



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

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**AUDIT REPORT ON FINANCIAL STATEMENTS FOR THE
MINISTRY FOR COMMUNITIES AND RETURN FOR THE YEAR
ENDED ON 31.12. 2008**

Prishtina, July 2009

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List of Abbreviations

| | |
|-------|---|
| AG | Auditor General |
| CBK | Central Bank of Kosovo |
| ICO | International Civilian Office |
| IFAC | International Federation of Accountants |
| IPSAS | International Public Sector Accounting Standards |
| ISFMK | Information System of Financial Management of Kosovo |
| KCB | Kosovo Consolidated Budget |
| LMFPA | Law No. 03/L-048 on Public Financial Management and Accountability |
| LPP | Law No. 2003/17 on Public Procurement With amendments and fulfilments dated on February 8 th 2007 |
| MCR | Ministry for Communities and Return |
| MFE | Ministry of Finance and Economy |
| OAG | Office of the Auditor General |
| SRSR | Special Representative of Secretary General |
| UNMIK | United Nations Mission in Kosovo |

I. Executive Summary

The Office of the Auditor General (OAG) has performed an audit of the Financial Statements of the Ministry for Communities and Return (MCR) for the year ended 31 December 2008.

Our audit was carried out in accordance with international auditing standards issued by INTOSAI and included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements.

In our opinion, the financial statements *do present a true and fair view*, in all material aspects.

An emphasis of matter resulted of our carried out audit are:

- The Registry of fixed Assets is still not reliable. It shall be compiled pursuant to Administrative Instruction no. 2005/11 – Registration and management of Government assets. (*ISSAI 400 unqualified opinion with an Emphasis of Matter*).

Audit of financial statements, underlying financial transactions and financial management have identified weaknesses within some main areas, which should be addressed urgently by the management in order to improve the effectiveness and efficiency of the organization.

Our performed Audit has resulted in findings and recommendations as following:

1. No authentic evidence is kept on personnel files, and did not do an adequate selection of recruited employees.
2. Missing the functional control on the managing and execution of procurement procedures.
3. Inefficient management of petty cash
4. Allocated means for advances on official trips are not used at the appropriate level.
5. There was no authentic monitoring and execution on the usage and management of subsidies for communities
6. There is no functional control and management on the usage of assets
7. In absence of internal auditor, the internal control system did not function at the appropriate level.

We gave the recommendations that we believe it will help the management to address these weaknesses and further improve the efficiency of managing with public funds

II. Introduction

The Office of the Auditor General (OAG) is, under the law, responsible for carrying out annual regularity audits.

A Regularity Audit is defined as an attestation of financial accounting, involving examination and evaluation of financial statements and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable Laws and regulations;
- The appropriateness of internal controls and internal audit functions;
- The probity and propriety of administrative decisions taken within the audited institutions or entity; and
- All matters arising from or relating to the audit.

It is the responsibility of the Ministry for Communities and Return (MCR) to prepare financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) for “Financial Reporting under the Cash Basis of Accounting”, in compliance with Administrative Instruction 2008/13, and to present it in time.

III. Status of prior year’s recommendations

The audit report on financial statements for the year 2007 has resulted with 5 recommendations, out of which 2 were implemented and 3 remain not implemented. The MCR did not prepare nor submit the implementation plan of recommendations to the OAG for 2007.

IV. Audit Scope

This audit of the MCR relates to the financial statements for the year ended 31 December 2008.

The primary objective of this audit was to enable the OAG express its opinion on whether the MCR Financial Statements give a true and fair view and whether the financial records, systems and transactions comply with applicable Laws and regulations.

V. Audit Approach

Our audit was planned and performed during the period from 15th December 2009 to 06th March 2009 following INTOSAI Auditing Standards.

In order to fulfil our responsibilities, we:

1. Reviewed the MCR financial statements against the approved budget for 2008;
2. Determined whether the MCR Financial Statements were prepared in accordance with IPSAS “Financial Reporting under the Cash Basis of Accounting”;
3. Undertook extensive substantive testing of financial transactions;
4. Used a combination of judgment and random sampling to select transactions for testing;
5. Established materiality levels of 5% for uncertainties and 3 % for errors as a threshold for assisting in determining the type opinion to render on the financial statements;
6. Relied on a combination of interviews, analytical reviews, document reviews, and physical verification to assess the validity and propriety of financial transactions;
7. Assessed the independence and quality of work of the MCR Internal Audit unit to determine if their work could be relied upon for our audit purposes.

Our findings and conclusions are based upon the documentation, information and explanations provided to us during the course of our audit work.

