



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

**Doc. No: 21.6.1-2008-08**

**AUDIT REPORT ON FINANCIAL STATEMENTS OF MINISTRY OF  
ENVIRONMENT AND SPATIAL PLANNING FOR THE YEAR ENDED ON  
31 DECEMBER 2008**

**Prishtina, July 2009**

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## **List of Abbreviations**

AG	Auditor General
AI	Administrative Instruction
EIE-	Evaluation of Impact in Environment
IFAC	International Federation of Accountants
IPSAS	International Public Sector Accounting Standards
ISA	International Auditing Standards
KEPA	Kosovo Environmental Protection Agency
KHI	Kosova Hydro-Meteorological Institute
LEP	Law on Environmental Protection
LMFPA	Law on Public Financial Management and Accountability
LPP	Law on Public Procurement
MESP	Ministry of Environment and Spatial Planning
OAG	Office of the Auditor General

## I. EXECUTIVE SUMMARY

The Office of the Auditor General (OAG) has performed an audit of the Financial Statements of the Ministry of Environment and Spatial Planning (MESP) 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 *present a true and fair view* in all material aspects, of the financial position, with the exception the lack of accounting records for revenues and approvals of environmental compliance which have had impact on the financial statements (ISSAI 400 *Qualified Opinion*).

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

Our Audit has identified these main audit findings:

- Lack of an adequate identification system of Revenues in regard to the type and category as well as lack of control on approvals of environmental compliance.
- Avoidance of legal recruitment procedures of personnel.
- Weakness in management of expenditures which are realized through procurement procedures.
- Lack of adequate control as far as the asset management and vehicle management.
- Not functioning of internal audit unit on the period from January – June 2008.

During the audit, the OAG has found that there is no adequate functioning system of internal audit.

In general the audit resulted with a total of 19 main recommendations, which must be addressed immediately to management.

## **II. INTRODUCTION**

The Office of the Auditor General (OAG) are, 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 of Environment and Spatial Planning (MESP) 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 YEARS RECOMMENDATIONS**

The OAG audit of Financial Statements of MESP for the year ended on 21 December 2007 resulted with 5 audit recommendations. Our audit has now determined that MESP did not implement given recommendations by the OAG. Those most important ones are:

- (a) Ensure that all accounting data and financial statements are kept and prepared in full accordance with relevant legal requirements.
- (b) MESP must keep an updated register for the collected revenues as per LMFPA
- (c) Immediate steps must be taken so that the internal controls are improved in relation with procurements in MESP.

It is important to note that in our opinion miss implementation recommendations are a reason for concern. Miss implementation of last year’s recommendations gives the understanding that earlier weaknesses still exist.

## **IV. AUDIT SCOPE**

This audit of the MESP 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 MESP 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 19.02.2009 to 13.03.2009 following INTOSAI Auditing Standards.

In order to fulfill our responsibilities, we:

1. Reviewed the MESP financial statements against the approved budget for 2008;
2. Determined whether the MESP 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 MESP 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 MESP 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, of the financial position, with the exception the lack of accounting records for revenues and approvals of environmental compliance wich have had impact on the financial statements (ISSAI 400 *Qulified Opinion*).

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

## **VII. KEY AUDIT FINDINGS AND RECOMMENDATIONS**

Our audit is focused in reviewing of presentation and disclosure of financial statements and in performing of substantial testing's to confirm the accuracy and validity of financial transactions. Apart to these, we have examined the work of internal audit, which is expected to review and report on the efficiency of internal control systems and main processes.

The Management must ensure the existence of control activities and to be performed across processes that are under their control. The Management is responsible for applying of sufficient controls in ensuring that risks are minimized into acceptable level.

Main findings are grouped as per expenditure, revenue classification and also there are examples given to confirm that our conclusions and recommendations. We have pointed out different examples of weak internal control for each part of finding by giving also recommendation in improving the internal control.

Under way we present main audit findings and recommendations that resulted from our audit of financial statements and the substantial testing process.

### **1. Financial Outcome compared to Approved Budget**

An analysis of the Outcome in the Financial Statements versus the Approved Budget (-s) shows:

With Regulation no. 2008/13 MESP has been allocated a budget at value of 12,289,461 euro, whereas with the budget review based on the Law 03/L-093 budget was 12,405,889, whereas the expenditures during the year 2008 were 4,719,027 euro. From data's presented it is seen that MESP has spent only 38% of its budget. The conveyed Obligations to be paid for the year 2009 are at the value of 269.552 euro.

