

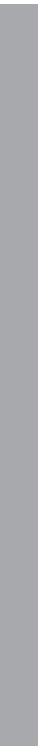


REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA/REPUBLIC OF KOSOVA  
ZYRA E AUDITORIT TË PËRGJITHSHËM/KANCELARIJA GENERALNOG REVIZORA  
/OFFICE OF THE AUDITOR GENERAL

# RAPORTI VJETOR I AUDITIMIT GODIŠNJI IZVEŠTAJ REVIZIJE ANNUAL AUDIT REPORT



Prishtine, Gusht 2015



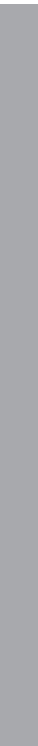


REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA/REPUBLIC OF KOSOVA  
ZYRA E AUDITORIT TË PËRGJITHSHËM/KANCELARIJA GENERALNOG REVIZORA  
/OFFICE OF THE AUDITOR GENERAL

# **ANNUAL AUDIT REPORT**

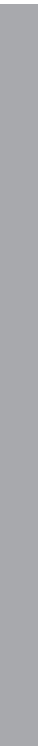
**FOR THE YEAR ENDED  
ON 31 DECEMBER 2014**

Prishtina, 31 July 2015



## TABLE OF CONTENT

Foreword of the Auditor General.....	7
<b>1.</b> Introduction.....	9
<b>2.</b> External Audit and Accountability.....	10
<b>3.</b> Annual Financial Report for the Kosova Budget.....	12
<b>4.</b> Addressing of previous years recommendations.....	25
<b>5.</b> Good Governance.....	29
<b>6.</b> Procurement.....	39
<b>7.</b> Challenges faced by the institutions.....	43
<b>8.</b> Performance in specific areas.....	47
<b>Annex I:</b> Different types of opinions applied by the Auditor General.....	53
<b>Annex II:</b> Audit opinions and key managerial shortcomings.....	55
<b>Annex III:</b> Recommendations given in the 2013 AAR.....	72



## FOREWORD OF THE AUDITOR GENERAL

*Honourable Members of the Assembly,*



It is my pleasure to submit the Annual Audit Report for the financial year 2014. I hope it shall be of use to You, Deputies of the fifth Legislation, as well as the Government and the society at large, in overcoming the challenges faced by the limited budget and the EU integration ambitions.

This report covers the Government's implementation of the 2014 budget and the Annual Financial Statements of the Kosova Budget for that period. We have continued to address our core mission of providing a base for holding public spending managers to account and contributing to improvements in the Public Financial Management field.

Considering that during 2014 there was a gap in the functioning of the Assembly and its Committees, we placed a major focus on the follow up of previous year's recommendations. Despite the fact that progress has been made over the years in the implementation of our recommendations, a considerable number continue to be repeated.

Besides a small number of public institutions placed outside our audit mandate, we have continued to carry out statutory regularity audit of Annual Financial Statements of all, from the Kosova Budget to very small entities, as well as some donor funds. We have also carried out a number non-statutory performance audits looking into the economy, effectiveness and/or efficiency of use of public funds.

The work we carry out has provided us with in-depth knowledge and understanding of entities and public sector activities, and enables us to give recommendations to promote good governance and improve financial management.

We continue to strongly abide by the six basic principles we have articulated, relevant to the external audit and the oversight of how public funds are used. Those are:

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

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

**Value for money** – Public entities should use resources effectively, economically, and without waste, with due regard for the total costs and benefits of an arrangement, and its contribution to the outcomes the entity is trying to achieve.

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

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

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

Despite the progress mentioned there are a number of shortcomings that need to be addressed. The problems that arose due to misclassification of expenditure have qualified the opinion of the Kosovo Budget Annual Financial Statements. The budget deficit was reported over the ceiling determined by the Law on Public Financial Management and Accountabilities.

These call for higher level of attention in the planning stage, which would allow institutions to carry out their business in accordance with their needs and report in true and fair way. The government should also be attentive to the budget deficit ceiling.

the implementation of the necessary financial management systems and mechanisms. To achieve a higher impact of the public funds spent improved and more advanced internal reporting systems, should be put in place, especially in the local government.

There should be more focus on maximising outputs and achieving results reflected in decision making and political priorities. The stated priorities should be accompanied with the required resources. In producing the required budget savings consideration should be given in applying economy of scale, or addressing possible structural changes.

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

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

Pristina, 31 August 2015



Artan Venhari  
*Acting Auditor General*



# 1. INTRODUCTION

During the 2014/15 audit season we produced a range of audits: 89 statutory regularity audits, eight audits of donor funds and nine non statutory performance audits. All in all, 106 audit reports were submitted to the Assembly . The recommendations given focused towards better quality in external financial reporting, enhanced Financial Management and Control and improvements in public services.

Our audit approaches together with a constructive support to the audited institutions allowed early action to address weaknesses and further develop good governance.

This report summarises the results of our 2014 audits and highlights key issues and common themes that the Government, Assembly or Municipal Assemblies should actively address. The effective management of addressing the Auditor General's recommendations is a key mechanism by which BOs develop their governance arrangements. Over the years we have noticed progress in this regard. The Government and Assemblies have a crucial role in supporting this process.

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

The 2013 Annual Audit Report was submitted to the Assembly in the beginning of September. Due to the institutional crisis it was considered in the COPF as late as in April and presented by the Auditor General in Assembly plenary session in May 2015. We expect that the process this year will be finalised before the Governments budget proposal for 2016 is submitted to the Assembly in late October. To support an effective review of our finding we have organised the report as follows:

- Chapter 2** - External Audit and Accountability;
- Chapter 3** - The Kosova Budget Annual Financial Report;
- Chapter 4** - Addressing recommendations given earlier years;
- Chapter 5** - Good Governance;
- Chapter 6** - Procurement;
- Chapter 7** - Challenges in Budget Organisations; and
- Chapter 8** - Performance in specific areas

The report also has three appendices. The first explains the different opinions given by the Auditor General in the regularity audit. The second specifies the opinions given and the reason behind. In addition significant audit findings in the audited institutions are summarised.

Individual audit reports can be found on our website [www.oag-rks.org](http://www.oag-rks.org). The third specifies how the recommendations given in the Annual Audit Report 2013 have been addressed

## 2. EXTERNAL AUDIT AND ACCOUNTABILITY

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

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

Within the Kosova Public Sector, external audit is provided by the Office of the Auditor General (OAG) as a Supreme Audit Institution (SAI). Our primary purpose is to help Assembly hold Government and executive institutions to account for the way public money is used and reported, thereby safeguarding the interests of citizens. Our work aims to help those working in the public services to improve good governance, performance and service delivery.

We support the accountability process by carrying out:

Regularity Audit – a combination of Financial Audit (confirming whether financial information in the Annual Financial Statements is accurate and consistent with the financial reporting framework) and Compliance Audit (confirming if processes and transactions are in compliance with relevant laws and regulations); and

Performance Audit – confirming whether institutions, projects or programmes deliver economy, efficiency and/or effectiveness in the use of resources. Our reports, including this Annual Audit Report, promote accountability between the Assembly, Government and public institutions as well as at the individual institutional level. The publication of all of our reports allows citizens to hold the custodians of public resources accountable.

The number of reports considered by COPF has earlier demonstrated enhanced accountability within the public sector, a development trend broken 2014 due to the challenges in forming an Assembly. Alongside this we provided advice on a range of issues supporting developments in Financial Management and Control (FM/C).

Enhanced accountability is increasingly important given the challenges faced by the scarce budget situation and the EU integration ambitions. Managers must clearly demonstrate that they understand evolving governance requirements and associated accountability initiatives that need to be implemented. Our activities are increasingly directed to supporting this issue alongside other institutions and developing Public Internal Financial Controls (PIFC) and Public Financial Management (PFM) in general.

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

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

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

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

### 3. ANNUAL FINANCIAL REPORT FOR THE KOSOVA BUDGET

#### Overall Conclusion

The Ministry of Finance (Mof) consolidated the Annual Financial Statements of the Kosovo Budget for 2014 in line with IPSAS "Financial Reporting under the Cash Basis of Accounting". However, ineffective controls when preparing the budget resulted in a material value of misclassification of expenditures presented in the financial statements. This mainly relates to classification of Goods and Services as well as Subsidies and Capital Investments. Furthermore, the quality of information in disclosures needs to be enhanced to clearly identify accounts receivable, accounts payable and domestic public debt at the state level.

The Auditor General's opinion is that:

In our opinion the Annual Financial Statements of the Kosova Budget present a true and fair view in all material aspects, except for the following issue:

€24,470,260€ of goods and services and subsidies and transfers expenditure was misclassified as Capital Investments. This arose partially because of a direction from the Ministry of Finance which resulted in incorrect budgeting and partially because of inappropriate action by individual budget organisations in the classification of expenditures.

**(ISSAI 200/1705: Qualified Opinion).**

Further on, MoF disclosed an overspending of the budget ceiling in the Annual Financial Statements for the Kosovo Budget. LPFMA<sup>1</sup> determines a budget overspending ceiling of 2% of the projected GDP. However, our review reveals that the overall budget overspending was 2.59%. As such, the budget overspending ceiling was exceeded with 0.59%. Further on, intergovernmental transactions are not consolidated in KB/AFS resulting in overstatement of €4,335,251.

It is worth mentioning that the expenditure structure was subject to significant changes in 2014. Expenditures for Wages and Salaries increased by 16% whilst expenditures for Capital Investments reduced by 22%. Reduction of capital expenditures and increase of operating expenditure does not assist the country's economic development. Debts at the state level have not been handled with due seriousness. Another concern is the low collection level of revenues from taxes, return of loan from KEK and continuous increase of arrears by Budget Organisations (BOs).

Further on, controls within the budget process were insufficient partially due to the political stalemate. Although, the budget execution in general was at the proper level, the budget process for capital investments and goods and services should be further developed. Further on, inadequate controls in managing payments resulted in increased trend of carrying out payments from court decisions and direct decisions from the Treasury.

---

<sup>1</sup> Law on Public Financial Management and Accountability (no. 04/L-194 on amending and supplementing Law no. 03/L-048

These and other weaknesses mentioned in the report reduce the transparency and effectiveness of financial reporting at a time when international partners expect a more effective financial management. In particular, EU integration aspirations require an effective accounting regime.

### **3.1 INTRODUCTION AND AUDIT APPROACH**

The KB/AFS summarises the transactions related to virtually all Government activities<sup>2</sup>. The MoF should, on behalf of the Government, submit the KB/AFS for the fiscal year no later than 31st of March of the following year. These should be drafted on the basis of the overall framework established from the LPFMA and in compliance with the International Public Sector Accounting Standards (IPSAS) for “Financial Reporting under Cash basis of Accounting”.

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

Our audit has been focused on:

- The Statement of receipts and payments in cash, the Consolidated statement of the of budget comparison with the execution and the Consolidated statement of assets in cash and balance of funds;
- Whether these financial statements present, in all material aspects, a true and fair view of finances and the financial situation for the audit period; and
- Whether adequate measures are undertaken by the Government for implementing the recommendations of the Auditor General (AG) for 2013 and earlier years

The audit of the 2014 KB/AFS was undertaken in accordance with the internationally recognised Public Sector auditing standards (ISSAIs) issued by INTOSAI. Our audit approach is based on a thorough understanding of the process by which the KB/AFS is produced. This allowed us to develop an audit strategy which focused on addressing specific risks to an unqualified opinion whilst providing sufficient audit assurance across the financial statements as a whole.

The approach undertaken was presented in the Audit Planning Memorandum submitted to the MoF on February 2015 and reflects an assessment of the results of the audits of the BOs which are consolidated in the KB/AFS.

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

---

<sup>2</sup> Includes activities of Central Bank, Kosovo Trust Fund, Kosovo Intelligence Agency

## 3.2 AUDIT OPINION

In our opinion the Annual Financial Statements of the Kosova Budget present a true and fair view in all material aspects, except for the following issue:

€24,470,260 of goods and services and subsidies and transfers expenditure was misclassified as Capital Investments. This arose partially because of a direction from the Ministry of Finance which resulted in incorrect budgeting and partially because of inappropriate action by individual budget organisations in the classification of expenditures.

**(ISSAI 200/1705: Qualified Opinion).**

## 3.3 SIGNIFICANT RISKS TO THE ANNUAL FINANCIAL STATEMENTS

In KB/AFS of 2014 we identified a material risk of presenting expenditures within incorrect economic categories. Ineffective processes in budget planning and execution for 2014 have resulted in a material value of misclassifications. These mainly relate to the classification of goods and services and subsidies as Capital Investments. Consequently, capital investments are overstated and goods and services and subsidies are understated. The total value of misclassification of expenditures in all BOs is €24,470,260. €15,669,042<sup>3</sup> was wrongly budgeted by MoF while the rest were wrongly budgeted by BOs.

## 3.4 ANNUAL FINANCIAL STATEMENTS FOR KOSOVA BUDGET 2014

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

This incorporates assertions relating to compliance with the reporting framework and the quality of information within the financial statements. This is intended to provide assurance to the Government that all relevant information has been provided to ensure that a comprehensive audit can be undertaken.

MoF submitted the KB/AFS within the required timeframe of 31st of March 2014. The KB/AFS have met all the requirements of IPSAS "Financial Reporting under the Cash Basis of Accounting". However, expenditures of capital investment, goods and services and subsidies are not classified in the adequate economic categories.

Given the above -the Declaration made by the MoF Minister and Treasury Director General can be considered true and fair with the exception of misclassification of expenditures.

---

<sup>3</sup> School books in the Ministry of Education Science and Technology in the amount of €10,035,353; Road Maintenance in the Ministry of Infrastructure €5,715,302; Vaccines for animals in the Prime Minister Office €1,548,272; Bank provisions in the Ministry of Finance €1,061,881

### 3.4.1 OTHER CONSOLIDATION ISSUES TO ANNUAL FINANCIAL STATEMENTS

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

**Third Party Payments** - In 2014, MoF produced clear guidelines for reporting third party payments. All third party payments should be recorded in KFMIS and reported in the AFS of KB. In this regard, every agreement reached between BOs and donors either on direct payments or payments through Treasury should be previously submitted to Treasury for recording. BOs have not done this in some cases. Therefore, the value of third party payments (donations) presented in the AFS/KB has been understated for around €4,500,000. Only €2,288,000 has been reported in the AFS/KB compared to the total value of €6,895,614 reported in the individual AFS of BOs.

**Intergovernmental Transactions** - are not consolidated in the KB/AFS resulting in overstatement of €4,335,251 of the values these transactions have. The same occurred in previous years. The Treasury continues not to perform consolidation of intergovernmental transactions for the sake of keeping consistency and comparability with the information reported in the previous years.

**Financial Data** - KB/AFS does not contain sufficient information for accounts receivable at the state level, accounts payable and domestic public debt. This information would increase the quality of KB/AFS, helping readers of KB/AFS to better understand tendencies and the financial position of the budget for the current year and comparison of this against previous years.

**Classification of Expenditures** -, Membership fee for IFIs<sup>4</sup> /European Bank for Reconstruction and Development in the amount of €717,000 was wrongly recorded and reported in the KB/AFS in category of goods and services. This should be recorded and reported in Note 27, Membership fee for IFIs, to reflect the full amount of payments for membership to IFI.

Further on, expenditures in value of €47,714,405 were wrongly recorded and reported in the economic code of "Other Capital". These expenditures incurred for purchases of computers, software development, repair and renovation of buildings, maintenance of roads, supply of consumables, supply of books etc. However, this was considered by Treasury in 2015 and it made the Other Capital code inactive.