In regard our audit opinion for MCR financial statements, the international standards set out specific criteria that govern the type opinion that can be rendered. Audit opinions can be unqualified, qualified, adverse or a disclaimer of opinion (Cf. Appendix 1 ISSAI 400).

VI. Audit Opinion

In our opinion, the financial statements *present a true and fair view*, in all material aspects,

As an emphasis of matter resulted from our audit is:

- The Registry of fixed Assets is still not reliable. It shall be compiled pursuant to Administrative Instruction no. 2005/11 – Registration and management of Government assets. (*ISSAI 400 unqualified opinion with an Emphasis of Matter*).

VII. Key Audit Findings and Recommendations

1. Financial Outcome against Approved Budget

An analysis of the Outcome in the Financial Statements against the Approved Budget for the category of expenditures is presented in the following table:

Table 1: Expenditures.

| Payments and overall grant | Approved Budget € | Spent Budget € | In % |
|----------------------------|-------------------|------------------|-----------|
| Wages and salaries | 370,561 | 346,862 | 94 |
| Goods and Services | 1,013,261 | 880,628 | 87 |
| Utilities | 52,298 | 32,576 | 62 |
| Subsidies and transfers | 911,412 | 890,218 | 98 |
| Capital Investments | 7,121,021 | 4,177,684 | 59 |
| Total | 9,468,553 | 6,327,967 | 67 |

Overall actual expenditures for the year 2008 were €6,352,618 out of which €6,327,967 paid in cash whereas €24,651 were left over obligations conveyed to be paid in the year 2009.

Compared with the budget of 2008 the Ministry spent around 66.83 % of the budget planned and at the end of the year 2008 had a surplus from €3,140,586.

Conclusion

According to our evaluation the Ministry has spent the budget for 2008 within the determined limitations by the Assembly in regard to the Budget approval for the year 2008.

2. Financial Statements

Findings:

- The MCR did not prepare the financial statements based on its accounting data's but is relied on Treasury data's through a "Free Balance" system, and which is against the Administrative Instruction No. 2008/13 (Annual reporting of budgetary organizations).
- By not having a functional the independent system of accounting and not using of a adequate program, for registration of any financial transaction, there can be no assurance of adequate reporting of the financial data.
- In financial statements, assets are not presented in explanatory notes.

Conclusion

The MCR doesn't have relevant procedures and controls for preparing of financial statements in an independent way that would enable the presentation of financial data's in a accurate and credible way, and these statements may have weaknesses in their financial declarations.

Recommendation 1:

We recommend the Minister of MCR:

- To prepare the financial statements in a independent way based on data's of its accounting records;
- Must apply an adequate programme for registering of all financial transactions, to be as reliable, accurate and complete;
- Must apply policies and procedures that enable the monthly reconciliation with "Free Balance" of Treasury, and to declare all its assets in financial statements.

3. Budget Execution

3.1 Salaries, per-diem, personnel file

During the examination of payroll lists we have selected samples from the months of June till December of the year 2008 for the central administration and political staff

The OAG has selected a sample from 14 registers from the personnel files of Central administration, which is kept by the personnel office of MCR.

Findings:

From the audited samples and comparisons performed through payroll system of MPS, financial statements from MCR, free-balance from MFE and contracts signed we conclude that we haven't faced breaches of material procedures on conducting of salaries.

However, we have noticed that many of personnel staff did not sign the salary list which is inappropriate control in ensuring that only actual employees take their payments.

For the audit of fourteen personnel files we have found cases of non-compliance in between the foreseen criteria for employment and evaluation of candidates based on criteria's from relevant commissions,

Further down we present findings which were not in harmony with foreseen criteria's and procedures.

- Ten employees out of 14 audited samples were accepted with the decision of permanent secretary as acting in relevant duties, afterwards the announcement for recruitment is made, even though all of them did not meet the criteria's, they were

favoured by the evaluating committee and accepted as regular employees in relevant positions.

- In eight cases tested relevant committee has not selected candidates who meet the criteria set forth based on competition which is in Contradiction to the Administrative Instruction no. MSHP / DASHC 2003/01 for recruitment procedures
- The personnel file is not completed and selected based on the relevant procedures of Administrative Instruction no. MSHP / DASHC 2003/11, for personnel file procedures

Conclusion:

The provisions of Administrative Instruction for the recruitment of new candidates in MCR were not applied in total.

