; Shortcomings in the payment of salaries, i.e. sanctions not applied for not attended classes.
Ministry of Agriculture, Forestry and Rural Development	26,16	Fixed Assets Registry is still not fully reliable.	Incomplete addressing of OAG recommendations; Shortcomings in the subsidies management; Lack of accurate and complete assets registry.
Ferizaj	22,18	Information disclosed on assets was not complete and accurate.	Incomplete addressing of OAG recommendations; Procurement contracts signed without sufficient funds committed; Intentional spilt up of tenders for avoiding procurement procedures; Shortcomings in collection of old debts from property tax.
Gjakova	20,12	Fixed Assets Registry is still not fully reliable	Incomplete addressing of OAG recommendations; Incomplete registration of non-financial assets; Shortcomings in reporting and collection of revenues; Incompliance with LPP; Lack of policies and procedures for subsidies; incomplete registration of properties.
Peja	19,79	Fixed Assets Registry is still not fully reliable	Shortcomings in the budget planning and use; Shortcomings in the recruitment process; Lack of internal regulation on subsidies; Irregular certification of payments; Shortcomings in the procurement process.
Ministry of Culture, Youth and Sports	19,45	Improper explanation on funds transferred to subordinate institutions and inaccurate disclosure of liabilities	Key shortcomings are noticed at the communication lines, and unclear competences and responsibilities between the Ministry and subordinate institutions; Shortcomings in the budget planning and execution; Shortcomings in the Human Resources Management.
Gjilan	19,11	Incomplete registration of assets in the KFMIS	Weak planning and collection of own source revenues; Weaknesses during expenditures; Weak management of accounts payable and contracts on works and supply.
Mitrovica	19,02	Fixed Assets Registry is still not fully reliable	Shortcomings in the procurement management; Lack of regulations on subsidies; Shortcomings on collection of revenues; Assets evaluation and inventory commissions not established.

ANNUAL AUDIT REPORT 2012

Ministry of Justice	18,68	Information disclosed on assted was not complete and accurate.	Shortcomings in budget planning and execution; Poor procurement planning; Poor controls over reporting of outstanding liabilities; Shortcomings in personnel management; Irregular certification of payments; Incomplete and inaccurate assets registries.
Ministry of Foreign Affairs	16,52	KDMs Expenditures on goods and services of were not approved by MFA	Incomplete addressing of OAG recommendations; Poor procurement planning; Irregular certification of payments; Shortcomings in personnel management; Weaknesses in vehicles management; Shortcomings in the reporting of revenues and expenditures of KDMs.
Vushtrri	13,20	Fixed Assets Registry and third party payments is not fully reliable.	Incomplete addressing of OAG recommendations; Poor planning of revenues; Shortcomings in procurement management.
Central Election Committee	11,14	Information disclosed on fixed assted was not complete and accurate	Incomplete addressing of OAG recommendations; Poor planning of expenditures; Capital projects not processed through PIP; Self-assessment checklists not filled out; Shortcomings in the procurement process; Shortcomings in the expenditures on wages and salaries; Shortcomings in the assets management; Failure to audit financial reports of political parties for 2011; Annual Financial Reports of political parties for 2012 not published on the website;
Skënderaj	10,79	Information disclosed on assted was not complete and accurate	Weak planning and collection of own source revenues; Departure from public procurement procedures;
Rahovec	10,50	Information disclosed on assted was not complete and accurate	Incomplete addressing of OAG recommendations; Payment made from capital investments category without procurement procedures; Weak control over rented properties.
Malisheva	10,21	Information disclosed on assted was not complete and accurate	Weak planning and collection of own source revenues; Departure from public procurement procedures;
Viti	8,48	Disclosed information on assets and third parties payments did not comply with the respective registers	Weak planning and collection of own source revenues; Departure from public procurement procedures

OFFICE OF THE AUDITOR GENERAL

Kamenica	8,09	Information disclosed on assted was not complete and accurate	Non-reconciliation and weak planning and collection of own source revenues; Departure from public procurement procedures.
Klinë	7,51	Information disclosed on assted was not complete and accurate	Weak planning and collection of own source revenues; Departure from public procurement procedures.
Graçanica	7,43	Information disclosed on fixed assted was not true and complete	Poor planning of revenues; Lack of a clear regulation on allocation of subsidies; Incomplete and inaccurate assets registries.
Deçan	7,15	Disclosed information on assets and third parties payments did not comply with the respective registers	Weak planning and collection of own source revenues; Departure from public procurement procedures;
Fushë Kosova	7,04	Capital Investments were overvalued by €149,608. Disclosure on assets and stocks were not accurate.	Shortcomings in planning of revenues; Weak controls over expenditures; Weak functioning of IAU.
Dragash	5,93	Disclosed information on assets and third parties payments did not comply with the respective registers	Weak planning and collection of own source revenues; Departure from public procurement procedures.
State Prosecutor	5,43	Information disclosed on fixed assted was not complete and accurate	Shortcomings in the salaries sector; Lack of controls in calculation of salaries of employees on maternity leave; Shortcomings in assets management.
Obiliq	5,02	Fixed Assets Registry is not fully reliable	Payments from inadequate codes; Departure from procurement procedures.
Shtërpca	4,35	Incomplete fixed assets registry	Weak planning of own source revenues; Shortcomings in the procurement; Shortcomings in spending of funds.
Aministration In North Mirovica	2,94	Fixed Assets Registry is still not fully reliable.	Non fulfilment of external reporting requirements; Weak planning and collection of own source revenues; Information on assets not disclosed in the AFS; Departure from procurement procedures; Assets not recorded.
Novo Bërda	2,66	Fixed Assets Registry is not fully reliable	Incomplete addressing of OAG recommendations; Shortcomings in the collection of debts; Shortcomings in the procurement process.