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

---

<sup>4</sup> International Financial Institutions



### 3.4.2 AUDIT OPINIONS ON INDIVIDUAL 2014 AFS

We have carried out the statutory regularity audit of AFS for 90 BOs. In addition, two organisations<sup>5</sup> outside the budget. Opinions given for each BO within the budget are reflected in the audit opinion of KB/AFS. The opinions given are as follows:

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

Auditees / Opinions	Unmodified opinions	Unmodified Opinion with Emphasis of Matter	Qualified Opinion	Qualified Opinion with Emphasis of Matter	Disclaimer of Opinion	No. Opinions
Central level	11	10		3		24 <sup>6</sup>
Municipal level	1	17	2	14	4	38
Independent Agencies	22	4	1	1	0	28
Outside budget	2					2
<b>Total</b>	<b>36</b>	<b>31</b>	<b>3</b>	<b>18</b>	<b>4</b>	<b>92<sup>7</sup></b>

The impact of these opinions on the KB/AFS is material as noted in 3.3 above. Other issues relating to assets and third party payments did not materially affect the KB/AFS. For more details regarding audit opinions for each BO, refer to Annex 2

### 3.5 STATEMENT REGARDING THE ASSESSMENT COMPLIANCE OF BUDGET OVERSPENDING CEILING 2014

Based on LPFMA no. 04/L-194<sup>8</sup>, the audit of KB/AFS should include an assessment of compliance with the budget overspending ceiling which should not exceed 2% of projected GDP<sup>9</sup>.

We have reviewed the processes within the MoF for the requirements of this law related to the budget overspending ceiling to enable us to give a statement regarding compliance with the budget overspending ceiling as well as legal conditions and requirements. Our assessment highlighted that the controls in preparing the budget for 2014 did not operate as intended. As a result, the Law on appropriations was approved with an excess of budget overspending ceiling.

According to the LPFMA, the overall budget deficit should not exceed 2% threshold of GDP. Budget law for 2014 as approved by the Assembly allowed budget deficit of 2.59% of GDP whereby exceeding the set ceiling for 0, 59%. At the end of 2014, actual deficit was 2, 23% of GDP.

<sup>5</sup> TAMAD and Joint Education Fund

<sup>6</sup> Ministries include the Opinions of the Assembly, the Office of the President, Office of the Prime Minister, Customs and Tax Administration of Kosovo.

<sup>7</sup> Difference between the number of institutions and opinions given is that the Auditor General is obliged to give two separate opinions for PAK, one for institution and one of the Privatisation Fund

<sup>8</sup> LPFMA no. 04/L-194 on amending and supplementing Law no. 03/L-048 on Public Financial Management and Accountability, as amended by Law no. 03/L-221 and no. 04/L-116

<sup>9</sup> According to the Budget Law 2014 the projected GDP for 2014 was €5,509,000,000.



As per requirements set by LPFMA, for the purpose of measuring compliance with the overspending ceiling (calculating deficit) we have not considered the following items:

- the budget financing from internal and external borrowings,;
- the expenditures of Privatisation Agency of Kosovo; and
- the expenditures that may result from spending revenues of the central and municipal level carried forward from the previous year.

**Table 2 the budget overspending 2014**

	Budget 2014 €'000	Outturn 2014 €'000
<b>Revenues</b>	1,456,652	1,332,822
Tax revenues	1,264,127	1,141,157
<b>Revenues from customs</b>	934,109	870,978
Returns from Customs	(3,729)	(2,408)
<b>Domestic revenues</b>	367,306	303,695
Returns from TAK	(33,558)	(31,108)
Non-tax revenues	47,799	47,386
Royalties	22,000	26,539
Own source revenues	117,226	97,446
Central Level	50,000	36,490
Municipalities	67,226	60,955
Dividend	-	15,000
Concession fee	5,500	5,293
<b>Expenditures</b>	1,589,325	1,463,523
Wages and Salaries	487,161	485,247
Goods and Services	255,411	205,756
<i>(out of which utilities)</i>	27,092	22,099
Subsidies and Transfers	314,099	361,160
Capital expenditures	530,476	411,360
Reserve	2,177	-
<b>Primary overspending/underspending</b>	(132,673)	(130,701)
Interest payments	(17,000)	(12,462)
<b>Overall overspending (fiscal rule)</b>	(149,673)	(143,163)
<b>Expenditures from carried forward own source revenues</b>		15,241
PAK expenditures	7,000	5,443
<b>Overall overspending/underspending</b>	(142,673)	(122,479)
<b>Overall overspending/underspending in %</b>	-2.59%	-2.23%

In KB/AFS, the Government presented the statement of the calculating the budget overspending, but no explanatory notes on the causes of exceeding the budget overspending ceiling were given.

## 3.6 ANALYSIS OF THE ANNUAL FINANCIAL STATEMENTS AND DISCLOSURES 2014

The data presented KB/AFS are a reflection of receipts and actual payments and the corresponding budget appropriations.

The Government, through the decisions during the year made adjustments and transfers within the programs and economic categories at BOs. The budget process from year to year continues to be followed with various shortcomings in all its phases of budgeting, execution and monitoring. We have analysed three main statements of the Annual Financial Report of the Kosova Budget including the information disclosed.

### 3.6.1 ANALYSIS OF THE ANNUAL FINANCIAL STATEMENTS

#### Consolidated Statement of comparison of budget with execution

The final budget for receipts was the same as initial budget, whilst the final budget for payments in relation to the initial budget was higher for €34,871,000.

Table 3 Initial budget and receipts in relation to payments

(000 në €)

Description	Initial Budget	Final budget	Outturn 2014	Outturn 2013	Outturn 2012
Receipts	1,641,545	1,641,545	1,448,957 <sup>10</sup>	1,428,704	1,537,955
Payments	1,627,945	1,655,921	1,498,400 <sup>11</sup>	1,500,176	1,466,457
Over/underspending	13,600	-14,376	-49,443	-71,472	71,498

Key issues from our analysis are the following:

- The planned overspending for 2014 was 14,376,000 whilst the actual overspending was €49,433,000. The annual overspending is 3.4% of total annual revenues and is financed from the underspending accumulated over the years.
- Receipts of 2014 compared with 2013 increased by €20,253,000 or 1.4%. The increase was a result of increased tax revenues, financing from borrowing and increasing of own source revenues. Revenues from dividends decreasing by €28,000,000 compared with 2013. However receipts were 12% less than planned. The reason for this is that the Tax Authority (TAK) did not manage to fully meet its plan.
- The planned customs revenues for 2014 were €930,380,000, and €868,570,000 was collected or 93.3% of the plan. In relation to 2013 there was an increase of €34,490,000<sup>12</sup> or 4.14%. The increase resulted from external border excise duty of €17,083,000 which increase resulted from the increase in quantity of fuel import, import of beer and increase of excise duty on tobacco compared with previous year.

<sup>10</sup> Total of receipts do not include receipts from GDP of €12,092,000 and receipts from deposits €1,529,000

<sup>11</sup> Total of payments do not include payments from GPD in the amount of €11,462,000 as well as returns from deposits funds in the amount of €993,0004

<sup>12</sup> This increase is due to the excise in the border €17,083,000, Value Added Tax €11,665,000, and the increase in duty fee revenues of €6,195,000

- Projected revenues from TAK for 2014 were €333,748,000, and €272,587,000 were collected or 82% of plan was executed. The low level of revenue collection is explained by a decline in foreign direct investment and government capital investments, which in 2014 were reduced with €121,770,000. As a result of this a chain impact was caused with a lower number of contracts to economic operators and their subcontractors, followed by a reduction of VAT in relation to the plan.
- TAK's concern remains a high level of uncollectable debts, which were €277,823,490 at the end of 2014. Compared with 2013, we have an increase by €24,326,786 or 10%. Additional challenge to this will be The Government decision and the subsequent law on the debt forgiveness.

## Analysis of cash payments

Table 4 Final budget and outturn for 2014<sup>13</sup>

Description	('000 in €)				
	Buxheti final	Realizimi 2014	% e Realizimit	Realizimi 2013	Realizimi 2012
Wages and Salaries	496,489	485,247	97,7%	417,093	407,706
Goods and Services	213,396	183,658	86%	193,857	169,362
Utilities	25,346	22,099	87,1%	21,662	21,558
Subsidies and Transfers	367,326	361,160	98,3%	312,916	280,120
Capital Expenditures	514,743	411,360	80%	529,176	550,245
Reserves	-	-		-	-
<b>Sub-total</b>	1,617,300	1,463,525	90,4%	1,474,704	1,428,991
Debt payment	38,620	34,877	90,3%	25,472	21,416
Borrowings for POEs	-	-		-	15,000
Membership I IFIs	-	-		-	1,050
<b>Sub-total</b>	38,620	34,877	90,3%	-	37,466
<b>Total</b>	1,655,920	1,498,400	90,4%	1,500,176	1,466,457

Key issues from our analysis are the following:

- Compared with 2013, the structure of expenditures has undergone significant changes in 2014. 2014 expenditures reflect the Government decision to increase salaries by 25% from 1st of April and reduced Goods and Services by 15%. This and the increase in subsidies and transfers has meant that capital expenditure has significantly reduced. Expenditures for wages and salaries increased in the amount of €68,154,000 or 16.3%, subsidies and transfers increased by €48,244,000 or 15.4%. Meanwhile, expenditures for Capital Investments reduced by €117,816,000 or 22.2%. Debt payments increased also by €9,405,000 or 36.9%;
- BOs both at central and local level did not execute annual budget in line with cash flow plan. 39% of total capital payments for the central level and 31% of capital payments for the local level occurred in the end of the year, respectively November and December. The voluminous number of cases for processing in the end of the year end resulted in deficient controls in BOs related to completion and certification of payments;

<sup>13</sup> Designated donors grants payments are not included

- Budgeting of Wages and Salaries at the central level was not good. According to the Law on Budget Appropriations no. 04/L-233, the budget for wages and salaries was €496,489,000. Out of these, €265,917,147 was for the central level for 37,405 planned employees. The actual number for 2014 was 35,596. The budget for this level was spent almost at 100% and if all planned officials would have been employed, the budget would have been insufficient;
- The final budget for 2014 Capital investment was €514,743,000, whilst the execution was €412,920,000 or 80% of the plan. Capital projects at both central and local level were not executed according to plan. Reduction of capital investments in 2014 is mainly related to the finalisation of the motorway project R-7 (road infrastructure) and non-execution of capital projects by BOs. This caused difficulties in meeting operational plans and objectives of BOs which also had an impact in reducing the investments in the private sector. Non-execution of projects in the public sector may have a negative impact on the activity of private companies executing these projects;
- The total value of grants received for 2014 was €23,999,000<sup>14</sup>. Grants were not used to a satisfactory level. €13,751,000 were spent 2014. Balances of unspent grants have increased over the past three years. Carrying forward unused funds from year to year show that these funds are not sufficiently managed nor used for the intended purposes. This increases the risk that future donor grants are reduced as they are seen as not being actively managed; and
- Unlike in 2013, in 2014 we have a different situation to the location or movement of funds from 2013. The balance of funds in the key account in the end of 2013 was €12,900,000 whilst in the end of 2014 the balance of these funds was €90,481,000. The Minister of Finance in accordance with the Law no. 04 / L-233 on Budget allocated €46,000,000 as funds for maintaining emergency assistance for liquidity and increased funds in the central bank account for €31,743,000 in relation to 2013.

### **3.6.2 DISCLOSURE OF NON-FINANCIAL ASSETS AND OUTSTANDING LIABILITIES**

Key issues from our analysis are the following:

#### **Non-financial assets**

Public asset management is an important part of Financial Management and BO's challenges considered further in the following chapters. The consolidation and reporting of assets is improved compared with previous year.

According to KB/AFS, the net value of capital assets was €4,942,348,487 consisting of €2,105,236,669 from Central BOs and €2,837,111,818 from local level BOs. The value of capital assets disclosed in KB/AFS was the same with assets disclosed in AFS of BOs

The net value of non-capital assets is €48,103,836 consisting of €31,379,487 from Central level BOs and €16,724,349 from local level.

<sup>14</sup> This includes grants carried forward from previous year

## Outstanding liabilities

Outstanding liabilities of BOs at the end of 2014 were €165,387,912 - €148,200,865 belong to the central level and €17,157,439 to the local level. This value was carried forward to be paid in 2015. Compared with 2013, liabilities increased by €111,731,584.

**Table 5 Outstanding liabilities**

(000€)

Description	2014	2013	2012
Central level	148,199,227	29,940,831	13,875,768
Local level	17,188,685	23,685,889	12,811,832
Total	165,387,912	53,626,720	26,687,600

Compared with 2013, liabilities increased as a result of increased liabilities in the Ministry of Environment and Spatial Planning (MESP). MESP's unpaid liabilities for 2014 were €114,390,183. Out of these, €113,802,657 are liabilities created from the Government's decisions on expropriations for 2010-2014. €587,526 was unpaid invoices for the category of Goods and Services and Capital Investments.

Liabilities as a result of expropriation were not settled due to failure by private beneficiaries of expropriation to apply for payment and in absence of sufficient budget for payments. The ownership in considerable number of other cases was subject to dispute and there were no applications for payment for these properties.

Outstanding liabilities in central level, excluding MESP, in 2014 were €34,396,570 where the value of €18,724,025 is outstanding liabilities which belong to the Ministry of Agriculture and Rural Development (MARD). These liabilities related to subsidies in agriculture. Compared with 2014, liabilities in central level, excluding MESP, increased with €4,455,739. Although the local government managed the liabilities better, compared with 2013 they decreased by €6,497,204 or 27%, ineffective management of arrears may put BOs to budget difficulties by hindering achieving annual objectives by burdening coming budgets.

MESP liabilities in relation to the budget were 254%, the MAFRD<sup>15</sup> 78%, Strpce 34%, Klokot 28%, Gjakova 17%, Gjilan and Junik 10%.

## Loan to Kosovo Energy Corporation

The total value that Kosovo Energy Corporation (KEK) has withdrawn from the Kosovo Budget as loans is €202,539,992. By the end of 2014, KEK managed to return only the first loan signed in 2005 of €10,000,000. In addition, KEK paid interest of €7,081,488.

<sup>15</sup> Ministry of Agriculture, Forestry and Regional Development

KEK's remaining debt is €225,456,009. The amount includes accumulated unpaid interest and penalties. Debt Re-programing was not made in 2014 due to government gap. When the new Government was established, the Government decided to re-programme financial agreements. Six financial agreements are consolidated in two: the loan for mining: €165,400 with 20 years of amortisation; and loan for generation: €25,600,000 with 10 years of amortisation.

Under current conditions, KEK will pay the first instalment of €1,500,000 by 15th of October 2015

## Overview of overall debt

MoF prepared a State Debt Programme presenting National Debt Policy and Debt and Borrowing Management Strategy. These were made in accordance with the macroeconomic and fiscal framework to ensure a sustainable debt position.

**Table 6 Overview of external and internal deb**

No	YEARS	2014	2013	2012
1	<b>INTERNATIONAL DEBT</b>	<b>326,350,000</b>	<b>323,760,000</b>	<b>336,600,000</b>
2	Central Level	316,540,000	321,730,00	336,460,000
3	Sub-borrowings	9,810,000	2,030,000	140,000
4	Local Level	0,00	0,00	0,00
5	<b>INTERNAL DEBT</b>	<b>256,520,000</b>	<b>152,510,000</b>	<b>73,310,000</b>
6	Central Level	256,520,000	152,510,000	73,310,000
7	Local Level	0,00	0,00	0,00
8	<b>Total overall debt (% GDP)</b>	<b>10.63%</b>	<b>9.10%</b>	<b>8.44%</b>
<b>Total overall debt</b>		<b>582,870,000</b>	<b>476,270,000</b>	<b>409,920,000</b>

Overall debt is €582,870,000. Out of these, domestic debt is €256,520,000<sup>16</sup>, and external debt of €326,350,000<sup>17</sup>. The Government paid the principal and interest in time and in line with individual agreements and the Law on Public Debt. Compared with 2013, the public debt increased with €106,600,000 or 22.3% as a reflection of financing budgetary projects.

Overall debt against annual revenues of the Government for 2014 was 40.2%. Annual increase of debt is limited with GDP under a fiscal rule, and represents only 10.63% of GDP. For 2014, it paid interest on domestic debt of €2,500,000. It also paid the principal for external debt paid of €22,050,000, interest of €9,780,000 and €540,000 for sub-borrowings.

## Payments under Courts decision and Article 39.2 of LPFMA

Article 39 and 40 of LPFMA authorises the Treasury to make payments when an invoice is not paid by the BO for a longer period than sixty (60) days, including payments as a result of court decisions. Payments under court decisions and decisions of Treasury for 2014 were €9,649,691. Compared with 2013, we have an increase of €6,647,023.