Recommendation 2

We recommend the Minister of MCR:

- The MCR must conduct all its activities in accordance with relevant rules and procedures to ensure sufficient transparency in the process of staff recruitment.
- The personnel file must be prepared, completed, selected with restraint elements based on the administrative instruction for procedures for the personnel files
- Salary lists must be signed by each employee in order to prove that all those who receive salaries are regular employees and avoid the possibility of irregularities or poor management of public funds.

3.2 Procurement

Proper functioning of internal control helps the MCR to achieve its main objectives in the implementation of procurement activities

During 2008, MCR executed 66 procurement contracts at value of €3,040,629. To audit them we have selected a sample from 16 contracts at the total amount of €2,807,274 and on some of them there are breaches of procurement procedures.

Further down we present examined cases which present weaknesses in non-implementation of procurement procedures.

Findings:

3.2.1. Sports Centre in Gracanica – 211/08/08/521; Value €155,810

The final statement for calculating the executed duties is missing. The tender Security doesn't cover all performed days of performed duties. Works have been finished on 01.12.2008 whereas the tender security is done from 11.07.2008 till 11.09.2008.

The commitment of means is done after the signing of contract respectively on, 14.08.2008, whereas the signing of contract is done on, 10.07.2008, which are in Contradiction with article 4.3 Financial Regulation and Treasury Guidelines 02 Expenditure of Public Money

3.2.2 Project in village – 211/08/077/511; Value €1,821,113 Project in village Klobukar – 211/08/087/511; Value €422,897

The company did not keep appropriate evidence for the execution of works in its diary. It did not calculate the situations as per bill of quantity but calculated them in a generalized way by not accounting for every detail of work completed, where this is required under article 27 of the contract.

3.2.3 Supply with IT; Purchase of computers

For two performed procurements for IT supply, and for buying of computers as per the final plan of procurement it is foreseen to be spent 16,000 € whereas already spent €26,459.

3.2.4 Two procurements activities that reach the total amount of €19,685,

Purchase orders are prepared and sent to the Economic Operators after the invoices were accepted. Rules and Treasury Guidelines 02 Expenditure of Public Money determines that purchase order is created and prepared by the budget organization, after the selection of tenders, to enter into judicial relations with the most successful supplier.

3.2.5 Supply with laptop for the needs of the office

It is foreseen to be purchased two laptops for two Deputy Ministers. the request is made for two laptops by the chief of Minister's cabinet, but in reality there were bought 3 laptops, to a value of €2,094, by correcting the application without the notice of chief of ministers cabinet, and for the purchase of the third laptop there was no evidence presented to us about its existence and who is in charge of it.

3.2.6 Evaluating committees and screening

In eight audited cases of committees for evaluation and opening of bids participants were the procurement officials in some cases they were also as officials for accepting of different goods.

3.2.7 Procurement procedure

In twelve procurement activities that reach the value of €66.260, MCR has made division of procurement activities to avoid the open procedures, Article 17.5 of the Law on Public Procurement no. 2003/17 amended on 8 February 2007 specifies that the contracting authority will not make the division of jobs or contract jobs with the aim of reducing the value of the work or work contract under the determined limit.

Conclusion:

Non-observance of procedures in total of the Public Procurement Law and non-functioning of internal control for expenditure of public money affects on the increase of risk for abuse, misuse and loss of public money.

Recommendation 3

We recommend the Minister of MCR:

- For all procurements that should be applied from MCR finance department should have the necessary funds and to commit them in time depending on the applied expenditure and sign contract with the more favourable economic operator.
- To implement procedures in ensuring that contractors are keeping evidences for all works performed into this working dairy, ex. date, description of finished works, amount, quality and to be signed by the head of works and supervising body of MCR.
- The final procurement plan should precisely predict the value and the nature of expenditures that must occur for the following year, not to exceed the expenditures which are not foreseen in the final plan of public procurement.
- To implement adequate policies and procedures that guarantee that purchase orders are prepared before receiving of goods and relevant invoices.
- To develop adequate policies and procedures in strengthening internal control for the purchase of different assets, for all purchases of assets certain persons should be charged on the basis of anticipated demand, and not calculate or manipulate the requests for various supplies.
- Draft and implement adequate policies for segregation of duties and responsibilities to employees in the department of procurement, not to create conflicts of interest in the execution of their jobs, being a participant in most of the tenders as a committee member for opening and evaluation of bids or as receiver of goods and finished works.

- To develop adequate policies and procedures that guarantee that procurement actions are not divided intentionally in a way to avoid from the competitive tender process.