The collected revenues from own sources for the year 2008 were 79,939 euro, whereas for the year 2008, the MESP did not have a planning for own revenues.

#### **Conclusion**

Based on the approved budget and expenditure realization we can come to a conclusion that MESP does not put all of its mechanisms in function in purpose of realizing planned expenditures.

#### **Recommendation 1**

We recommend the Management of MESP to take all necessary measures in order that the realization to be done in accordance with budget planning.

## **2. FINANCIAL STATEMENTS**

Financial Statements (FS) must be prepared by each independent entity, based on its accounting records and in that way to present accountability and transparency in usage of public money. Its format requires disclosure and additional explanations in a written format that ensures information for readers.

The Law No. 03/L-048 “Public Financial Management and Accountability” determines the rules of preparation and reconciliation of financial statements for all budgetary organizations.

To act in accordance with the Law No. 03/L-048 (article 44) it is required to:

- Chief Financial Officer of budgetary organization, will register all transactions and keep accounting records in accordance with Control Regulations and Financial Management (FCM) and to ensure that copies of accounting records for the Minister of Finance and Economy
- Financial Executive Director of a budgetary organization within 30 days for completion of each fiscal year must provide to the General Director of Treasury (i) the not audited financial statements of budget organization for the relevant fiscal year (ii) confirmation that the financial statements represent a fair and accurate finance and financial transactions of the year.
- The Treasury Director, within ninety days after the finish of each fiscal year, will do the reconciliation the financial accounts that he gets, with fiscal accounts and the status of petty cash and also (ii) for the auditing purposes will give all financial accounts of all budgetary organizations to the Auditor General

Financial Statements should've been prepared in accordance with AI of MFE no. 2008/13 “Annual Reporting of budgetary organizations”, but from our audit of financial statements we have noticed that the entity did not comply to this Instruction based on which it is required that assets be presented into financial statements, also there are discrepancies in between the presented revenues in FS and internal reports of revenues.

## **3. BUDGET EXECUTION**

### **3.1 REVENUES**

During 2008 MEST realized revenues at the amount of 79,939 as per ISFMK system and financial statements, whereas according to the entity reports the revenues realized were 72,762 euro Decision No. 77 dated 15.12.2006 issued by the Minister, determines these types of taxes:

- Evaluation of Impact into the Environment (EIE)
- Environmental Ecological License
- Reviewing and issuing of water License
- Issuing of facilities on rent

### 3.1.1 Findings

There is a difference in between the presented revenues in F/S of budget organization and internal reports on the entity revenues. In the Financial Statements the same amount is presented as reported in the Treasury reports, and statements were not done based in accounting records of Ministry.

Tab 1: Revenues

ISFMK	F/S of Budget Organization	Internal reports
79,939	79.939	72,762
<b>79,939</b>	<b>79.939</b>	<b>72,762</b>

- From table 1 it is seen that there is no adequate system for registering of revenues, where can clearly be evidenced the type of revenues and its category.

### Conclusion

The difference of revenues presented in between the F/S and internal reports of entity, the lack of evidences as per type and category of revenues has an impact that F/S to present an unfair and unclear situation of revenues.

### Recommendation 2

**We recommend the MESP Management to ensure:**

- Each month to do the harmonization of all revenue categories with the Treasury's "Free Balance" system.
- Must keep an updated registry for the collected revenues as per type and category of revenues, respectively to act in accordance with AI no 6/2007 Unified Standards for reference Numbers on Collecting of Public revenues.
- Financial Statements to be prepared based on accounting records of MESP and not to prescribe the records taken from the Treasury.

### 3.1.2. Finding

- During the examination of cases on environmental acceptance, the MESP did not request the thought of KEPA for EIE, as foreseen with article 12.3 of Law on Environmental Protection and AI 9/2004 For Evaluation of Impact in Environment.
- During our examination of ten (10) cases out of 160 on environmental acceptance which MESP gave during 2008, we have noticed that MESP approved environmental acceptances without respecting the foreseen provisions by Law on Environmental Protection and other sub-acts for its implementation. In four (4) cases approved environmental acceptances by avoiding the recommendations of commission for EIE. (Recommendations of commission for refusal and requests of commission for additional information's).

## **Conclusion**

Avoidance of KEPA's thought on the evaluation of impact in environment, and also the approval of environmental acceptances without respecting of procedures has an impact on not achieving of determined objectives by the legislation in regard to Environmental Protection.