<sup>16</sup> Lender: Commercial Banks with 75.3%, Pension Funds 23.1% and Others 1.6%

<sup>17</sup> Lender: International Bank for Reconstruction and Development 59%, IMF 31% and Others 10%

**Table 7 Payments under Courts decision and Article 39.2 of LPFMA**

Payments under court decisions	Local level	Central level	Total
Goods and services	1,038,665	353,020	1,391,685
Utilities	75,732	3,423	79,155
Subsidies and transfers	328,647	7,198	335,845
Capital Investments	232,560	4,131,591	4,364,151
<b>Total</b>	<b>1,675,604</b>	<b>4,495,232</b>	<b>6,170,836</b>
Payments under Article 39.2 of the LPFMA	Niveli Lokal	Niveli Qendrore	Totali
Goods and services	74,315	367,097	441,412
Capital Investments	2,457,319	580,124	3,037,443
<b>Total</b>	<b>2,531,634</b>	<b>947,221</b>	<b>3,478,855</b>

Due to delays in processing of payments by BOs, contractors requested execution of payments directly from the Treasury. The Treasury Director reviewed the requests and as a result of their validity made payments to contractors in the amount of €3,478,855. The value of €6,170,836 was also paid to contractors as a result of court decisions. Out of these, €4,131,591 were paid from capital investments of central level in favour of contractors.

### **3.7 OVERALL RECOMMENDATIONS**

Rekomandojmë Qeverinë të sigurojë se:

- When preparing the Law on Appropriations for 2016 secure that MoFhas thoroughly analysed the way the current budget is classified and adjust the budget in line with International Accounting Standards. Further on, controls when it comes to maintaining budget overspending ceiling should be strengthened in order to secure that the law on budget appropriations does not include a budget overspending that exceeds the ceiling allowed by the LPFMA;
- The process of consolidating Annual Financial Statements of the Kosovo Budget should include additional information for domestic debts, accounts receivables and payables at the state level. Further on, to enhance the effectiveness of financial reporting, the Government should secure consolidation of intergovernmental transactions, improving the process of recording third party payments and fair presentation of payments into KB/AFS. In order to ensure this, MoF should instruct BOs to record the third party payments and other proper transactions in their individual AFS. The AFS of BOs that do not contain the required information, thus leading to non-reconciliation with the AFS/KB, should be returned to the BOs to complete them;
- Budget performance monitoring mechanisms are strengthened by identifying and addressing potential barriers to achieving planned receipts and budget execution by who??. To carry through an effective process of managing capital projects securing proactive monitoring by BOs. In addition to this, concrete actions to address the causes behind failure to start implementing projects in order to eliminate the barriers of timely execution of contracts in line with dynamic plans;



- The age and validity of individual debts is reviewed and a systematic process of handling those debts considered as non-collectable is applied. All available means should be used, including legal actions. Further on, an analysis should be carried through in order to find the causes why business fail to pay debts;
- A mechanism is in place which would analyse the causes of increased liabilities from year to year in the Budget Organisation, in order to reduce outstanding liabilities at an acceptable level;
- MoF holds KEK into account when it comes to adhering to new agreement when re-programming debt in order to comply with the loan plan for paying the principal and interest in line with new conditions; and
- BOs' Chief Administrative Officers are required to ensure that the suppliers' invoices are managed with more care and paid in time in order to avoid situations that direct payments from MoF and payments under court decisions may cause.



## 4. ADDRESSING OF PREVIOUS YEARS RECOMMENDATIONS

### Overall conclusion

The AG's recommendations are intended to promote Good Governance and improve financial management. OAG carries out a continuous follow up on the implementation of recommendations given in the AAR and individual audit reports. The implementation of previous year's recommendations made by both Government and the institutional level are still not at satisfactory, despite that it is getting better over the year. This has resulted in a considerable number of recommendations being repeated in the Annual Audit Report and in individual audit reports on BOs. Non-operational institutions as a result of the political stalemate and the lack of appropriate action by the respective institutions have led to inadequate implementation of recommendations.

### 4.1 INTRODUCTION

During the year, we carried out over 100 audits. In order to support the recommendations implementation process, COPF held public meetings with responsible officials of BOs, but a large number of recommendations in key areas of management remain unaddressed.

### 4.2 ADDRESSING OF RECOMMENDATIONS GIVEN IN 2012 AND 2013 AAR

Our Annual Audit Report on the Consolidated Statements of the Government of the Republic of Kosovo for 2013 resulted in 48 recommendations to the Government, 15 to the Assembly, three to Mayors and three to the Municipal Assemblies. No action plan is prepared for addressing the recommendations given in the AAR. However, , these recommendations have not been implemented at the expected level – only Y have been fully addressed. As a result, some of the recommendations are repeated this year as well. For a more detailed description about the implementation of these recommendations refer to Annex III.

In addition to recommendations of 2013 AAR, we also followed up the implementation of recommendations given in the 2012 AAR. The analysis shows that recommendations in the 2012 AAR, although repeated in the 2013 AAR, have still not been addressed.

Key recommendations not addressed yet are:

- Securing transparency in the KB/AFS by categorising and recording all expenditures under the adequate code of expenditures and full presentation of third party payments;
- Analysing the causes behind outstanding liabilities and taking the needed actions to reduce them at BOs level;
- Individual BOs develop and implement an effective risk management approach related to organisational objectives and their mission. This should be used as a base for strengthening and developing an appropriate and effective control environment;

- Setting up a separate Task Force to consider budget execution and the actions that can be taken related to procurement and planning processes in order 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;
- Introducing e-procurement which would enhance transparency and reduce bureaucratic procedures;
- 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;
- Introducing an Executive Manager within the Municipalities as the highest civil servant responsible for running the daily operations and services to citizens;
- 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; etc.

#### **4.3 ADDRESSING OF RECOMMENDATIONS GIVEN IN 2013 AND 2012 INDIVIDUAL AUDIT REPORTS**

---

In our audit reports, we give recommendations to the heads of organizations to address the findings identified during the audit. This helps them to improve the level of governance, public accountability and services to citizens. AG contributes thus to the improvement of financial management and best use of available resources.

Our audit work includes the monitoring of the implementation of previous years recommendations. While auditing 2014 AFS, we analysed the way our earlier recommendations have been addressed. Such an analysis was the subject to our work on individual audits where prior recommendations were given. The results thereof are summarised in the following table. We divided budget organizations into: central institutions (ministries, the Prime Minister's Office, Tax Administration, Customs and Tamad<sup>18</sup>), independent institutions<sup>19</sup> and municipal level institutions (37 municipalities and Northern Mitrovica Administrative Office).

---

<sup>18</sup> Tamad is a donor project under agriculture sector for which OAG carries out a fee-based audit.

<sup>19</sup> Independent institutions include the Kosovo Assembly, Office of the President, Kosovo privatisation Agency and 25 other institutions.

**Table 8. Implementation of AG recommendations given to BOs in 2013**

Auditees	Recommendations	Fully addressed		Partially addressed (in process)		Not addressed	
		No	%	No	%	No	%
Central level institutions	313	98	31	95	30	120	39
Independent institutions	199	102	51	37	19	60	30
Local level institutions	521	136	26	172	33	213	41
<b>Total</b>	<b>1053</b>	<b>336</b>	<b>32</b>	<b>304</b>	<b>29</b>	<b>393</b>	<b>37</b>

**Table 9: Implementation of AG recommendations given to BOs in 2012**

Auditees	Recommendations 2012	Fully addressed		Partially addressed (in process)		Not addressed	
		Nr	%	Nr	%	Nr	%
Central level institutions	200	54	27	100	50	45	23
Independent institutions	157	86	55	43	27	28	18
Local level institutions	307	80	26	113	37	113	37
<b>Total</b>	<b>664</b>	<b>220</b>	<b>33</b>	<b>256</b>	<b>39</b>	<b>186</b>	<b>28</b>

When comparing 2013 and 2012, the number of recommendations has increased, whilst slight improvement is noticed when it comes to the dynamics of their implementation.

Implementation of the recommendations continues to be a challenge for central level and local level /municipalities. Unaddressed recommendations are mainly related to areas such as the accuracy of disclosures in AFS, budget planning and execution, revenue management, procurement procedures, classification of expenditures, subsidies and management of asset records. Failure to address the recommendations has resulted in continued weaknesses in internal control and financial losses and has also led to the repetition of some recommendations.

#### **4.4 OVERALL RECOMMENDATIONS**

**I recommend the Assembly of Kosovo to consider the possibility that:**

- The Government identifies and explains the circumstances that have hampered the previous years' recommendations and takes the needed actions for their timely and effective implementation;
- The reasons behind failure to address earlier recommendations are analysed and find the barriers that led to their repetition;
- The Government will lead and coordinate the development of an Action Plan for addressing the Auditor General's recommendations, and report on progress achieved;

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

- An effective analysis of the cases behind the low level of implementation of AG's previous years recommendations given in the AAR and at individual BOs level is made and that measures and actions need to enhance this level are taken;
- All ministries apply an effective process for monitoring the implementation of actions plans on the implementation of AG recommendations in order to enable the identification and addressing of barriers resulting in poor implementation of recommendations; and
- MoF requires by individual BOs to present information on the progress achieved in addressing the AG's recommendations in their individual draft AFS 2015. The AFS of BOs that do not contain the information regarding the situation of recommendations, or when the information is insufficient, should be returned to the respective BOs to complete them.

## 5. GOOD GOVERNANCE

### Overall conclusion

The Government, in cooperation with international partners, is committed towards drafting a Public Internal Financial Control (PIFC) Strategy for public sector and its further development. This is a positive step in advancing the framework that provides a solid system of control and management of public funds. Filling out of online self-assessment questionnaires is another positive step that served as a starting point to improve organisational performance. The legal and institutional framework on good governance is in place, but it is not fully and effectively applied in the daily management activities. Political developments in the second half of the year, the political stagnation and delayed constituting of the Assembly may have had its effect in this regard.

Current practices indicate that governance and control are not integrated into the management processes of planning, execution and monitoring. Governance standards are not sufficiently understood and are not applied by each level of organisational responsibility. Regardless all efforts improvement, there are still significant shortcomings affecting the effective operation of good governance. Governance overall arrangements require further strengthening. Mechanisms of control over revenues and on a number of areas need to be improved in order to prevent financial losses, low value for money and ineffective management of project and public assets.

### 5.1 INTRODUCTION

Governance has to do with the system by which organizations are managed and controlled. Effective governance requires strong planning, monitoring and reporting arrangements which clearly address the operational and strategic risks faced by an organisation.

Good governance supports the sustainable development of financial and operational controls and management by contributing to the implementation of strategic and annual plans and achievement of goals for the benefit of citizens..

Important stakeholders in this respect are:

- Managers who should be accountable for the way budget is managed,
- Internal auditors, who will assess the adequacy of the internal control system and recommendations for possible improvements; and
- CHD, which

This chapter handles the issues and challenges faced by institutions in the financial management and internal control. Issues related to purchases through public procurement procedures will not be addressed in the context of this chapter. It will be discussed in more details under Chapter VI - Public Procurement.

## **5.2 PUBLIC FINANCIAL INTERNAL CONTROL (PIFC)**

PIFC is intended to ensure that public resources and assets are controlled and managed economically, efficiently, effectively and in compliance with the legal framework. PIFC's concept is characterised by the management of public funds based on risk, internal control systems, management accountability and the assisting role of internal audit in meeting the objectives of public sector institutions.

Although PIFC provides a legal and organisational basis, its implementation in practice is particularly important given that the budget to cover current needs is scarce.

Financial Management and Control and Internal Audit are key aspects of PIFC considered below. Also detailed are specific areas where further improvements are required across BOs.

## **5.3 FINANCIAL MANAGEMENT AND CONTROL (FMC)**

It is management's responsibility to establish a proper and efficient financial and organisational system. To this end, an adequate organisational structure that clearly defines the lines of authority, reporting and responsibilities of each management level is needed.

Managerial, financial and internal control implementation weaknesses disclosed in individual audit reports of BO's show that the FMC concept is not sufficiently understood from the public institutions. That the FMC system is not as operational as it should be proven by the shortcomings found in the budget planning and execution, delegation and segregation of duties, planning and collection of revenues, allocation of subsidies. Other shortcomings relate to, capital projects planning and management, personnel management, assets and liabilities management, AFS reporting and consolidation, lack of communication between agencies and departments, ineffective management reporting, the low level of addressing internal and external audit recommendations.

Most BOs do not have internal guidelines or detailed operation procedures covering the daily activities related to FMC.

Poor management reporting undermines the decision-making and the management's timely response in addressing weaknesses and needed improvements.

Effective Internal reporting to management is a good basis for monitoring and enhancing management controls to improve governance.

Risk management, as a key component of the FMC, is still a challenge - BOs generally do not have documented risk management procedures, and do not identify, analyse, evaluate, and take actions to manage risks to the achievement of their objectives to an acceptable level.

While the Management has started to understand the role and importance of the organisation's self-assessment, this legal obligation is not met by all BOs, especially at the Municipal level. More online questionnaires have been completed (only one ministry, four independent institutions and 12 municipalities did not submit self-assessments to the MoF). However the quality of information

in the questionnaires needs to be further improved. In most cases, questions were over scored by the managers. The Management self-assessment was not self-critical enough and the quality and objectivity of the process was insufficient.

Managers need to further develop the financial reporting system, identify and manage potential risks, raise the quality of internal reporting within the organisation, and take appropriate and timely actions to address the reported issues. In addition to qualitative and correct financial reporting, an effective internal control should ensure effectiveness and efficiency of operational activities which also need to be in compliance with laws and regulations.

Besides the support provided for practical implementation of FMC and organisation of trainings for financial officers and internal auditors, Central Harmonisation Department should further develop professional programs for BOs and monitor the approach and implementation of FMC and IA requirements.

However, it is worth mentioning that MoF has during 2015 organised a conference for senior managers of BOs aiming at increasing self-awareness regarding managerial responsibilities and PIFC implementation.

## **5.4 INTERNAL AUDIT**

Internal Audit (IA) plays an important role in contributing to good governance in the public sector. The development of the internal audit system is on the right path, but there is still room for improvement. Evident progress has been made in the central institutions compared to the local ones.

Although being a statutory obligation, nine BOs have not established the IAU yet, whilst the IAU of Obiliq and Leposavic municipalities were not operational. In central level institutions, IIs in particular, and in five municipalities, IAUs are not manned with the sufficient number of auditors compared to their budget and resource needs to cover the annual programs and to provide the management with assurance that the internal control system is functioning. Budget restrictions have resulted in a number of BOs having insufficient internal auditors, thus leading to incomplete audit plans.

We also have IIs that meet the criteria for establishing the IAU under the annual budget, but they too small in organisational and staffing terms. This shows that the criteria for the establishment of IAU need to be reviewed in order to have a balance of costs and benefits thereof. The Internal Audit Department (IAD) operating within MoF, has provided internal audit services to six IIs, but could not meet some other requests.

Some of the IAUs had poorly directed audit plans not addressing risks were more focused in compliance work and less on the changing and improving the system. Other shortcomings in the IAU work of some of the Municipalities related to discrepancies of activities in the work plan thus resulting in poor quality of internal audit reports.

The Audit Committee (AC) is the body that supports the IAU's independence while challenging its plans and ensuring that it effectively helps the management of the organisation. However:

- about 20% of the central level ACs are not effective'
- no AC is established in one ministry and 15 municipalities, while in six other they were established but were not operating;
- where operational, the effectiveness of their activity is questionable because they do not perform their duties as required;
- in most cases, AC members do not have the required professional experience and qualifications in finance and auditing; and

The implementation of internal audit recommendations remains the main challenge in both central and local level. This process has failed in half of the Municipalities questioning the effectiveness of the internal audit teams and ACs.

## **5.5 PERFORMANCE INDICATORS AT MUNICIPAL LEVEL**

We analysed the key performance indicators aimed at encouraging a debate on the quality of services provided by the Municipalities . Comparisons were focused on: capital investments budget execution, revenues, fuel and representation expenditures, examination of construction permits applications and the areas of Health and Education.