3.3 Subsidies for communities

- During 2008 MCR for the usage of subsidies has made expenditures at the value of €90,217, with the aim of promotion, stability, reintegration, sustainable return, Economic strain etc. For audit we have selected 10 samples, five from projects for Non Governmental Organizations (NGO) and five samples from individual projects.
- Beneficiary categories of these projects are:
 - *NGO Projects* (Non Governmental Organizations)
 - *Individual Projects* and
 - *Infrastructure projects*
- For infrastructure projects we haven't made any audits in any sample, since until the end of the year 2008 no agreement is signed.
- The payment and use of subsidies should be monitored and controlled by the MCR to ensure that this public money be used and recorded in appropriate forms. Our testing of payments have resulted in major concerns that this is not being managed and monitored in a satisfactory manner that we are ensured for a better use of public funds.

Table presentation of audited samples:

1. *Projects for NGO-s;*

Table 2: Projects financed by MCR to NGO

| S.N. | NGO / PROJECT | VALUE PROJECT IN € | VALUE PAID IN € | VALUE PAID IN € |
|------|---|--------------------------|-----------------------|-----------------------|
| 1 | NGO Bosnian Cult. Inf. Centre Radio Hajat | 24,800.00 | 12.400.00 | 50% |
| 2 | NGO Bice bolje "Hour of youth" | 52,332.00 | 52,332.00 | 100% |
| 3 | NGO "CSD" Home Groundsel NGO "SH.I.P.P.L" | 79.240.00 | 39.620.00 | 50% |
| 4 | We want and we can together | 66,465,00 | 33,232.50 | 50% |
| 5 | Project "Work for all" | 39,410.00 | 19,705.00 | 50% |
| | Total: | 262,247.00 | 157,289.50 | - |

2. Individual projects

Table 3: Projects financed by MCR – individual

| S.N | PROJECT | COORDINATOR | VALUE OF PROJECT IN € | VALUE PAID IN € | VALUE PAID IN € |
|-----|--|-------------------------|--------------------------|--------------------|--------------------|
| 1 | Mini firm “ SHARRI” | Merxhan Osmani | 29,000.00 | 14,500.00 | 50% |
| 2 | Production of mineral water | Zoran Denic | 10,000.00 | 10,000.00 | 100% |
| 3 | Production of hazelnuts | Sllavisha Marinkovic | 5,000.00 | 5,000.00 | 100% |
| 4 | Increase of capacity For sale of food products | Isuf Abdullahi | 6,000.00 | 6,000.00 | 100% |
| 5 | Opening of workshop for welding | Bajram Ajdini | 7,560.00 | 7,560.00 | 100% |
| | Total | - | 57,560.00 | 43,060.00 | - |

Findings:

3.3.1 Seven out of ten audited projects at the value of €218,342 did not meet the criteria as per the foreseen competition. The committee for review and approval of these applications has made breaches in these criteria's.

- Description of biography for the Project coordinator,
- Three Recommendations
- Decision from the municipal oversight body for supporting the projects,
- The certificate for Business Registration is missing
- Photocopy of bank card

3.3.2 The winning Company “NGO “**We want and we can**” with the project value of €6,465, the invoice is overrated in an unjustifiable way at the value of €2,735.

3.3.3 On three audited samples at the value of €247,179 beneficiaries of these subsidies are not selected based on the relevant procedures of competition and other forms of selection.

1. NCA Norway Church Aid
2. Toni sport
3. Vuka Ivanoviq.

3.3.4 The MCR has paid monetary means on behalf of subsidies for the employed officials at this Ministry. To audit these we have selected four samples.

- On date 11.06.2008, €2,500 was paid to the minister's advisor for master education at the Belgrade University.

- On date 15.07.2008 paid to the Certifying Officer at the value of €2,000 for curing of his mother.
- On date 18.11.2008 paid to the director of department for communities at value of €600 for curing of his kid.
- On date 18.12.2008 paid to the official for the unit of human rights at the value of €300 for education of kids

Conclusion:

The control and project monitoring (subsidies) doesn't function at all when it comes its functioning and their development. The winning projects do not report on their exact value, on the functioning and achievements of projects which are available, we can not be sure that public money is being managed at the appropriate and functional level.

Recommendation 4

We recommend the Minister of MCR:

- The Ministry for Communities and Return must create professional committees on evaluation, monitoring and supervision of execution of financed projects from the means dedicated for subsidies,
- All projects that are not used on appropriate destination the MCR must create appropriate policies for returning and penalties for the beneficiaries of these projects.
- The MCR has to make adequate assessment of all applicants of these projects and not violate the basic principles which are determined according to foreseen criteria's, but the beneficiary of these to be the project that meets all requirements and criteria provided by the MCR.
- All the means approved and spent without any legal basis, listed under the point 6.5 must be returned to the KCB from the users of these means.