ANNUAL AUDIT REPORT 2012

Presidents Office	2,60	Disclosed information in the AFS regarding the assets value were incomplete and inaccurate.	Poor procurement planning; Shortcomings in assets management; Unfair classification of expenditures; Delayed closing of advance payments.
Hani i Elezit	2,01	Information disclosed on assets was not complete and accurate	Weak controls in revenues management.
Junik	1,61	Information disclosed on assets was not complete and accurate	Weak planning and collection of own source revenues; Departure from procurement procedures.
Partesh	1,39	Fixed assets registry, accounts receivables, and Stocks is still not fully reliable	Lack of records on assets; Shortcomings in the procurement process.
Klllokot	1,08	Fixed Assets Registry is still not fully reliable	Incomplete addressing of OAG recommendations; Poor planning of revenues; Procurement procedures not adhered to.
Independent Media Commission	0,98	The amount of €31,090 not presented as contingent assets.	Irregular payments to staff; Contingent assets not disclosed; Incompliance with LPP; Irregular remuneration of working groups for the drafting of digitalisation strategy; Shortcomings in petty cash management.
Data Protection State Agency	0,30	The Agency has disclosed fixed assets value in the AFS but did not register the assets in the KFMIS.	Fixed assets not recorded in the KFMIS; Procurement plan not prepared; Poor planning of expenditures; Self-assessment checklists not filled out; Advance payments for abroad official travels not closed; Poor management of debts.
Election and Complaint Panel	0,26	Information on assets under €1000 was not complete and accurate	Poor budget planning; Incompliance with LPP.
Kosova Competition Authority	0,25	The value of non-capital assets under €1,000 not disclosed in the AFS and contingent assets were wrongly disclosed as contingent liabilities	Incomplete addressing of OAG recommendations; Self-assessment checklists not filled out; Expenditures not registered in the adequate economic codes; Supply with mobile phones top-ups without a contract in place; Job vacancies not manned; Poor vehicles management; Expenditures under €1000 not recorded.

Table 4: Qualified Opinions

Auditees	Final budget (mil. euro)	Reason for qualification of opinion (issues with material impact)	Key management shortcomings
Privatisation Agency of Kosova	8,08	Payment for professional liquidation expenditures not presented in the AFS	OAG recommendations not addressed; Poor budget planning; Payment of liquidation services from the funds of SOEs under liquidation; Incompliance with LPP; Irregular certification of payments; Lack of policies on remunerations; Recruitment criteria not adhered to; Job positions restructured without adhering to procedures.
Privatization Fund	0,00	Payment for professional liquidation expenditures without a clear legal basis	OAG recommendations not addressed Delayed selection of the Board of Directors; Use of fund of SOEs under liquidation before the liquidation of enterprises; Activation of trust funds not in a satisfactory level; Distribution of 20% to the employees was not in accordance with the defined rules; Lack of written criteria when requesting extension of deadline and extension of deadline for verification of SOE buyers' past.

Table 5: Qualified Opinions with emphasis of matter

Auditees	Budget (000 euro)	Reason for qualification of opinion (issues with material impact)	Key management shortcomings
Prizren	33,17	Third party payments not presented; Donations not presented	Incomplete addressing of OAG recommendations; Procurement procedures not adhered to; Lack of a clear basis for construction licenses
Drenas	10,42	Incomplete own source revenues and third parties payments were not presented in the AFS. Emphasis of matter: information presented in the disclosures of assets and stocks were not accurate.	AFS not in compliance with FR no. 07/2011 and IPSAS; Incomplete addressing of OAG recommendations; Weak execution of budget on revenues and high level of receivables; Lack of a clear basis for construction licenses and rented properties; Entry into contractual obligations without approved budget.
Istog	8,24	Own source revenues unfairly presented and third parties payments not presented at all in the AFS	Shortcomings in collection of own source revenues; Lack of regulations on subsidies; Poor controls in the processing of payments; Assets Accounting Registry incomplete and inaccurate.

ANNUAL AUDIT REPORT 2012

Kaçanik	5,91	Disclosed information on assets and third parties payments did not comply with the respective registries	Weak planning and collection of own source revenues and departure from public procurement procedures.
Mamusha	1,15	Assets disclosure and presentation of receivables	Weak planning and collection of own source revenues and departure from public procurement procedures
Trepça	0,00	Inaccurate and incomplete assets disclosure. Lack of comparable information from previous year and non presentation in the AFS of taxes and contributions for Trepça north. Emphasis of matter: Missing information on contingent liabilities as well as non disclosure of mineral reserves.	Lacking quality of information in the AFS; poor budget planning; Shortcomings in the procurement planning and management; Shortcomings in the personnel management; Shortcomings in debts collection; Transactions not registered in time and not fairly; Incomplete and inaccurate assets registries.

Table 6: Disclaimer of Opinion

Auditees	Final budget (mil. euro)	Reason for Disclaimer of Opinion
Leposaviq	2.96	AFS not presented
Zubin Potok	1,99	AFS not presented
Zveçan	1.88	AFS not presented