Conclusions are the following:

- Considerable variations were noticed in all areas of indicators, even in the Municipalities with similar size;
- There is a tendency that the Municipalities<sup>20</sup> use government grant to maximum extent, whilst a considerable part of the own source revenues are carried forward to the following years;
- There are significant differences between collection and use of own source revenues or in the designation of those funds to capital projects aimed at improving the living standards of the taxpayers;
- Own source revenues are planned without making an analysis of the trends and proper potential to generate revenues. This has often resulted in exceeding the collection plan. Exceeded collection plan or understated and unreal planning of property tax revenues are found to have occurred in the municipalities of Prishtina, Lipjan, Malisheva, Kllokot dhe Shtërpca;
- Poor performance in handling and collecting accounts receivable. The balance of accounts receivables by the end of 2014 was €153,721,177, or 4% more than last year's, which was €147,199,083;
- There was a concerning amount of financial liabilities entered into and carried forward over the years, especially when it comes to the Municipalities of: Shtërpca, Kllokot, Gjakova, Gjiilan and Lipjan. The total financial liabilities of all municipalities by the year end was €13,271,569;

<sup>20</sup> This analysis does not cover the following Municipalities: Mitrovica North, , Zubin Potok, Leposavic and Zveçan.



- The annual expenditures on official lunches in 34 municipalities were €734,894. The Municipalities with higher expenditures on lunches were: Shtërpe, Klokot, Mamusha, Hani i Elezit, Gračanica, Klinë, Prizren, Shtëtime, Junik, Gjakovë, Kamenica, Decan and Gjilan; and;
- The Municipalities with higher costs for lunches compared with total expenditures were: Shtërpe, Klokot, Mamusha, Hani i Elezit, Gračanica, Klinë, Prizren, Shtëtime, Junik, Gjakovë, Kamenica, Decan and Gjilan; and
- The Municipalities of Gračanica, Prishtinë, Kacanik, Prizren, Pejë and Suharekë did not to large extent consider applications for construction licenses in time.

## **5.6 CIVIL SERVICE SYSTEM**

Civil Service (CS) is one of the Public Administration's key components. The Civil Service Reform is wide and complex and faces numerous challenges. CS in Kosovo includes around 19,000 Civil Servants distributed in the local and central level of state administration institutions. In 2014, the Civil Service Reform did not have any progress due to political blockade. During 2015, positive developments occurred in the civil service reform process such as:

- The 2015-2020 draft strategy for the modernisation of public administration was prepared. The draft strategy includes the objectives, goals and clear performance indicators and the action have been accounted for clearly and according to the action plan;
- Performance appraisal system is functionalised;
- Human Resources Management Information System (HRMIS) has started to be implemented;
- Kosovo Institute for Public Administration (KIPA) has provided necessary trainings to CS staff; and
- The Law on Administrative Procedures is finalised and adopted.

Implementation of sub-legal acts deriving from the Law on Civil Service and Law on Salaries of Civil Servants continue to be the Government's main challenge. The main challenges in this regard are:

- Delays in the implementation of jobs classification system<sup>21</sup> and new payroll system. The implementation of the new payroll system depends on the implementation of jobs catalogue, job classification and performance appraisal, the implementation of which is a prerequisite for effective implementation of the payroll system;
- Delays in making the information management system in the CS operational and the weak monitoring of the implementation of relevant legislation;

---

<sup>21</sup> This system is designed according to the Law on Salaries of Civil Servants in 2010 and the Regulation on job Classification in the CS in 2012

- The process of recruitment and promotion in the CS and inability to fully implement the principles for a non-political civil service, merit-based recruitment and advancement in professionalism;
- The lack of a strategic approach in the development of CS and training not provided based on the CS needs; and
- Unclear accountability system, failure to adhere to the principles of the Code of Ethics in the CS.<sup>22</sup>

Public sector salaries are organised and paid through a centralised system, which is managed by MoF/Treasury since 2015. Salaries of civil servants include the basic salary and allowances. These and other remunerations are financed from the general budget fund and donor funds.

BOs' individual audit reports indicate shortcomings in the management and controls in this area, which are mainly related to: Failure to adhere to competition criteria during staff recruitment;

- Career promotion without conduction related procedures;
- Job positions manned by acting officers beyond the deadline;
- Overtime paid without previous approval and respective evidence on the work carried out;
- Failure to update personnel records.

## **5.7 ASSETS MANAGEMENT SYSTEM**

Public assets have significant importance in the strengthening of institutions, generation of own source revenues and services provided to citizens. Public assets require adequate management, including their receipt, registration, maintenance, storage, identification and reporting.

Public asset management continues to be followed by shortcomings, starting from the registration over to daily management and its financial reporting. The management is not committed or willing to improve current shortcomings in order to develop a proper public assets management system.

Currently, public assets are recorded and managed, as required in the applicable regulation through, KFMIS and e-assets system, i.e. in two different databases. The disadvantage of this is that these two systems do not interact with each other. In addition, some of the BOs have other particular programs for assets registration, thus creating a third database. This situation leads to uncertainties about the completeness and accuracy of information on assets, which is adversely reflected in both their management and disclosure of the value of assets in the budget institutions AFS.

Systemic weaknesses in asset management are encountered at both central and local levels. Four municipalities did not report capital assets, ten municipalities did not report non-capital assets, and 16 municipalities did not report stocks at all. Problems were faced in the physical counting and evaluation of assets. The assets inventory was not carried out in 18 local level organisations and in 10 central level ones. Shortcomings were found in their recording, classification, depreciation, alienation, misclassification of ongoing investments, failure to return used assets after the officers' mandate was due.

<sup>22</sup> This challenge is handled in the Chapter related to the organisation of public administration and accountability.

Due to the lack of systematic assets management and weaknesses described above, eight municipalities were given Qualified Opinions, whilst the other 27 were given opinions with emphasis of matter. Only Hani i Elezit municipality was given an unmodified opinion.

The current Rule on Non-Financial Assets Management provides a better legal basis, but it has not sufficiently clarified the assets registration and management through the e-assets system. A ministerial working group is working to supplement and upgrade this rule and the e-assets system in order to meet the BOs needs and requirements. The manner of using these systems should be described in their user guidelines.

The weakest application of e-assets was found in the municipalities, where 20 of them are not using it at all and the rest of the municipalities have difficulties to apply this program. 13 central level BOs have also found difficulties to apply the e-assets system. This was due to the lack of skills of the responsible staff and due to inadequate training on how to use it.

Technical shortcomings faced and reported in the previous years about the functioning of e-assets web application have almost been eliminated by the Agency for Information Society (AIS within MAP) as the holder of this project and design/supervisory company.

## **5.8 OFFICIAL VEHICLES MANAGEMENT**

Official vehicles used to carry out official duties are a special category of capital assets. The respective applicable regulation requires their users to use them effectively and economically. Individual transport units within each budget organisation are responsible for the use and oversight of these vehicles.

The misuse of vehicles identified in individual audit reports indicates that the legal procedures and requirements were often avoided. A considerable number of official vehicles are used by political and management staff and they do not keep records on their use as all. The use of official vehicles after regular working hours continues as a result of inadequate and dysfunctional controls in many BOs. Despite the government officials' requests ?/ rules?? to stop the misuse of vehicles, nothing seems to have changed in this regard.

The largest number of shortcomings in the maintenance of vehicles is found in those organisations with the highest number of vehicles. As a result of mismanagement, 268 vehicles of the Ministry of Internal Affairs are waiting for servicing before 2009.

Previous years audit reports highlight the lack of reporting by the BOs to the Unit for Monitoring and Use of Government Vehicles (UMUGV)<sup>24</sup> which is intended to report on use of official vehicles. Such a situation has only worsened. Monthly reporting of BOs to UMUGV in 2014 had continued falling. At the beginning of the year, 17 BOs had reported whilst by the end of the year five BOs had reported.

---

<sup>23</sup> AI 03/2008 obliges all government institutions to report to UMUGV on a monthly basis regarding the number, use and management of official vehicles

## 5.9 TRAJTIMI I LEGJISLACIONIT SEKONDAR

Besides the primary legislation, operational and financial activities of BOs are regulated through secondary legislation. These general rules of the Government continue to be applied without being amended or supplemented to adapt to the current circumstances. We highlight three general Administrative Instructions (AI) of the Government, requiring update:

- AI no.2004/07 of MPS on Official Travel was adopted in 2004. the daily per diem for official trips to neighbour countries are overvalued compared with the living cost in these countries. The purpose of the trip, the agenda and the level of official meetings abroad should be topics to be handled with priority. BOs often organise seminars, trainings or working groups abroad with the purpose of obtaining very high per diems for staff
- AI no. 04/2008 on the Use of Telephones (fixed and mobile) in the Government of Kosovo was approved in early 2008. This AI sets forth monthly spending limits<sup>24</sup> according to the level of responsibilities. further application of spending limits set by this AI or the use of prepaid services can no longer be justified given technology developments; and
- AI no. 03/2008 on the Use of Government Vehicles was approved in early 2008. Weaknesses encountered in the use, management and reporting on the use of official vehicles highlight the need to supplement or draft a new comprehensive guideline and with more requirements.

## 5.10 RECOMMENDATIONS

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

- The actions taken so far in relation to enhancing management awareness and responsibility for effective implementation of PIFC including FMC procedures, the role of IA and the potential contribution of audit committees in the development of systems and processes will further continue. In this regard, the addressing of IA recommendations should be handled with priority;
- BO managers secure effective implementation of the basic FMC requirements related to self-assessment, risk management, internal reporting (financial and operational) and internal audit system. Providing them trainings on this area would be useful;
- Shortcomings in individual internal audit reports are analysed and corrective measures are taken to further strengthen FMC system and public accountability. Action plans should set forth the priorities and deadlines for these improvements;
- Issues raised in this report in terms of good governance are analysed and need actions are identified to timely address the current shortcomings and eventual barriers;

---

<sup>24</sup> Fore example, according to AI 04/2008 directors of departments are allowed to spend €40 per month on telephone.

- CHD continues to support in and monitor the implementation of FMC requirements and implementation of internal audit system throughout BOs
- CHD continues to keep contact with BOs' Managements in order to put forward the importance and role the self-assessment process;
- BOs develop and implement specific policies and plans on risk identification and assessment and the form of responding to them, thus improving the likelihood of achieving the organisation's mission and objectives;
- BO draft rules, instructions and written internal FMC procedures regulating the daily operational and financial activities;
- BOs Managements develop the form and quality of internal reporting in order to create a good basis for systematic monitoring of the achievement of objectives and quality in operational activities;
- Reforms in the civil service and in the functionalization of the new salaries system are fulfilled in the shortest time and that control and transparency in recruitment procedures and additional remuneration are enhanced;
- A comprehensive assessment is initiated regarding the reasons for Emphasis of Matter in given the Audit Opinions due to lack of assets registers and incorrect reporting of assets and that an effective solution is provided as of the end of 2015;
- BOs, municipalities in particular, carry out an assessment of assets management officers' skills and provide adequate trainings in practice in order to ensure that they understand the importance of a proper assets management and their roles in this process;
- The e-assets program is implemented by all government institutions. The present weaknesses should be reviewed and additional controls should be applied in order to ensure a complete recording and adequate management of assets. MPA and MoF should find a practical solution to enable the interaction between KFMIS an e-assets systems;
- An effective vehicles management process is put in place for all BOs by ensuring a continuous monitoring and timely response to the existing factors and barriers hampering the implementation of legal requirements; and
- Rules or administrative instructions the implementation of which leads to unreasonable financial costs and do not properly regulate certain operation and control issues are amended or new rules are drafted.

We recommend the Assembly to ensure that:

- The Government will give priority to the effective implementation of FMC requirements arising from the new PIFC Strategy and that IAUs and Audit Committees in BOs will operate effectively;

- The Government will take action to address the shortcomings in asset management. The issue of merging the two systems, KFMIS and e-assets should be prioritised by the MoF and MPA; and
- A sustainable solution is found for joint institutional organization of internal audit to provide audit services for IIs, in particular for those characterized with low staffing and budget.

## 6. PROCUREMENT

### Overall conclusion:

Public procurement has made limited progress with shortcomings repeated in all procurement phases this year and the improvement of the procurement system remains a future challenge for the Government / Assembly of Kosovo.

Regularity audit reports on all levels, especially at the local level (municipalities), have identified shortcomings in the implementation of the Law on Public Procurement (LPP). This indicates that the managements of BOs have not managed to overcome the challenges to make this system work better.

Improper preparation of the procurement process, shortcomings in developing the process and shortcomings in procurement contracts management indicate that BOs need to address the identified problems and improve this process.

Improvements are expected after the LPP is amended, e-procurement is introduced and implementation of centralised contracts through the Central Procurement Agency (CPA) starts.

### 6.1 INTRODUCTION

In 2014, public institutions spent about €488 million through procurement process, or about 33% of the Kosovo Budget expenditures. This highlights the large impact that an effective procurement process would have in the development of the local economy.

In 2014, Public Procurement Regulatory Commission (PPRC) started to develop the electronic procurement platform. This project is funded by the World Bank and its implementation started on 15 December 2014. The complete development of e-procurement platform is expected to last one year and is intended to make future procurements effective and transparent.

### 6.2 ROLE OF ORGANISATIONS RESPONSIBLE FOR PROCUREMENT PPRC/PRB/CPA

PPRC, Central Procurement Agency (CPA) and the Procurement Review Body (PRB) are the organisations responsible for the public procurement operations

PPRC is an independent regulatory agency responsible for the development, operation and supervision of the public procurement system. According to the PPRC, the value of contracts signed in 2014 was about €390 million, not including the value of the contract of Prishtina-Han i Elezit Highway. This report reflects all public procurement activities developed in Kosovo during 2014, compared to previous years, where we will see the development trend of public procurement in Kosovo.

KRPP thekson se në dy pika ka arritur të përmirësojë për 90% sistemin e prokurimit publik duke eliminuar vendosjen e kriterëve diskriminuesë në Njoftimet për Kontratë dhe në Dosjen e Tenderit. PPRC highlights that they managed to improve by 90% the public procurement system in eliminating the discriminating criteria in the Contract Notice and Tender Dossier.

PPRC proposes the amendment of the LPP in order to have a sustainable procurement system. To this end, it has developed a series of guidelines aimed at specifying the LPP.

**CPA** operates within MoF and is responsible for the development of joint procurement for CAs, conducting procurements on CAs requests and for assisting CAs in carrying out their procurement activities.

In 2014, CPA identified seven items of commonly used by the CAs. The list<sup>25</sup> of such items should have been proposed to the Government for approval by the Minister of Finance, which has not happened yet. The approval of this list and the development of centralised procedures will enable economies of scale and save on costs. CPA is currently in the process of conducting the first centralised procurement for “air transport services” which will includes 84 CA if completed.

A Contracting Authority may assign CPA to conduct a procurement activity on its behalf. In this regard, a separate procurement department operates within CPA which has developed eight<sup>26</sup> procurement activities, with a total value of €15,046,190.

**PRB** is an independent agency responsible for implementing and reviewing procurement complaints. During 2014, it received 537 complaints and reviewed 519 of them.

PRB operates through its board whose mandate had expired in August 2013, and had not been operational until March 2014. Due to the lack of a board for the 8 months period EO complaints were not reviewed. This has caused a vacuum in the handling of complaints.

PRB has concluded and proved that Contracting Authorities have not adhered to the provisions of the LPP and public procurement secondary legislation during the procurement procedures conducted in 2014.

## **6.3 PIP SYSTEM**

The Public Investment Programme (PIP) System is being used by all government BOs on both central and local levels. It allows a better management and greater transparency of the budget process and projects implementation.

BOs stated that capital projects are being implemented as approved by the Assembly through the Law on Budget.

In 2014, the amount of investments managed through the PIP system, was €401 million in the central level and €129 million in the local level.

PIP has been developed to regulate the process for managing capital projects. This system includes the budget preparation process and the monitoring of public projects that increases the overall efficiency of the system.