3.4 Asset Management

We have audited procedures of keeping of accounting and asset records for the year 2008, and by this we conclude that during this year the MCR implemented at a very low level the administrative instruction no. 2005/11- for evaluation, depreciation, capitalization, and reconciliation of assets in between the accounting register and asset register of entity. MCR never had an assets officer until the beginning of the year 2009. The assets bought on 2005 and 2006 are not presented entirely on the accounting and asset evidence.

Findings:

MCR never had an appropriate accounting and asset evidence before. The declarations of accounting evidences in financial statements do not match at all with the real condition of assets which is in the property of MCR.

During the years 2005 and 2006 there were many expenditures done for MCR in purchasing of assets and these assets have not been registered and not recorded into the accounting and asset ledger, for which even today is not known about the placement of these assets. From conducted interviews with various officials in the MCR they have stated that these assets are not in the location of the MCR and most of the documentation is not in the offices of the MCR, and on absence of documentation we haven't been able to verify and control entirely the real condition of assets.

Some purchase of the year 2008, and 2005 with provided documentation that are not presented into the accounting and assets registers we present them here.

- On date 15.05.2008, 3 laptops are bought two from €1,000 and one €2,300 which do not exist into the accounting records of MCR.
- On date 29.03.2005, 19 mobile phones were bought at the value €4,980 which do not exist into the accounting records.
- On date 23.05.2005 at the value of €9,372.5, there were different housing buying's done, where it is supposed from the MCR staff that it was the first minister of MCR who used it and has it on his disposal. Based on examinations done these assets are not on the building of MCR and not even into their accounting and assets records.
- On date 03.06.2008, 3 mobile phones were bought which one cost €610 and two others €305 which in total is €1,220. We were not offered information's on where are these phones.

The MCR did not complete also the following procedures on asset management such as:

- The registry of MCR assets is not harmonized with the general ledger. We do not have enough evidence for the exact values of these assets. Criteria for harmonization of assets between the asset registers and accounting registers is the end of the year by registering at that time each purchased asset or invested during the year
- The MCR does not have an accurate register with asset and accounting records values which they have it at their disposal or did inherit from 2005. Besides the value of vehicles nor other asset is presented with its initial value. This is not in accordance with article 3.7 of Administrative Instruction 2005/11 The Management and Registering of Government Assets determines that the Budget Organization is

obliged to establish an asset register where among other must register the initial or evaluated value of assets.

- Procedures of calculating the depreciation is not presented in the accounting records and not even on statement disclosure. This is in contradiction with Article 8.1 of point i) of Administrative Instruction 2005/11 Asset Management and Registration
- The MCR did not present the value of €1,107,636 in accounting and asset records for capital investments made in the construction process. This is in contradiction with Article 18 of Administrative Instruction 2005/11 Management and Registration of government Assets.

Conclusion:

- The MCR has not been in compliance with regulatory requirements concerning the management and control of its assets. The records presented are incomplete, inaccurate, and therefore can not rely on them. The MCR does not have an appropriate control of its assets, which increases the risk of its misuse and abuse.

Recommendation 5

We Recommend the Minister of MCR:

To strengthen the internal control regarding the asset management we recommend that MCR:

- After the end of fiscal year to conduct the full inventorying of assets and the results of inventorying to be harmonized with the asset and accounting registry (general ledger).
- To create relevant committees for evaluating of assets and to calculate the depreciation of assets as it is required with the Administrative Instruction 2005/11.

To register all capital investments on conducted constructions during the 2008, on the accounting and asset registers.

3.5 Petty Cash

Petty Cash can easily be converted as a subject towards fraud and possible misuse. Relevant controls must exist in order to limit the amount of money in hand; payments made from petty cash on a regular basis and its immediate recording, should be harmonized and implemented in the appropriate segregation of duties and under the Treasury rules.

Regarding identified cases and detected weaknesses during the audit that have been in Contradiction with the financial rules and guidance 02 of Treasury on spending public money, we present the following.