---

<sup>25</sup> Fuels, stationery, IT procurements, hygiene materials, vehicles procurement, food procurement and telecommunication services

<sup>26</sup> Supply with fuels, hygiene material, stationery, toner cartridge, flags, vehicles insurance and physical security of MLSW buildings



## **6.4 PROCUREMENT FINDINGS**

Individual audit reports of 2014 highlight that BOs still have shortcomings in terms of managing procurement processes. Despite recommendations given in the 2013 Annual Audit Report, processes are not developed fully in compliance with LPP framework.

Different challenges were found in the whole process starting from the planning over to projects implementation. These may lead to a situation where Goods & Services and capital projects of poor quality and higher costs would be procured.

On the other hand the government is striving to enhance transparency by starting with e-procurement, through which all procurement stages will be carried out.

### **6.4.1 FINDINGS IN THE CENTRAL LEVEL INSTITUTIONS**

Based on individual audit reports of central level institutions, the most frequently repeated findings are:

- Weak procurement planning;
- Shortcomings in the preparation of the Tender Dossier;
- Departure from Treasury procedures during execution of payments;
- Splitting of tenders in order to avoid the open procurement procedure;
- Weaknesses in tender evaluations;
- Delayed projects delivery; and
- Shortcomings in the conduction of procurement procedures when it comes to co-financing.

### **6.4.2 FINDINGS IN THE LOCAL LEVEL**

The most frequent weaknesses identified in procurement during 2014 in municipalities are:

- Weak needs assessment and weak preparation of pre-calculation and bill-of-quantities;
- Lack of procurement plans (Northern Kosovo municipalities);
- Poor procurement planning and management and practices of contracts entered into in the year end;
- Lack of works execution projects before starting with procurement procedures and lack contracts management plans;
- Entry into contracts outside the procurement plan and without procurement procedures;
- Entry into contracts with abnormally low or higher prices compared to the market prices;
- Splitting of tenders in order to avoid open procurement procedure;
- Delayed execution of works and failure to impose penalties;
- Tender dossier criteria overlooked;
- Customisation of the tender criteria thus favouring certain operators; and
- Payment made for unexecuted works and unclear progress payments.

### **6.4.3 FINDINGS IN THE INDEPENDENT INSTITUTIONS**

Based on individual audit reports of independent institutions, the most frequently repeated shortcomings in 2014 are:

- Poor procurement planning;
- Entry into contracts without committed funds;
- Purchase orders processed after receiving the invoice;
- Weaknesses in receiving goods and services; and
- Entry into contracts with abnormally low prices.

### **6.5 VALUE FOR MONEY IN PROCUREMENT**

OAG has carried out two performance audits on procurement and concluded that institutions have not conducted procurement processes effectively and economically.

Through the performance audit on the Procurement System in the Health Sector we assessed whether procurement in the health sector has operated effectively.

We found that the Ministry of Health does not have a written procurement strategy, has not make a proper needs assessment, has not managed contracts effectively and internal and external audit, recommendations were not implemented.

Through the performance audit on *“Maintenance and Repairing of Official Vehicles”* we assessed whether procurement in the public sector has operated economically.

We found that none of the audited BOs have carried out a needs identification and assessment, most of the contracts were not cost-effective, and the repairing cost was higher compared to the remaining value.

### **6.6 RECOMMENDATIONS**

**We recommend the Government to ensure that:**

- The Government, through MoF, approves the list of items to be purchased through centralised procurement and the Central Procurement Agency should develop those procedures in order to ensure that the public sectors gets the benefits of the economy of scales;

**We recommend the Assembly to ensure that:**

- The Government continues supplementing the legal basis in order to support the introduction of e-procurement system; and
- The Assembly exercises its impact on the Government to ensure that our current and previous recommendations are fully addressed by establishing effective controls over the development of procurement procedures, thus obtaining value for money.

## 7. CHALLENGES FACED BY THE INSTITUTIONS

### Overall conclusion

Management capacities of BOs tend to increase and improve continuously in many areas of finance and operations. The fulfilment of legal requirements for financial reporting is evident. Despite the achievements made, BOs continue to face many different challenges. Limited budget in relation to the needs had its effects at the country level. A deeper analysis of the specific needs of each BO needs to be done before setting the budget ceilings. This would enable a rational allocation of the budget.

Commitments above available funds and in some cases lack of professionalism in assessing budget needs make it difficult to overcome current barriers. BOs continue to be challenged in the management of revenues, loans, receivables and internal reporting. Setbacks in addressing the recommendations have led to the repetition of irregularities year after year. Managers of both central and local level should pay special attention to capital investments and handle them with priority. Management activities should particularly focus on the monitoring and implementation of projects and timely fulfilment of plans and objectives. A fully operational Internal Audit system would add value in assuring the quality of FMC systems.

### 7.1 INTRODUCTION

The governing policies of budget institutions of central and local level are based on the Law on Public Financial Management and Accountability (and the Law on Local Government Financing and other secondary legislation implementing these laws). Local institutions have the authority and independence to manage and use funds from its own revenues, grants and other incomes. MoF, as the holder of these processes, has the responsibility to support municipalities in implementing the activities set out in the strategic and annual plans.

This chapter will present the main challenges faced by public institutions in each organisational level

### 7.2 CENTRAL INSTITUTIONS

Planning and implementation of the annual budget plan continues to be one of the challenges of Central Institutions (CIs). Notwithstanding achievements made in this regard, budget execution is still under the planned level, 89% of the final budget.

In most of the cases, budget requests for supplies, services and works were assessed only in generalised way and financially, without a proper analysis and prioritisation of needs and without specifying the amount of supplies. Despite the needs fulfilled over the years, a characteristic of BOs is that they have similar budget requests each year, particularly for goods and services. Difficulties are noticed in the investment for capital projects. This may be due to delays in the approval of projects and timely implementation of procurement procedures. The management and implementation of long-term projects is the main challenge CIs faced year after year.

Another difficulty faced this year was the misclassification of expenditures. This was the basis for modification of the audit opinion on the AFS of some CIs

Tax revenue collection and handling of uncollected debt remain a constant challenge of TAK. The management of other own source revenues was followed by different shortcomings. Internal controls were not properly functioning when it comes to collection, recording, reconciliation and reporting.

CIs are also facing other challenges, such as implementation of recruitment procedures and personnel management, compensation of members of boards and committees and manning of positions with acting officers above the period allowed.

In many organizations, policies or legal framework for awarding and monitoring the funded projects were lacking. Financial support without any clear legal basis and without fair selection of beneficiaries puts the fulfilment of intended goals and objectives to question. Shortcomings were fund in the financing of pension schemes and subsidising of health programs. There were also delays in the subsidising of farmers as a result of farmers' failure to apply in time, reviewing of claims and processing of payments.

Despite the auditors' advices and recommendations, internal controls were not effective in the liabilities and asset management. On-going investments were not handled in line with legal requirements. BOs did not have complete assets records. This affected the financial reporting and audit opinions. Based on the individual financial statements, liabilities have an increasing trend, while the budget was underspent on the other hand. This situation burdens the following year's budget and has a negative impact on new budget plans.

### **7.3 MUNICIPALITIES**

Audits results indicate that municipal level institutions face various operating, financial and organisational challenges. The Municipalities budget consists of various funds such as government grants, own source revenues, other grants and external and domestic donations. In 2014, municipalities<sup>27</sup> spent €394,271,946 out of €450,616,014 available, or 87%<sup>28</sup> of the final budget.

Municipal level institutions have not managed to develop effective budget policies. Weak planning of needs, low level of capital investments budget execution, lack of appropriate projects, delays in the contracts monitoring and implementation are some of the shortcomings found in the organisations of this level.

Payments classification and certification remains quite a challenge. Due to budget ceilings set by the MoF at macroeconomic level, municipalities are obliged to cover some of the needs for goods and services and subsidies and transfers from the budget allocations on capital investments. This makes municipalities to engage and ask for other financing alternatives to cover their overheads within the budget ceilings.

---

<sup>27</sup> Realizim më të ulët të buxhetit kishin Komuna e Prishtinës me 69%, Prizreni 84% dhe Parteshi me 82%.

<sup>28</sup> Grantet për kompetenca të zgjeruara,

Revenues are another area that requires attention. Shortcomings in the real planning of revenues are still present. It seems that insufficient analyses are made and that previous years parameters and the current circumstances are not taken into consideration. In many cases, the objectives/projects to be funded by own source revenues were not implemented. Another restricting factor is that municipalities cannot use the collected revenues in the last two months of the year because the commitment deadline is due. A significant amount of unused revenues are carried forward to the following year.

Co-financing of projects under agreements with various donors could be considered another challenge. Given that such projects are not monitored by the municipalities, there are cases when information is missing on whether the donor is implementing the projects according to the agreements. This form of investing in and managing projects needs to be handled by municipalities differently.

Other issues that need to be handled are legal compliance in the allocation of subsidies and transfers, reporting and monitoring of implementation for co-financed projects in order to ensure that the funds are used for the intended purpose.

## **7.4 INDEPENDENT INSTITUTIONS**

For 2014, the total expenditures of 27 independent institutions were €85,026,929 out of €99,020,539, or 86% of the final budget. Considered in total, the budget execution level is not satisfactory.

Internal control arrangements and delegation of tasks and responsibilities are the main challenges that IIs are facing year after year. The small number of staff in these institutions could have an impact on this.

Current developments show the Management's commitment to improve the system shortcomings and address existing barriers. Nevertheless, additional actions are required to address all the issues arising from the audit.

Internal audit services continue to be the current challenge of IIs. Given their organisational structure and budget aspects, some IIs do not meet the criteria to establish the IAU. As a result, the activities of a number of IIs were not covered by the internal audit.

Like other institutions, independent institutions continue to be challenged with budget projections, classification of expenditures and budget execution. Revenue collection and management of receivables were not sufficiently efficient. The increase of accounts receivable balance on a yearly basis is concerning. Failure to implement preventive measures may result in a negative financial impact on the country's budget.

Manning of positions with acting officers above the period allowed continues to be practiced. Controls were limited on remunerations and staff promotions. Despite some improvements made, public assets management will remain one of the areas for improvement.

Formal communication and internal reporting quality of IIs needs to be further developed. External Reporting on the financial statements and disclosures of information leave room for improvement.

## **7.5 RECOMMENDATIONS**

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

- Barriers having a negative impact on overcoming the current challenges are analysed. Actions plans should be based on the recommendations given in individual audit reports;
- The budget planning process is preceded by a proper financial analysis, by reconciling real needs with current budget capacities;
- Controls over payment certification are strengthened in order to ensure that guidelines and legal requirements are fully implemented;
- Guidelines or rules on the management of co-financing with external parties are drafted; and
- Efficiency in the collection of revenues and accounts receivables according to the plan is enhanced in order to support the projections at an overall budget level.

### **I recommend the Assembly to:**

- Ask the Government to enhance controls over the quality of reporting and other external reporting requirements;
- Establish, a unit for providing common services to IIs in the areas of finances as well as procurement, internal audit etc.;

### **I recommend the Municipal Assemblies to:**

- Analyse the causes behind the repetition of shortcomings together with the Mayor and identify barriers affecting the organisation and financial system; and
- Analyse the budget performance of the current year before submitting the budget requests, particularly focusing on capital investments.

## 8. PERFORMANCE IN SPECIFIC AREAS

### Overall conclusion

In general, there are attempts being made to improve services provided by the audited organisations. However, the monitoring and oversight over the steering boards by the high levels such as the Assembly is not sufficient yet. The Government (or the Assembly where applicable) has not managed to keep the heads/managers of organisations under monitoring and ask for results upon the implementation of programs/plans or activities.

In general, the activities of audited organisations are not sufficiently efficient and effective. They lack strategies such as in road traffic. In some cases the strategies are good but do not coordinate with annual plans, as in the case of grants in the agricultural sector. Implementations of annual programmes have weaknesses, the results oriented approach is missing and in most cases performance indicators are not established. Most of the organisations have poor quality data and do not report on achievements or setbacks in terms of results. This was noticed especially in, health, agriculture sector and vehicle maintenance.

Monitoring and oversight bodies do not play their active role to identify possible setbacks and to take improvement measures. These weaknesses have spread out in all audited organisations and this is quite a significant fact.

We conclude that there is much more to be done to demonstrate that public funds are spent on government programs/activities economically, effectively and efficiently.

### 8.1 INTRODUCTION

We have carried out seven performance audits which have been finalised in 2015. these audits are of significant importance to the Government, Assembly and auditees as they address the three E's of activities and programmes used.

INTOSAI defines the three Es as follows:

- **Economy** - Minimising the cost of resources used for an activity with regard to the appropriate quality;
- **Efficiency** - The relation between the output, in terms of goods, services and results, and the resources used to produce them;
- **Effectiveness** - The extent to which objectives are achieved and the relation between the intended impact and the actual impact of an activity.

Areas covered are:

- Health - management of medical equipment;
- Agriculture - management of grants in the agricultural sector/central and local level;



- Information Technology - e-governance strategy in Kosovo;
- Radio Television of Kosovo - management system and oversight by the Assembly;
- Road traffic safety - traffic police activities;
- Privatisation Agency of Kosovo, audit of the Annual Financial Statements.

Activities of each area/topic have been analysed in the context of one or more of the three E's.

The aim is to provide recommendations for improvement of activities and implementation of programmes where weaknesses are identified. In order for the Government to be effective, efficient, and rational in spending funds and for expected results to be achieved.

## **8.2 HEALTH – MANAGEMENT OF MEDICAL DEVICES**

Public health institutions (PHI) are obligated to provide adequate services to citizens/taxpayers. PHIs have a considerable number of medical devices and their maintenance for the years 2012, 2013, and 2014 cost more than €780,000. We have assessed the way in which the medical devices are managed, the case of Computed Tomography in the UCCK and in three hospitals in Mitrovica, Prizren and Peja.

The Ministry of Health has not provided adequate guidelines to hospitals on how to use, manage, and monitor medical devices. The hospitals have not taken any initiatives to organise adequate monitoring over the way in which medical devices are managed by the staff responsible Logbook of shifts were not maintained properly reducing the possibility to have necessary and sufficient information on the condition of devices and for treating patients.

Despite servicing, the devices – Computed Tomographies were out of order most of the time due to poor management and ineffective servicing, and the use of equipment. Consequently, the patients are driven to turn to private hospitals where the price for a partial scan ranges from €200 and up to €1,000 for a complete scan paid for by the patients.

## **8.3 AGRICULTURE**

### **8.3.1 MANAGEMENT OF GRANTS BY THE MINISTRY OF AGRICULTURE**

The Government provides support to the agricultural sector aiming at having an impact on economic development. In 2013 €14.8 million grants were made from the Kosovo budget, €11.2 million in 2014 and €20 million are planned for in 2015.

Establishment of a grants management system is oriented towards EU principles for rural development, but there are still weaknesses and much to be done. The Agency for Agricultural Development and the Grants Monitoring Committee are not fully operational. There are no qualitative reports on the results achieved from agriculture grants. Payments to farmers were delayed and there is poor recording of complaints by farmers.



In addition, the Inter-Ministerial Committee for Rural Development is not established yet, and the National Authorising Officer was not appointed. The Assembly of Republic of Kosovo did not approve the Strategic Agriculture Programme 2014-2020 yet, which is currently under implementation.

The established grants management structures are not fully operational, whilst are not established yet. This situation does not correlate with the on-going increase of the budget for this sector, and does not secure the results and efficient use of funds.

### **8.3.2 MUNICIPAL GRANTS IN AGRICULTURE – MUNICIPALITY OF PRIZREN**

Prizren region is one of the three regions with largest area of agricultural land and agricultural economy and is important for provision of employment opportunities.

**During 2014, the Municipality awarded grants of €342,543**, but objectives set out in the 2014 Operational Plan were not clearly defined and the link to the strategic plans was missing. Key performance indicators have not been identified and the recording of farmers receiving grants was poor. The grants monitoring system was not operational and no analysis on results, effects and the impact of the grants programme was conducted.

The Municipality has supported the agriculture sector without clear objectives and strategy. This situation may lead to inefficient and ineffective spending of funds.

### **8.4 INFORMATION TECHNOLOGY (IT)**

The Electronic Governance (e-governance) initiative improves services to citizens, strengthens accountability, increases transparency, and improves Government' efficiency.

IT creates opportunities for provision of services/information to the public, where the access is fast. For a faster economic development in the Republic of Kosovo it is necessary to establish/implement the strategy with electronic services for citizens and businesses in Kosovo.

The Ministry of Public Administration has as a mission - creation of a modern public administration and has established the Agency for Information Society (AIS). Our audit has identified challenges in this area. Internet access to Government services is limited, and there is a lack of central governance and responsibility. The e-governance strategy is not coordinated, monitored and assessed, there is poor understanding of the security of central systems and there is a lack of joint coordination. Ministries have followed different paths of investing in e-governance.

From the citizens' perspective, e-governance is not effective yet. Expected economic and social benefits presented in the strategy are still limited.

## **8.5 MANAGEMENT SYSTEM OF THE RADIO TELEVISION OF KOSOVO**

The RTK is the only public broadcaster in the country and is financed by the Budget of Kosovo.

The RTK is attempting to keep up with technological developments that aspire at maintaining its competitiveness in the media sector in Kosovo. Nevertheless, among the challenges that accompany this Broadcaster is management of operations, poor addressing of risks by the Board and insufficient oversight by the Assembly.

In addition, we have found cases where certain policies such as the the increase of services provided, employment, and the accompanying financial impact, do not fully correspond with the rational use of resources. In an environment of financial dependency, inadequate planning and use of resources could threaten the long term operations of the Broadcaster.

## **8.6 ROAD TRAFFIC SAFETY**

The number of accidents in 2013 was approximately 20,000 and there is an increasing trend. The traffic police is the only public authority that controls and supervises the behaviour of traffic participants.

The traffic police toned to better use sources of information in an effective manner. Traffic checks are partially based on risk, and are not effective in terms of places, time of checks, and the number of police officers. No preventive actions are undertaken, at the same time, checking of vehicle technical standards as well as the penalties are not always properly applied and managed towards traffic offenders. ??

The experience in traffic indicates that the number of traffic accidents and their consequences can be reduced. Therefore, the Traffic Police needs to do more to be more effective.

## **8.7 PRIVATISATION AGENCY OF KOSOVO**

PAK is responsible for implementing the privatisation programme in Kosovo. Most of issues addressed in previous audits have remained the same this year as well.

The PAK is lacking the Board, while the management structure is incomplete. As a result, no decisions are taken, and there are cases when decision-making is not documented clearly and no economic analyses are done.

Other significant weaknesses were noticed in the payment for external services for the liquidation authority. Funds of SOEs in liquidation were used for administrative services of PAK, and there were poor controls over the distribution of 20%. The dynamics of privatisation was low. In addition, there were shortcomings in Goods and Services, Accounts Receivable and management of Wages and Salaries.

## **8.8 RECOMMENDATIONS**

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

- The Ministry of Health issues a guideline on the management of devices and provides for appropriate functioning of Computed Tomography and other equipment.
- Commissions for oversight of devices should be established and patients' lists should be maintained and reported;
- The Ministry of Agriculture ensures complete functioning of AAD and MC, implementation and quality reporting of programme implementation, and an independent process for handling farmers' complaints;
- The Inter-Ministerial Committee for Rural Development is established and the National Authorising Officer appointed;
- The Minister of MPA functionalises the AIS, increases the coherence between projects and give priority to the development/creation of conditions for e-governance;?
- AIS provides equal opportunities to citizens on e-governance and that the EG strategy is monitored, assessed or reviewed periodically;
- The Director General of Kosovo Police makes the information system effective with a comprehensive database, and that the traffic police focuses on preventing accidents and focused on other drivers' behaviours other than that of speeding and the system of fines is improved, and the "negative points" system applied

### **I recommend the Assembly to:**

- Review and Approve the Agriculture and Rural Development Programme 2014 - 2020;
- Ensure that the Board of Directors in RTK implements the decisions and recommendations of the Assembly in time, increases accountability of the Director General towards the Board, and reduces high risk costs;
- Exercise effective oversight on the RTK within the mandate, without threatening editorial independence and establish the ad hoc committee for proposal of the permanent solution for RTK, such as digitalisation, funding, and accommodation
- Recruit the PAK Board of Directors, which should urgently complete vacant positions at the senior Management level: and
- Ensure that PAK management secures effectiveness in financial and operational management, regular recruitment and personnel management process and better management of receivables;

**I recommend the Mayor to ensure that:**

- Prizren Municipality produces plans with SMART objectives and in line with strategic objectives and puts in place effective methods of informing the farmers;
- Grants results are monitored and assessed and that the progress on the achievement of objectives is reported.

## ANNEX I: DIFFERENT TYPES OF OPINIONS APPLIED BY THE AUDITOR GENERAL

(extract from ISSAI 200)

### Form of opinion

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

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

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

### Modifications to the opinion in the auditor's report

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

### Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

#### *Emphasis of matter paragraphs and Other matters paragraphs in the auditor's report*

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

158. An Emphasis of matter paragraph should:

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

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

## ANNEX II: AUDIT OPINIONS AND KEY MANAGERIAL SHORTCOMINGS

**Table 1 Types of opinions according to auditees**

Audited Entities/ Types of opinions	Unmodified opinion	Unmodified opinion with Emphasis of matter	Qualified opinion	Qualified opinion with Emphasis of matter	Disclaimer of opinion
State institutions <sup>29</sup>	11	10	-	3	-
Municipalities	1	17	2	14	4
Independent Agencies	22	4	1	1	-
Entities outside KB <sup>30</sup>	2	-	-	-	-
<b>Total</b>	<b>36</b>	<b>31</b>	<b>3</b>	<b>18</b>	<b>4</b>

<sup>29</sup> Includes 19 ministries, Kosovo customs, Tax Administration of Kosovo, Office of the President, Office of the Prime Minister, and Assembly of Kosovo.

<sup>30</sup> Includes TAMAD, and joint education fund.

**Table 2: Audit Opinions and key managerial shortcomings in State Institutions**

2.1 Unmodified opinions		
Entity	Budget (in mil €)	Key managerial shortcomings
Ministry of Internal Affairs	105.90	Incomplete implementation of AG's recommendations; Low level of budget implementation in the category of Capital Investments; Shortcomings upon incurring expenditures through procurement processes; Payments to employees engaged with special service contracts out of the category of Goods and Services; Significant number of positions are covered by Acting officers.
Ministry of Kosova Security Forces	40.50	Incomplete implementation of AG's recommendations; Poor management of capital projects; Deficiencies in human resources management.
Ministry of Finance	31.75	Incomplete implementation of AG's recommendations; Shortcomings in the management of procurement activities; Management shortcomings in planning and implementation of the budget.
Ministry of Economic Development	30.40	Incomplete implementation of AG's recommendations and weak quality control over the preparation of the AFS; Misclassification of expenditures; Governance requirements such as risk management are not being implemented completely; Improvement of controls in procurement, payments process and assets management; The work of the IAU is not at the right level and as a result it has failed to support the management in key areas of activity.
Ministry of Public Administration	23.79	The AFS have included a number of inaccuracies and errors; Incomplete implementation of AG's recommendations; Poor controls over the area of procurement and in the payments sector; Significant increase of outstanding liabilities towards Economic Operators, compared to the prior year.
Ministry of Justice	19.02	Incomplete implementation of AG's recommendations; Low level of budget implementation in the category of Capital Investments; Payments for instalments of capital projects were not recorded in the assets register; Monthly reports on liabilities were not reliable.
Kosova Tax Administration	8.39	Poor controls over the completeness and accuracy of reimbursements have resulted in shortcomings and differences in this component; The level of controls was not effective in all cases in the area of procurement, finance and human resources management; Despite the progress shown in the collection of receivables, handling of old debts and the increasing trend of new debts remains a challenge for the TAK.
Assembly of Kosovo	8.01	Low level of budget implementation in the category of Capital Investments; Shortcomings in the management of procurement procedures and of contracts; Shortcomings in assets management.
Ministry of Local Government Administration	5.18	The AFS have included a number of inaccuracies and errors; Budget implementation in 2014 was not at the expected level; The budget of Capital Investments was spent only 75%; Shortcomings in the staff recruitment process and in procedures for promotion of officials; Shortcomings in assets management.
Ministry of Diaspora	2.96	Incomplete implementation of AG's recommendations; Shortcomings in management of payments and in procurement, payments for activities to external parties; and in the process of awarding subsidies.
Office of the President	1.75	Shortcomings in the procurement processes; Failure to carry out the internal audit in line with the annual plan.



## 2.2 Unmodified Opinions with Emphasis of matter

Entity	Budget (in mil €)	Reason for Emphasis of matter	Key managerial shortcomings
Ministry of Labour and Social Welfare	285.73	Provision of subsidies by the Ministry without a clear legal basis; and payments out of Subsidies and Transfers made for Goods and Services.	Incomplete implementation of AG's recommendations; Managerial and financial reporting within the Ministry was poor; Budget planning can also be improved; Shortcomings upon management of subsidies (application of selection criteria), procurement and wages and salaries; Failure to carry out the internal audit in line with the annual plan, increase the effectiveness of the Audit Committee.
Ministry of Health	120.54	The information disclosed on fixed assets and stocks was not completely accurate and reliable	Shortcomings in the management of subsidies to patients from the programme TOPHI <sup>31</sup> ; and in costs for salaries; Shortcomings in the management of fixed assets and of pharmaceutical stocks, and their disclosure in the financial statements; Shortcomings in the Internal Audit system.
Ministry of Education, Science and Technology	53.71	The information disclosed on fixed assets is not completely reliable.	Shortcomings in management of assets register; Shortcomings upon implementation of the budget, especially in funds from donations; Shortcomings in the management of procurement and non-procurement expenditures, salaries and subsidies; The increasing trend of outstanding liabilities; Strengthening of the internal audit function, and functionalization of the Audit Committee.
Ministry of Environment and Spatial Planning	47.93	The information disclosed on assets was not complete and accurate; increase of outstanding liabilities that primarily relate to expropriations.	Asset owned by the MESP (KCA) are not fully recorded. In addition, were noticed delays in assets inventory; Incomplete implementation of AG's recommendations; Shortcomings in reporting/reconciliation of revenues; Increase of Accounts Receivable; Shortcomings in procurement management; remunerations for overtime work and outstanding liabilities.

<sup>31</sup> Treatment Outside the Public Health Institutions

Ministry of Agriculture, Forestry and Rural Development	28.27	The information disclosed on assets was not complete and accurate; The increase of outstanding liabilities that primarily relate to delays in carrying out payments for subsidies and transfers.	Incomplete implementation of AG's recommendations; Assets owned by the Ministry are not recorded completely; Shortcomings upon implementation of the budget; in carrying out payments for subsidies; in implementation of contracts.
Office of the Prime Minister	12.05	Lack of reporting on the way subsidies were spent.	Incomplete implementation of AG's recommendations; Shortcomings in reporting of subsidies; Shortcomings in processing of payments and in procurement; Incomplete information in assets registers; In the FVA there was no warehouse keeper that would receive and record assets in the e-assets
Customs	9.89	Records kept and the information presented in the disclosures of Accounts Receivable in the AFS were not complete.	Shortcomings in the management of Accounts Receivable; Increase of controls over the management of expenditures; Further progress is needed in the management of revenues.
Ministry for Communities and Returns	7.15	Investments made for municipalities and the community were not recorded as assets of MCR, and was not transferred to the beneficiary as a financial asset. Failure to disclose contingent liabilities in the financial statements.	Failure to fill out the self-assessment form as a requirement of the Financial Management and Control; Poor planning of the budget for the category of Capital Investments; Incomplete records on non-financial assets; Failure to disclose contingent liabilities for the last three years
Ministry of Trade and Industry	5.78	Failure to fully present capital assets in the explanatory Notes to the AFS.	Insufficient controls over the completeness of assets; Shortcomings in the management of expenditures, including wages and salaries; Lack of specific actions by the management to address challenges.
Ministry of European Integration	1.68	In the information disclosed, non-capital assets are overstated.	Budget was not planned based on real needs; Incomplete implementation of AG's recommendations; Shortcomings in the management and remuneration of personnel; Subsidising of NGOs for projects not in line with legal framework approved by the Ministry itself.

### 2.3 Qualified Opinions with Emphasis of Matter

Entity	Budget (in mil €)	Reason for Emphasis of matter	Key managerial shortcomings
Ministry of Infrastructure	199.51	Misclassification of expenditures. Non-systematic approach by the Ministry to confirm the original condition of inherited assets, and capital projects that were not recorded as on-going investments (but as capital assets) in the KFMS were depreciated without the completion of the entire project.	Inherited assets were not assessed accurately, while the on-going capital expenditures were capitalised; Unclearness between the road maintenance costs that need to be capitalised and those that are of a general nature; Incomplete implementation of AG's recommendations; Unrealistic planning of revenues; Shortcomings in procurement procedures; Understatement of liabilities; Shortcomings in the management of debts.
Ministry of External Affairs	21.00	Misclassification of expenditures, failure to close expenditures for goods and services, and failure to record two projects in the Accounting Register.	Unapproved expenditures of DCMs in previous years, and this year were not recorded either; Quality control over the preparation of the AFS was not good due to which resulted in material misclassification; Implementation of recommendations was low; The shortcomings of last year were identified this year as well, such as: positions Acting, splitting of tenders, appointments in DCMs and assets management; Application of the frozen exchange rate by the DCMs in Switzerland, foreseen as of 2011.
Ministry of Culture, Youth and Sports	19.66	Misclassification of expenditures between economic categories, information relating to fixed assets is materially understated and inaccurate, and; In the AFS were not disclosed subsidised/supported projects.	Shortcomings in the preparation of the AFS; Shortcomings in reporting between departments, Ministry and subordinate institutions; Incomplete implementation of AG's recommendations; Low level of budget implementation in the category of Capital Investments; Shortcomings in processing expenditures incurred through procurement, salaries, subsidies and Capital Investment; The Internal Audit system had not contributed to the management as expected.

**Table 3 Audit Opinions and key managerial shortcomings in Municipalities**

3.1 Unmodified Opinions		
Municipalities	Budget (in mil €)	Key managerial shortcomings
Hanit i Elezit	2.05	Incomplete implementation of AG's recommendations; Shortcomings in good governance; Low level of budget implementation for capital investments; Shortcomings in the process of planning and collection of revenues; Shortcomings in planning and implementation of projects through procurements, Accounts Receivables; Failure to establish the IAU.

3.2 Opinion i Pamodifikuar me theksim të Çështjes			
Municipalities	Budget (in mil €)	Reason for emphasis of matter	Key managerial shortcomings
Prishtina	82.02	Failure to record assets purchased during the year, and inherited in the KFMIS; Misclassification of expenditure from the category of Capital Investments in that of Goods and Services and Subsidies.	Incomplete assets register; Inaccuracies and errors upon preparation of the draft AFS; Incomplete implementation of AG's recommendations; Shortcomings in good governance; Low level of budget implementation; Poor management and monitoring of revenues; Shortcomings in the management of expenditures incurred through procurement, and Accounts Receivable; Carrying out payments in disagreement with Treasury Rules; Insufficient use of the IAU contribution.
Prizren	39.48	The information disclosed on assets and the register was not complete. Misclassification of expenditures from the category of Capital investments in that of Goods and Services.	Inaccuracies and errors upon preparation of the draft AFS; Low budget implementation; Shortcomings in the planning and collection of revenues; Shortcomings in the management of contracts for concessions, renting, and in expenditures through procurement; Increase of Accounts Receivable and of outstanding liabilities; Inoperable internal audit.
Ferizaj	26.01	Recording of assets is not complete and accurate; Misclassification of expenditures from the category of Capital investments in that of Goods and Services.	Shortcomings upon management of rent revenues, and in expenditure incurred through procurement; Carrying out payments in disagreement with the on co-financing; Failure to monitor subsidies.
Gjilan	22.53	The information disclosed on assets was not complete and accurate.	Shortcomings upon management of rent revenues; Shortcomings in expenditures incurred through procurement; Failure to fully address recommendations given by the IAU.