Findings:

- In 17 cases of expenditures from petty cash at value of €1,576 payment is done for expenditures which shouldn't be applied through petty cash but through contracts which are foreseen by the MCR. These actions are in Contradiction with the article 9.3 of financial rules and guidance of treasury 02 on spending public money.
- In 12 cases of expenditures created at the value of €1,493 there has been division of invoices by not exceeding the fixed value of €100. This is in contrary with Treasury guideline 02 on spending of public money.
- On three cases there were expenditures for buying of gifts, respectively, two mobile phones and one hand watch from €5, at the total value of €85 which is in Contradiction with the Treasury guideline 02 on spending of public money.
- In three cases there have been expenditures at value of €24 which can be considered as increase (change) of invoice value.
 - a) Invoice no. dated, 11.04.2008 for buying of lightings is changed from the value of €15 and is paid at the value of €45.
 - b) Invoice no. 486 dated, 04.10.2008, for representation expenditures is changed at the value of €7.6.
 - c) Invoice no. 453/08 dated, 18.10.2008 for buying of flowers the value is changed from €21 and is paid at the value of €31.

Conclusion:

The MCR did not apply adequate internal controls on managing and functioning of petty cash. Furthermore did not stick to the financial rules and guidance 02 of Treasury on spending public money, that got to do with the establishing of limit for the maximum amount of petty cash, for division of values for different values for the nature of expenditure conducted from petty cash, for manipulation and increase of various invoices for financial gain from certain individuals.

Recommendation 6**We Recommend the Minister of MCR:**

To improve and strengthen the internal controls, on functioning of petty cash, we recommend:

- To create and implement procedures in ensuring that only relevant payments are done through petty cash.
- To establish the harmonization and periodical numbering of petty cash with relevant invoices in ensuring that relevant procedures and policies are respected.
- Establish written policies and procedures that regulate the use of petty cash funds.

- To conduct analysis of daily expenditures for petty cash.

3.6 Advances for official trips

In MCR during 2008, €18,235 of means is spent for official trips. As per our judgment we have selected eight samples regarding the use and managing of these advances at the total value of €8,490 a percentage of 46 %.

Findings:

- In eight audited cases for spending of advances at the value of €8,490 the request form for official trips is not filled which is in contradiction with the article 3.i of Administrative Instruction no. MSHP 2004/07 for official trips.
- In five cases advances are paid more at the value of €2,523 in comparison with Administrative Instruction of MFE on determining of fees for per-diems on trips outside the country as per the Administrative Instruction of MPS.
- In one case the expenditure is paid for scratch card for filling of the mobile phone on the official trip with the invoice no. 2008/564 at the value of €35 this is in contradiction with Administrative Instruction no. MSHP 2004/07 for official trips.

Conclusion:

- At the MCR there is no sufficient supervision of issuing of advances and the way of returning and its justifying where continuously increases the risk for abuse, fraud and misuse of means which is in Contradiction with Administrative Instruction no. MSHP 2004/07 for official trips, as well as fees determined by MFE on per-diems of travellers outside the country.

Recommendation 7

We recommend the Minister of MCR:

- All advances issued by the MCR must fill the form for issuing of advances and then based on sufficient evidences to allow the use of it.
- Per-diems for travelling abroad shall be given according to the Administrative Instruction issued by MFE.
- Not to justify any expenditure for payment which is in contradiction with the Administrative Instruction no. MSHP 2004/07 for official trips.
- Salary lists must be signed by each employee in order to verify that all who receive salaries are regular employees and to avoid the possibility of irregularity or miss management of public funds.

3.7 Internal Control System

The internal audit is an independent unit, which aims to increase the value of organization's activities and fulfilment of their objectives, The Internal control is a set of policies and procedures implemented by the management of the organization aiming on ensuring at the most applicable possibility the regular and efficient management of activity.

Finding:

- During 2008 the internal audit did not function at the MCR, and there was no person appointed to this post, but during or audit we have noticed that for the year 2009 the internal auditor is appointed, which surely did have an impact on improving of appropriate function of internal control.
- During the 2008 the MCR did not establish the internal audit committee, as foreseen with article 5 of the Law on Internal Audit. (02/L-74).

Conclusion

Not having established the Internal Audit Committee and the Internal Audit Unit means a non-observance of article 5 of the Law on Internal Audit (02/L-74) and at the same time disables the control of management in some certain fields

Recommendation 8

We recommend the Minister of MCR:

To help on improving of efficiency of internal controls and functionalizing of internal audit we recommend the MCR management that:

- The Internal Auditor have impact on improving of risk management processes and to draft annual plans by identifying those activities that are with higher risk and that have an impact on preventing and discovering of possible frauds.
- To establish the committee of internal audit where each of its members must undertake necessary measures for:
 - a) Ensuring the independence of Internal Audit Unit
 - b) That immediately takes measures in case of causing any obstacle by a person the work of IAU for conducting internal audits as per the Law.

Annex 1.

Different types of Audit Opinions applied by OAG in the Annual Audit Report 2009

(extract from ISSAI 400)

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

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

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

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

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

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

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

It helps the users of the statements if the financial effect of the uncertainty or disagreement is quantified by the auditor although this is not always practicable or relevant.

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

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

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

Annex II: MCR comments and the OAG response towards the comments

Ministry Comments

Comment no .1

Internal control system

Internal auditor of MCR is employed in 2009, attached are the copies newspaper's advertisements. In the meantime, we are in the process of establishing the committee and MCR audit unit.

Comment no 3.1

As far as the finding is in concern with number 3.1 of this draft report we inform you that the first commitment is done on 15.05.2008, but with the decision of committee at the moment of opening and evaluating of offers where it reaches the total amount needed for execution of this balloon is 115,809.906 additional means were requested at value of 15,809.96 respectively a new commitment transferred by this project with code 10491 we attach the copies of requests, decision. Whereas from MFE it is said that a special code must exist for execution of this project and for that reason these tangled procedures happened. We attach the evidences.

Comment no. 3.2

Finding with number 3.2 of this draft report we explain that as fare as these two contracts there was a committee for overseeing of these projects and we also inform you that it was reported on the carrying of work execution, and also there was a working dairy that are presented by the executioners of these contracts, and also as far as the calculation of situations those are in accordance bill of quantity and are presented accordingly as per the works executed on the field, where this calculation is done according to quantity executed and as per the prices given in the contract.

OAG response

Recommendation No. 2

The ascertainment remain in the report
We are satisfied with the implementation of this recommendation by MCR, while, (the establishing of audit committee) is in process. The corresponding recommendation will be part of report.

Recommendation no. 3.1

The MCR did agree with the finding presented into the report.
According the evidences offered by MCR and official procedures for commitment of means by MCR, for construction of sports centre in village Gracanica, is done on 14.08.2008 at value of €15,800.

Recommendation no .3.2

The MCR did agree with the finding presented into the report
We haven't declared that there was no oversight committee for these projects, but we have declared that there was no appropriate evidence on execution of works, and the calculation of situations is not done according

to the offered bill of quantity but it is calculated in a total format.

Comment no.3.3

The finding with number in order 3.3, we inform that we as a contracting authority did not have a contract for supplying with mobile phones at this value, but after the review of the subject with this procurement number it has resulted that this contract is for supplying with mobile phones and as far as it is new or old company we inform you that we can't do such kind of selections and to discriminate just because one company is established later and to give priority to a company that is established earlier, since our institution is relied on the principle of non-discrimination to the Economic Operators, and we as a contracting authority are interested whether it has the required criteria's at the tender dossier and based on these required criteria's is rewarded with contract where it fulfilled the contractual conditions. Whereas as far as how many contracts were carried out by one operator we can't limit until there is a maximum or minimum allowed of contracts that an Economic operator can carry, but we are interested that he fulfils the requested criteria's as per the tender dossier and if he had fulfilled the contract as per required conditions on the contract.

Comment no. 3.4

Finding with number 3.4, As far as final procurement planning is in concern we inform you that this plan is submitted to the PPA, and this planning is done based on budgetary planning's done by earlier structures which means from earlier year, therefore based on this budgetary planning we have done also

Point 3.3 Subsidies and Transfers;

Comment no. 6

The MCR for the year 2008 on its budget had it approved subsidies and transfers at the value of 536.666.006 where from this amount 236.6226 were divided for

Recommendation no .3.3

Based on the additional evidences offered from MCR we accept comment from MCR for elimination of this finding presented in draft report.

However giving of an opinion for removing of this finding remains unchanged

Recommendation no .3.4

The MCR did agree with the finding presented into the report.

We have not declared that you haven't prepared a final procurement planning, but you have exceeded the planned expenditures.

Recommendation no .6

The MCR did agree with the finding presented into the report.

management of roma camp in Osterod in Mitrovice where the agreement was signed on the date 12.05.2009 the other part is used for other purposes. Whereas on the date 10.12.2008 the request is done with no. 2866 by the MCR to MFE for a transfer at value of 374.7906 from the category of Capital Investments for Communities with the code 10486 at the Subsidy category which was approved on 12.12.2008 (attached you can find the request and approval of transfer), this amount of transferred means was requested for the execution of projects for communities and not as it was mentioned on the draft report that the amount from 890,217.006 is used for conducting of project payments for communities, which means that the total value for execution of project payments for communities is 374,268.506 – attached you can find the list of names and the project value.

At the initial part of subsidies we have presented the partition and usage of subsidies.