Podujeva	18.95	Recording of assets is not complete and accurate.	Failure to complete the assets register and classify them in appropriate economic codes in the AFS; Shortcomings in the management of revenues; Failure to monitor contracts for capital investments; Shortcomings in processing of payments in disagreement with the law on civil servants; Entry into liabilities without guarantees; Lack of focus by the IAU on high-risk areas.
Mitrovica	16.51	The information disclosed on assets was not complete and accurate.	Misclassification of expenditures; Shortcomings in good governance; Shortcomings in the management and collection of revenues, and in expenditures incurred through procurement; Failure to monitor and awarding of subsidies without criteria; Lack of focus on the current year audits by the IA.
Lipjan	13.25	The final budget was underestimated	Failure to prepare AFS in accordance with legal requirements; Incomplete implementation of AG's recommendations and of the IAU; Shortcomings in the management of revenue collection, controls over capital investments and personnel; Failure to monitor subsidies.
Fushë Kosova	8.98	The information disclosed on assets was not complete and accurate. Misclassification of expenditures from the category of Capital investments in that of Goods and Services.	Shortcomings in the AFS for some of the accounts; Incomplete implementation of AG's recommendations; Shortcomings in the collection of revenues, and in capital investment controls; Failure to implement the regulation on subsidies; Failure by the IAU to implement the work plan.
Kamenica	8.50	Recording of assets is not complete and accurate; Disclosures of Accounts Receivable have been understated.	Shortcomings in the process of preparation of the AFS; Shortcomings in good governance and in budget implementation; Poor management upon renting out, and procurement planning; Lack of transparency in the co-financed projects.
Shtime	5.89	Registration of assets is not complete and accurate;	Misclassification of expenditures; Shortcomings in good governance, and in the procurement process; Poor management of co-financings; Shortcomings in the Internal Audit System.

Obiliq	5.81	The information disclosed on assets and the register was not complete.	Failure to complete recording of assets in the accounting register and AFS; Incomplete implementation of AG's recommendations; Shortcomings in good governance; Low level of budget implementation; Shortcomings in the management of expenditures incurred through procurement, transfers and Accounts Receivable; Irregularities on payments to employees; Failure to implement the regulation on subsidies; Failure to establish the IAU.
Mitrovica Veriore	4.78	The information disclosed on assets and the register was not complete. Misclassification of expenditures from the category of Capital investments in that of Goods and Services.	Failure to prepare AFS in accordance with legal requirements; Incomplete implementation of AG's recommendations; Shortcomings in good governance, and budget implementation; Shortcomings in the management and planning of revenues, expenditures incurred through procurement and salaries; Non-functionalization of the IAU.
Shterpcë	3.40	The information disclosed on assets was not complete.	Incomplete implementation of AG's recommendations; Shortcomings in good governance; Failure to implement the budget for Capital Investments; Shortcomings in the management of expenditures incurred through procurement, and in Accounts Receivable; Failure to implement the regulation on subsidies; Increase of Accounts Receivable; Failure to establish the Audit Committee.
Mamushë	1.40	Failure to record assets in the KFMIS; Misclassification of expenditures from the category of Capital investments in that of Goods and Services.	Failure to prepare AFS in accordance with legal requirements; Incomplete implementation of AG's recommendations; Failure to complete the assets register in the e-assets programme; Lack of control over the collection of revenues, capital investments; Failure to establish the IAU.
Ranillug	1.32	The final budget of cash inflow and outflow was understated by €31,973.	The AFS do not represent a true view of the final budget; Incomplete implementation of AG's recommendations; Shortcomings in good governance; Shortcomings in management of revenue collection, expenditure incurred through procurement and subsidies; The IAU did not have the proper management support, the Audit Committee is inactive.

Partesh	0.97	The information disclosed on assets was not complete.	Failure to complete the assets register; Failure to prepare AFS in accordance with legal requirements; Incomplete implementation of AG's recommendations; Shortcomings in senior management controls over the revenues and expenditures; Low level of implementation of the capital investments budget; Shortcomings in planning and collection of revenues, and in expenditures incurred through procurement; Increased debt; Inoperable Internal Audit and Audit Committee.
Kllokot	0.97	The information disclosed on assets and stocks was not complete.	The AFS contain immaterial errors; Incomplete implementation of AG's recommendations; Shortcomings in oversight by the senior management over expenditures and revenues; Low level of budget implementation and use of revenues; Shortcomings in expenditures through procurement and co-financing; Failure to establish the IAU.

### 3.3 Qualified Opinion

Municipalities	Budget (in mil €)	Reason for qualification of opinion	Key managerial shortcomings
Dragash	7.35	The financial statements contain inaccuracies in terms of fair presentation of financial items.	Failure to prepare the AFS in accordance with legal requirements; Incomplete implementation of AG's recommendations; Incomplete assets register; Shortcomings in the management and collection of revenues; Shortcomings in procurement; Errors upon deductions of maternity leave; Poor management of receivables.
Kacanik	6.92	Assets Register was incomplete and inaccurate; Incorrect presentation of revenues in the AFS.	Failure to prepare AFS in accordance with legal requirements; Incomplete assets register; Failure to use the e-assets programme; Incomplete implementation of AG's recommendations. Shortcomings in procurement procedures, management of receivables and of payables revenues etc. Errors upon deductions of maternity leave; Failure to functionalise the internal audit committee.



### 3.4: Qualified Opinion with Emphasis of Matter

Municipalities	Budget (in mil €)	Basis for qualification of opinion	Key managerial shortcomings
Pejë	22.02	The final budget was understated; Failure to disclose payments from third parties; Misclassification of Capital Investments; The information disclosed on assets and stocks was not complete;	Failure to prepare AFS in accordance with legal requirements; Incomplete implementation of AG's recommendations; Shortcomings in good governance; Shortcomings in management of revenues, expenditures incurred through procurement; Failure to follow the recruitment regulation; Failure to implement the regulation on subsidies; Increase of Accounts Receivable and debts; Insufficient use of the IAU contribution.
Gjakovë	20.63	Recording of assets is not complete and accurate; Misclassification of expenditures from the category of Capital investments in that of Goods and Services and Subsidies; Incorrect presentation of donations in the AFS.	Failure to prepare AFS in accordance with legal requirements; Incomplete implementation of AG's recommendations; Failure to record all assets in the KFMIS; Failure to meet obligations; Failure to update contract between the Municipality and user of municipal business spaces; Lack of focus by the IA on current year activities.
Vushtrri	15.47	Payments from third parties were not disclosed in the AFS; Misclassification of expenditures from the category of Capital investments in that of Goods and Services and Subsidies and Transfer; The information disclosed on assets was not complete.	Failure to prepare AFS in accordance with legal requirements; Incomplete implementation of AG's recommendations; Shortcomings upon management of rent contracts and co-financing agreements; Carrying out payments in disagreement with Treasury Rules; Failure to record assets under €1,000 in the e-assets system; Weaknesses upon planning of IAU activities.
Suharekë	14.03	Misclassification of expenditures from the category of Capital investments in that of Goods and Services and Subsidies and Transfer; Carrying out payments in disagreement with Treasury Rules; Recording of assets is not complete and accurate.	Failure to prepare AFS in accordance with legal requirements; Shortcomings in good governance; Shortcomings in controls relating to co-financing and procurement payments; Failure to handle Internal Audit recommendations.
Malishevë	12.96	Misclassification of expenditures from the category of Capital investments in that of Goods and Services; Carrying out payments in disagreement with Treasury Rules; The information disclosed on assets is not complete.	Incomplete implementation of AG's recommendations; Shortcomings in management and collection of revenues; Lack of controls over the expenditures for vehicles' fuel; Carrying out payments in disagreement with Treasury Rules; Insufficient use of the IAU contribution.



Gillogoc	12.45	Misclassification of expenditures from the category of Capital investments in that of Goods and Services and Subsidies and Transfers; The final budget was overstated; Payments from third parties are incomplete; Failure to present items in the AFS; Information disclosed on assets and the register are incomplete	Failure to use the e-assets module; Failure to prepare AFS in accordance with legal requirements; Incomplete implementation of AG's recommendations; Shortcomings in good governance; Shortcomings in controls relating to co-financing and procurement payments; Shortcomings in recording and reporting of liabilities; Failure to handle IAU recommendations.
Skënderaj	11.74	Failure to keep assets in the e-assets; Payments from third parties are incomplete and inaccurate.	Failure to use the e-assets; Incomplete implementation of AG's recommendations; Systematic weaknesses in expenditures through procurement; Failure to meet expired obligations.
Rahovec	10.91	Misclassification of expenditures from the category of Capital investments in that of Goods and Services and Subsidies; The information disclosed on assets is not complete; The final budget was understated in the category of donations.	Failure to prepare AFS in accordance with legal requirements; Incomplete implementation of AG's recommendations; Failure to update the PIP under the requirements of the law on budget; Shortcomings upon planning of property tax revenues; Misclassification of expenditures; Failure to complete the assets register; Lack of focus in the current year, and based on risk.
Viti	10.23	Failure to record assets; Failure to keep assets in the e-assets;	Failure to prepare AFS in accordance with legal requirements; Failure to complete the assets register; Failure to use the e-assets programme; Incomplete implementation of AG's recommendations; Shortcomings in procurement procedures, management of revenues, receivables, payables etc. Errors upon deductions of maternity leave; Lack of statute of the internal audit committee.
Istog	8.74	Misclassification of expenditures from the category of Capital investments in that of Goods and Services and Subsidies and Transfers; Recording of assets is not complete and accurate; Failure to record assets in the KFMIS; Carrying out payments in disagreement with Treasury Rules.	accordance with legal requirements; Failure to complete assets register, failure to establish inventory commission; Shortcomings in the process of planning and collection of revenues; Shortcomings in controls over capital investments; Failure by the IAU to fulfil the plan.

Klinë	8.73	Misclassification of expenditures from the category of Capital investments in that of Goods and Services and Subsidies and Transfers; Payments without appropriate evidence.	Shortcomings in the process of AFS preparation relating to payments from third parties, disclosure of assets and liabilities; Incomplete Implementation of AG's recommendations; Shortcomings in good governance; Shortcomings in the management of procurement processes, in co-financing projects; Irregular payments in subsidies, payments in ready cash, conflict of interest and poor monitoring; Failure to complete the assets register; Poor controls over the collection of rents; A political director appointed as a Director of the Internal Audit; Insufficient coverage by the IAU of audit areas.
Deçan	7.48	Assets register incomplete; Failure to keep assets in the e-assets;	Shortcomings in the AFS; Incomplete Implementation of AG's recommendations. Shortcomings in procurement procedures, management of revenues, receivables, payables etc.; Errors upon deductions of maternity leave; Failure to complete the plan of the internal audit.
Novobërdë	2.38	Payments for fictive salaries in the Municipality; The information disclosed on assets and the register were not complete.	Failure to prepare AFS in accordance with legal requirements; Incomplete implementation of AG's recommendations; Shortcomings in good governance, and implementation of budget for capital investments; Shortcomings in the process of planning and collection of revenues, procurement, recruitment, irregular payments, non-implementation of the regulation and lack of monitoring over the award of subsidies; Increase of Accounts Receivable; Failure to use the IAU contribution.
Junik	1.74	Assets register incomplete; Failure to keep assets in the e-assets;	Failure to prepare AFS in accordance with legal requirements; Failure to complete assets register; Failure to use the e-assets programme; Incomplete implementation of AG's recommendations. Shortcomings in procurement procedures, management of revenues, receivables, payables etc.; Errors upon deductions of maternity leave; Failure to establish the internal audit committee.

### 3.5: Disclaimer of Opinion

Municipalities	Budget (in mil €)	Reason for disclaimer of opinion	Key managerial shortcomings
Graçanicë	6.59	Uncertainty upon execution of wages and salaries; Misclassification of expenditures in the category of Subsidies and Capital investments; The information disclosed on assets was not complete.	Incomplete implementation of AG's recommendations; Shortcomings in good governance low level of budget implementation for capital investments; Shortcomings in planning, collection and reporting of revenues; Weaknesses in procurement; Services paid out of capital investments; The petty cash fund was spent in disagreement with financial rules; Insufficient contributions by the internal audit.
Leposaviq	3.27	Scope limitation in salaries; The information disclosed on assets and the register were not complete.	Weaknesses exist in the management of personnel and of assets; The AFS were submitted late, and contained shortcomings; Incomplete Implementation of AG's recommendations; Shortcomings in good governance; Low level of budget implementation; Shortcomings in planning and collection of revenues, and in procurement; Lack of the IAU.
Zubin Potok	2.13	Scope limitation in salaries.	Failure to complete the assets register and failure to disclose them in the AFS; Lack of sufficient audit evidence on the regularity of salaries; Late submission of the AFS; Incomplete Implementation of AG's recommendations; Shortcomings in the processes of management and control by the high level, of revenue and the procurement; Failure to establish the IAU.
Zveçan	3	Scope limitation in salaries.	Failure to properly manage the personnel and assets; Failure to prepare the AFS in time and in accordance with legal requirements; Incomplete implementation of AG's recommendations; Poor management of controls by the high-level; Internal control weaknesses over revenues and procurement; Lack of regulation for subsidies; Failure to establish the IAU and the Audit Committee.

**Table 4: Audit Opinions and key managerial shortcomings in Independent Agencies**

4.1 Unmodified Opinions		
Entity	Budget (in mil €)	Key managerial shortcomings
Kosova Judicial Council	20.04	Incomplete implementation of AG's recommendations; positions are covered by Acting since 2012; Incorrect recording and reporting of assets.
State Prosecutor	6.97	Selection of employees without waiting for the legal deadline for review of complaints.
Kosova Property Agency	3.07	Incomplete Implementation of AG's recommendations; Low budget implementation in the category of Capital Investments; Shortcomings upon evaluation of tenders;
Independent Commission for Mines and Minerals	1.76	Incomplete implementation of AG's recommendations; Management of licenses in general continues to be a challenge for the ICMM, management controls have not functioned in line with the legal framework in all the cases; Shortcomings in processing of expenditures.
Constitutional Court of Kosova	1.51	Lack of controls over personnel management.
Public Procurement Regulatory Commission	1.44	Shortcomings in procurement expenditures procedures, when required; Failure to adhere to the criteria set out for employment;
Independent media Commission	1.42	Low collection of revenues in 2014 under the deadline foreseen in the relevant regulation; Failure to functionalise the e-assets software; There is an increasing trend of Accounts Receivable in 2014 compared to the prior year.
Academy of Sciences and Arts	1.17	Shortcomings in the procurement process, and salaries.
Agency for the Management of Memorial Complexes of Kosovo	1.09	Shortcomings in disclosures in the AFS; Budget implementation was not at the expected level.
Ombudsperson	1.04	Incomplete implementation of AG's recommendations; Low budget implementation (79%).
The Regulatory Authority for Electronic and Postal Communications	0.97	Incomplete implementation of AG's recommendations; Low budget implementation, as it is approximately the same for many years for goods and services and capital investments; Shortcomings in some procurement processes.
Civil Aviation Authority	0.84	Issuance of licenses without meeting financial obligations; Failure to carry out the internal audit and the quality control function.
Kosova Judicial Institute	0.61	Monitoring of controls over the processing of payments and assets management.
Anti-Corruption Agency	0.59	Incomplete implementation of AG's recommendations; Misclassification of expenditures per economic categories.
Energy Regulatory Office	0.57	Incomplete implementation of AG's recommendations.
Legal Aid Commission	0.40	Improper segregation of duties and responsibilities.
Water and Waste Regulatory Office	0.33	Due to lack of needed staff, prior year's recommendations were not addressed; Challenges upon collection of Accounts Receivable.

Railway Regulatory Authority	0.33	Assets register was not updated properly.
Procurement Review Body	0.30	The AFS contained errors relating to revenues and disclosures of capital investments; Incomplete implementation of AG's recommendations; Weaknesses in the budgetary controls, at the level of economic codes; Systematic and non-systematic weaknesses in procurement procedures; abroad travel expenses in disagreement with the AI 2004/07; Shortcomings in recruitment procedures.
The Independent Oversight Board Civil Service of Kosovo	0.27	Deviation from the budgetary planning by overspending one subcategory (travel expenses) by impairing other category; Shortcomings in the processing of non-procurement expenditures; payments carried out not in line with the decision and appointment, and remunerations for overtime work in disagreement with the regulation.
The Elections Complaints and Appeals Panel	0.25	No shortcomings
Kosova Council for Cultural Heritage	0.15	Improvement of record regarding the overtime work and during the weekends; Lack of internal audit for 2014.