Comment No. 6.1

Point 6.1

The decision for establishing of committee for reviewing of applications (requests) for projects and selection, its selection is done on the date 17.11.2008 which is recorded with archive number 2690 in consistence of these members; (attached you have the decision)

- 1.Nebojsa Bojkovic-Chairman
- 2.Isa Ukella-Member
- 3.Aldin Alija-Member
- 4.Muamera Mackic -Member
- 5.Vedat Maxhuni –Member

Whereas the decision with archive number 2691 dated 17.11.2008 is appointed is the minute taker Besnik Fetahu.(attached you have the decision)

Where the commission with this consistence worked only on 18.11.2008, where for healthy conditions the member of commission appointed with decision on the date 17.11.2008 mr. Isa Ukella was complaining that for healthy conditions can not take part with selection and evaluation of projects and we have appointed him at the role of minute taker whereas Besnik Fetahu who has been appointed as a minute taker is appointed as a member of committee with a new decision, where it came to the change of decision thus the annulment of decisions with no.2690 and 2691 dated 17.11.2008 where we are attaching the annulment of the date 19.11.2008 with no. 2705 and establishment of the new committee is done in the morning of the date 19.11.2008 with no. 2707 with this consistence;(attached you have the decision and annulment), as well we are attaching the minutes.

- 1 .Nebojsa Bojkovic-chairman
- 2.Besnik fetahu –member
- 3.Aldin Alija member 4.Muamera Mackic-member
- 5.Vedat Maxhuni-member

Recommendation no .6.1

Based on the additional evidences offered from MCR we accept comment from MCR for elimination of this finding presented in draft report.

However giving of an opinion for removing of this finding remains unchanged

Comment no 6.2

Criteria's for fulfilling of conditions for selection and approval of projects

-Global criteria's were not published on the announcement made for public (attached the copy) whereas the detailed criteria's were public on the webpage of MCR (attached you can give also these criteria's)

Where it is mentioned for projects whom the maximum value reaches till 8000€ must have; the certificate of business registration or the recommendation from competent municipal bodies. We attach the evidences and documents which we have in possession, Beneficiary reports of NGO and Individual Projects, certificates of registration copies of accounts recommendations and as well the CV-s of project coordinators.

Comment no 6.3

Based on the selection of the NGO "We want and we can together" the value of the project which was 66,465€ it is true that the invoice was overvalued, we have requested clarifications from the NGO and we have received the report on written for improvements and we are attaching it the same, where that value will be returned to the MCR Budget. And MCR will follow the flow of work and expenditures until it comes to the reconciliation in a regular way.

Recommendation no 6.2

The MCR did agree with the finding presented into the report.

We have concluded that seven out of ten audited projects did not meet the criteria's as per the foreseen advertisement.

We haven't concluded that MCR did not announce the advertisement without criteria's.

Recommendation no .6.3

The MCR did agree with the finding presented into the report,

We have the pleasure to accept your information that you have started with implementation of this Recommendation that gives a strong evidence for readiness of MCR management to acknowledge the reported weaknesses and to take actions on implementing of Recommendations.

Comment no 6.4

As far as financing for NCA- Norwegian Church Aid – the MCR has allocated 236.622€ for this camp.

- Financing of Ms. Vukalvanovic for curing was approved by the Minister.

-Whereas as far as the financing for Toni Sport-Rahovec this was as well approved by the Minister it was not on the advertisement and we wait for the inauguration of this sports center very soon where we will have a detailed report.

The MCR established the committee for monitoring of these projects on the date 23.02.2009 with no. 552 on this content; (WE ATTACH THE DECISION) 1 .Isa Ukella-Chairman 2.Besnik Fetahu-member 3.Nada Bajcetic-member.

Based on your recommendations Acting permanent secretary has established a committee where each member of committee will have a region to monitor the projects since these days we also started with the financing of other projects, where there will be added a actions of controlling and monitoring of expenditures of the Budget, or else there will be rigorous measures taken , ad as well requested additional training from UNDP, on the field of controlling and monitoring of these projects (we attach the request for traing as well and the appointing of new committee).

Comment no 6.5

- Asset Management – the officer for assets is employed on 06.11.2008, where on 19.12.2008 the committee for evaluation of assets is created, we attach the working report from this.

Recommendation no 6.4

The MCR did agree with the finding presented into the report.

We encouraged the work that is done by the Acting permanent secretary for implementing of Recommendations,
If there are elements of Recommendations that MCR conducted already this will simplify the full implementation of this recommendation.

Recommendation no .6.5

The MCR did agree with the finding presented into the report.