#### 4.2 Unmodified Opinions with Emphasis of Matter

Entity	Budget (in mil €)	Reason for Emphasis of matter	Key managerial shortcomings
University of Prishtina	34.51	The information disclosed relating to fixed assets was not fully reliable.	The implementation of the budget was low; Shortcomings in the management of assets and liabilities; Shortcomings in processing of expenditures; An increasing trend of outstanding liabilities and contingent liabilities; Inefficient functioning of the IAU, a passive role played by the audit committee, and non-implementation of recommendations.
Central Election Commission	11.07	The information disclosed on capital assets was understated while non-capital assets were overstated.	The adjusted AFS have met the reporting requirements, with the exception of disclosures on assets; Incomplete implementation of AG's recommendations; Unrealistic planning, and budget implementation is a challenge that the CEC has faced in the last few years; Poor management of the procurement process, of employment contracts and remuneration of staff; Poor management of assets as a result of ineffective controls over this area.

State Agency for Data Protection	0.38	The information disclosed on fixed assets is not fully reliable.	Three vehicles purchased at the end of 2014 were not recorded in the registers of assets and were not disclosed in the Annual Financial Statements.
Kosova Competition Authority	0.26	Has not disclosed the value of non-capital assets under €1,000	The inventorying for 2014 was not carried out and management of vehicles was not adequate; Shortcomings in processing of payments, travel expenditures and mobile telephony.

#### 4.3 Qualified Opinions

Entity	Budget (in mil €)	Reason for Qualification of Opinion	Key managerial shortcomings
Privatisation Agency of Kosova	7.78	Failure to present professional liquidation expenses; 'irregular payments made to remunerate members of the PAK Board of Directors.'	There is a need to improve the accuracy of data in the AFS and the quality of explanatory notes; Incomplete implementation of AG's recommendations; Frameworks for governance work require strengthening; Disagreement of internal regulations for distribution of 20% with the basic regulations of UNMIK; Shortcomings in budget planning for Goods and Services and collection of Accounts Receivable; Failure to carry out the internal audit under the risk-based annual plan and failure to functionalise the Audit Committee.

#### 4.4 Qualified opinions with Emphasis of matter

Entity	Budget (in mil €)	Reason for Qualification of Opinion	Key managerial shortcomings
Privatisation Fund		Inclusion of professional expenses of liquidation of privatized SOEs; Failure to maintain funds in trust for owners and creditors; Liquidation expenses paid out of the trust funds.	Internal regulation for distribution of 20% exceeds the provisions of the basic regulation; Impact of investments from low activation of funds in trust; Lack of complete composition of members of the Board of Directors; Project management and reporting by the PAK.

**Table 5: Audit Opinions and key managerial shortcomings in Independent Agencies in Entities outside KB**

Entity	Budget (in mil €)	Audit Opinions	Key managerial shortcomings
TAMAD	0.46	Unmodified Opinion	No shortcomings
Education sector	1,05	Unmodified Opinion	Low budget implementation



## ANNEX III: RECOMMENDATIONS GIVEN IN THE 2013 AAR

Responsible institution	Fully addressed recommendations	Partially addressed recommendation	Not addressed recommendations
<p><b>Kosovo Assembly</b></p>	<p><b>I recommend the Assembly to consider:</b></p> <ul style="list-style-type: none"> <li>Developing the reporting framework in order to ensure that sound mechanisms are established for Independent Institutions accountability for public money spent against results achieved.</li> </ul>	<p><b>I recommend the Assembly to consider the need to:</b></p> <ul style="list-style-type: none"> <li>Hold Government accountable for addressing the above listed recommendations and introduce effective follow up mechanisms of measures taken;</li> <li>Push the Public Procurement Regulatory Commission to accelerate the introduction of e-procurement in order to achieving better transparency and simplifying the procurement processes;</li> <li>Monitor the Government's actions regarding the selection of staff in key government positions and that it addresses the issue of acting positions in a timely manner;</li> <li>Finding a sustainable solution when it comes to internal audit services for small independent institutions directly accountable to the Assembly which will foster independence and accountability. Creation of an internal audit function within the Assembly which would offer shared services for small independent institution might be a cost effective solution.</li> <li>Initiating immediate measures for appointment within legal limits when notified regarding the expiration of mandates of Boards and their members</li> <li>Advise the Government to further explore the possibilities to provide the Independent Institutions with working space in public buildings within the shortest period possible thus reducing the operating costs for IIs significantly;</li> </ul>	<p><b>I recommend the Assembly to consider:</b></p> <ul style="list-style-type: none"> <li>When appropriating the budget, the previous year's budget performance of Central Authorities is taken into account, to discuss the reasons for surpluses and then take adequate decisions for annual budget appropriations;</li> <li>Further promoting horizontal cooperation between Independent Institutions through the Coordination Office of the Assembly in sharing knowledge and more rational use of human resources;</li> <li>Addressing the recommendation from last year on re-establishing the function of Executive Manager in all municipalities, as a highest civil servant in the administration responsible for providing service for citizens;</li> <li>Closely follow how the Government develops its ownership responsibilities in relation to the central Publicly Owned Enterprises with an emphasis on the development and monitoring of performance indicators;</li> <li>Giving higher priority to the oversight of Publicly Owned Enterprises.</li> <li>Follow the progress in implementing the recommendations given for 2012 regarding Trepca.</li> <li>Developing clear provisions that determine the timetables for selecting members of Boards of Directors thereby not leaving gaps in the functioning of the Agency;</li> <li>Taking measures securing that revenues from the sale, transfer and liquidation of SOEs, with the exception of surplus funds, are to be held in trust for the owners and creditors; and</li> <li>Requesting from the Board of Directors of the Agency clarity over how the cost for liquidation services should be budgeted for.</li> </ul>



<p><b>I recommend the Government to ensure that:</b></p> <ul style="list-style-type: none"> <li>• Adequate measures are taken to analyse other shortcomings in KB/AFS consolidation process such as: the inter-governmental transactions, third party payments, non-capital assets and classification of the expenditures. In this aspect, the reasons behind the non-implementation of the new guideline related to third party payments should be reviewed. Similarly the justification for the non-consolidation of inter-governmental transactions should be reassessed and formally justified if further action is not taken to address this position;</li> <li>• Monitoring mechanisms applied to budget performance are strengthened by identifying and addressing potential barriers to budget execution with budget planning preceded by a rigorous process of evaluation. When drafting and reviewing the budget, proper budget classification should be made based on the nature of expenditure;</li> <li>• An effective capital project management process is put in place providing proactive monitoring and action to address barriers preventing the timely implementation of contracts according to dynamic plans;</li> <li>• A critical review is carried out to ensure full implementation of revenue collection plans. The Government should seek more accountability from the main revenue collection agencies in order to ensure that control measures over the complete application of collection orders and collection of tax debts are strengthened;</li> <li>• A Task Force is established for analysing and reporting to the Government within a three-month period regarding the causes behind increased liabilities from one year to another, aimed at bringing debts down to an acceptable level;</li> <li>• The possibility to integrate performance reporting with the financial reporting in the Annual Financial Statements should be considered.</li> </ul>	<p><b>I recommend the Government to ensure that:</b></p> <ul style="list-style-type: none"> <li>• KEK starts to implement the amended agreements on withdrawn credits and that it adheres to the credit plan for paying the principal and interest;</li> <li>• The e-asset programme is implemented in all governmental institutions.</li> <li>• Ministry of Public Administration as the owner of the e-asset system should take all necessary actions to avoid and/or address technical shortcomings of the system. In addition, training programmes should be provided to the responsible officials in the use of this application.</li> <li>• The Ministry of Finance reviews the effectiveness of the FM/C self-assessment process as a tool designed for the overall public governance development. It should further analyse reasons why it is not used by all Budget Organisations and why, when used, rarely provides sufficient and appropriate information.</li> <li>• Further support should be offered to its users ensuring that the quality of the process and of the information on FM/C status is further strengthened. Using good examples as a model might be of help;</li> <li>• The Heads of the Budget Organisation's gives special attention to the requirements on Action plans addressing auditor's recommendations and set up clear priorities and timelines for measures;</li> <li>• The Head of each Budget Organisation starts producing a performance report annually. Such a report should, amongst other objectives, include basic information about activities and results measured against policy objectives established beforehand;</li> </ul>	<p><b>I recommend the Government to ensure that:</b></p> <ul style="list-style-type: none"> <li>• The reasons for Emphasis of matter in the KB/AFS for 2013 are analysed and that necessary actions are identified to address these control shortcomings in order to enable a fair and true presentation of assets in the KB/AFS of 2014 and underlying AFS.</li> </ul>
<p><b>When planning PPP projects, I recommend the Government to ensure that:</b></p> <ul style="list-style-type: none"> <li>• All administrative procedures are adhered to when issuing directives, regulations and holding meetings;</li> <li>• The PPP Committee should clarify reporting timescales through directives and regulations and ensure timely reports and in line with foreseen requirements; and</li> <li>• All official documents and agreements should be available in the country's official languages.</li> <li>• The issue of lack of construction licence for the new Terminal is treated seriously and the responsible stakeholders are mobilised to legalise the building;</li> </ul>		
<p><b>Government</b></p>		

- Immediate actions are taken regarding the land disputed with KFOR to clarify the dispute and close the unresolved issues on expropriation of private properties in order to have construction of the entrance road of IAP AJ finished. Furthermore, amendments to the Agreement should be made as needed.

- Ministry of Public Administration pushes forward the implementation of the Civil Service reform. The whole legal framework for CS should be organised enabling implementation of a new salary and appraisal system. Pre-conditions for a full implementation of the Human Resources Management Information System should be created;
- The Central Procurement Agency commences framework contracts and centralised procurements during 2014 for selected items in order to ensure that the public sector benefits from economy of scale.
- Initiate an evaluation of the effectiveness of the current legal framework and practices in using official vehicles.
- Provisions are drafted that clearly set forth and describe the process and deadlines for selection of the Board of Directors;
- The assessment of the Board of Directors is based on the previously set criteria;
- Ministry of Economic Development carries out analysis of the financial statements of the Publicly Owned Enterprises and specifies standard information needed for an effective monitoring and oversight; and
- Ministry of Economic Development take measures in order to secure that Board of Director remunerations are result based.

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

- More effective mechanisms are put in place in order to clarify requirements from the National Overall Strategy on waste management;
- The National Strategy is regularly updated in order to focus on the waste minimisation and prevention;
- The existing programme for central waste inspections is implemented to address the shortcomings in local level inspections and

Such reporting arrangement would provide a better base for holding managers into account for both what they have spent and achieved;

- Risk management processes in Budget Organisations are strengthened. The most significant risks should be identified in the individual organisations and actions should be taken to prioritise and mitigate these risks. The Ministry of Finance should be proactive in helping the respective Head in fulfilling the risk management responsibilities and guiding them in developing appropriate policies and plans and the effective application of these in practice;
- Should consider immediate measures for strengthening quality of the internal audits carried out within Publicly Owned Enterprises. Internal auditors of the Publicly Owned Enterprises should be part of the same professional development as other public sector internal auditors and be subject to the same quality control as for internal audits carried out within BO's. One step required to achieve this is to initiate amendments of the law on Publicly Owned Enterprises;
- The Ministry of Finance finds a sustainable solution when it comes to set up a sustainable certification of internal auditors based on, for example, the Institute of Internal Auditors International Professional Practices Framework, analyses modalities for strengthening the quality of the Audit Committees, facilitates the establishment of a professional association for Internal Auditors and introduce general guidelines on risk based internal audit planning as well as delivering appropriate training to internal auditors on how to use it in practice;
- Managerial controls are strengthened regarding additional remuneration and recruitment processes in order to facilitate transparency and merit based decisions;

- An effective monitoring and reporting on environment is implemented by providing comprehensive, quantitative and qualitative information on waste management related issues in Kosovo.

**When planning Public Private Partnership projects, I recommend the Government to ensure that:**

- A permanent project management unit should be established. The establishment of the independent unit should become a precondition for entry into force of any agreement made;

**For the completion of the current Public Private Partnership project, I recommend the Government to ensure that:**

- The new Terminal is accepted in accordance with the **Public Private Partnership Agreement** with the expected level of safety and capacities;
- The **Public Private Partnership** Committee take actions regarding outstanding works and clarifies how they shall be performed and supervised and produces a report on the Independent Engineers services and clarifies whether the supervision services are completed in accordance with the contract.
- Regional Waste Companies are supported in promotion of waste collection services in terms of expanding their activities and focus at the same time on more effective collection of revenues in order to generate funds to support investments for operational improvements.
- When reviewing quarterly budget reports, special focus should be on uncollected liabilities and debts; and

- Extended accountability arrangements between Central Authorities and their agencies are developed which should clarify accountability lines, provide effective reporting structures supporting strong financial management and timely decision making and reporting. In this regard, it should support an effective consolidation process of financial statements;
- Budget policies, especially in terms of Capital Investments are improved and that financial controls related to the recording of expenditures into adequate economic categories are strengthened;
- A clear framework of risk management in relation to organisational objectives is introduced. This should be used as a basis for strengthening and developing an adequate and effective control environment and starting point for the work of internal audit;
- The Minister of Finance discusses with the Mayors the issue of outstanding liabilities, and review alternatives for settling these liabilities;
- The Minister of Finance initiates a comprehensive discussion with the Mayors and the Government on handling un-collected debts, with a special focus on debts older than five years;
- The possibilities to invest in a generic internal reporting system for the municipalities is analysed in order to support better control of municipal activities;
- Clear rules are defined specifying ceilings for representation expenditures in municipalities; and
- Intensified discussions with Mayors of northern municipalities are initiated to identify the challenges that they face and provide adequate support for their complete integration in all fields. Furthermore, determine how appropriate training should be provided on the use KFMS modules and other required Public Financial Management functions.

		<ul style="list-style-type: none"> <li>• Audit Committees are established where they are not in place yet.</li> </ul>	<p><b>I recommend the Government to:</b></p> <ul style="list-style-type: none"> <li>• Provide a procedure for selecting members of Board of Directors which should clearly foresee the advertising of positions, development of an assessment process for candidates and submission of proposals for candidates for appointment to the Assembly.</li> </ul>
<b>Mayors</b>		<ul style="list-style-type: none"> <li>• Regional Waste Companies are supported in promotion of waste collection services in terms of expanding their activities and focus at the same time on more effective collection of revenues in order to generate funds to support investments for operational improvements.</li> </ul>	<ul style="list-style-type: none"> <li>• Municipal organisation on waste collection is improved by clarifying responsibilities within the municipality and that local inspectors fully implement their work programmes in order to support a cleaner environment;</li> <li>• Completion of the legal infrastructure on municipal waste is moved forward through the introduction of local standards and regulations. For example, this must provide adequate locations for containers and encourage the separation and classification of waste;</li> </ul>
<b>Municipal Assemblies</b>	<ul style="list-style-type: none"> <li>• Before submitting budget requests for 2015, audit reports are analysed, with special focus on addressing recommendations and eliminating shortcomings identified;</li> </ul>	<ul style="list-style-type: none"> <li>• When reviewing quarterly budget reports, special focus should be on uncollected liabilities and debts; and</li> <li>• Audit Committees are established where they are not in place yet.</li> </ul>	<ul style="list-style-type: none"> <li>• The selection procedure of Board of Directors in Publicly Owned Enterprises are carried out according to the deadlines set forth in the provisions;</li> </ul>



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

Ilire Daija - Buza  
ilire.daija@oagks.org  
+381 (0) 38 25 35 121

Qëndresa Mulaj  
qendresa.mulaj@oagks.org  
+381 (0) 38 25 35 262

## **ZYRA E AUDITORIT TË PËRGJITHSHËM**

Adresa: Rr. "Musine Kokollari" nr.16  
10 000 Prishtinë, Kosovë

Telefon: +381 (0) 38 25 35 217  
Faks: +381(0) 38 25 35 122

[www.oag-rks.org](http://www.oag-rks.org)