### **Recommendation 3**

- We recommend the MESP management that during the approval of environmental acceptances to fully respect the provisions of Law No. 03/L-024 on Evaluation of Impact on Environment adopted by the Kosovo Assembly on 26.02.2009

#### **3.1.3. Finding**

During the examination of case lease of building on rent on KHI facilities, the MESP has signed a contract with the tenant by avoiding the open procedures for public biddings, and also the contract is signed on 09/01/07 with no 06/32/2 by the highest administrative official of MESP.

## **Conclusion**

Issuing of government facilities for rent by avoiding the open procedures for public biddings, has an impact on discrimination, non-transparence and also in elimination of fair competition.

### **Recommendation 4**

- We recommend the MESP management that during the issuance of facilities on rent to act in accordance with article 24 of LPP on signing of public contracts, to make the based selection into the non-discriminated, open, transparent and fair procedures in accordance with LPP.

## **3.2 SALARIES AND WAGES**

Expenditures of salaries and wages for the year 2008 were 679,525 euro. The OAG has tested these records by setting them in relation to the data's according to the salary system of MESP and general ledger of treasury. The average of employees in MESP during the year 2008 was 212. With respect to personnel files have selected 21 samples for testing

#### **3.2.1. Findings**

During the examination of samples, we have in some cases found that:

- Requests for initiation of recruitment is missing
- Decisions on establishment of commission on selection candidates are missing too
- Advertisement criteria's are not respected during the evaluation of candidates

## **Conclusion**

The missing of recruitment request for staff, decisions on establishment of commission on selection candidates and the disregard of advertisement criteria's create a breach of Legal Regulation of Civil Service and as a result can impact on elimination of selected qualified candidates.

## **Recommendation 5**

- We recommend the MESP management to begin with requests for initiation of recruitment, to establish commissions for selection of candidates to respect the advertisement criteria's that are determined, and to act in full accordance with recruitment procedures foreseen with Administrative Instruction no. MSHP/ DASHC 2003/01.

## **3.3 EXPENDITURES THROUGH PROCUREMENT PROCEDURES**

The amended Law no. 2003/17 on Public Procurement determines the requirements that must be respected on using of public funds on the procurement activity. General principles of LPP underline the economizing, efficiency, equality and fairness for all procurement contracts.

During 2008 MMESP has made expenditures at the value of 4,039,502 euro, whereas expenditures that are executed through procurement procedure reach out the total amount of 2,505,095 euro.

Based on our judgment we have selected for testing 9 samples with medium and large values at the amount of 1,747,410 euro and 6 samples with quotations at the value of 40,293 euro

### **3.3.1. Procurement executed outside of procurement plan**

During the examination of some samples we have noticed that these cases were not included into the procurement plan

- Contract for provision with reagent with procurement no. 210/08/014/136 at the value of 9,880 euro.
- Park improvement in Mitrovica with procurement no. 210/08/061/521 at value 52,893 euro.

## **Conclusion**

Inadequate planning of procurement activities can have an impact for not achieving of relevant objectives and the scope of budget allocations of entity.

## **Recommendation 6**

- We recommend the MESP management to comply with the approved procurement plan and that buying of goods and services to be foreseen in time, as the article 7 of LPP no2003/17 foresees it.

### **3.3.2. Signing (awarding) of contracts prior to the evaluation of bids**

During the examination of samples we have noticed that, MESP signed contracts prior to the evaluation of bids of bidders, as are:

- Supply with reagent with procurement no. 210/08/014/136 at the value 9,880 euro, MESP has signed the contract on the date 24.04.2008, whereas the evaluation report by the evaluation committee is dated 30.04.2008.
- Supply with flags with procurement no. 210/08/009/136 at value 4,691 euro, MESP has signed the contract on the date 04.04.2008, whereas the evaluation report committee is dated 25.04.2008

### **3.3.3. Signing (awarding) of contracts prior to the commitment of Means**

During the examination of samples we have noticed that, MESP entered into the contractual obligations prior to the commitment of means.

- Supply with reagent with procurement no. 210/08/014/136 at the value 9,880 euro, MESP has signed the contract on the date 24.04.2008, whereas the commitment of means is done on the date 20.05.2008.
- Supply with flags with procurement no. 210/08/009/136 at value 4,691 euro, MESP has signed the contract on the date 04.04.2008, whereas the commitment of means is done on 02.08.2008.
- Supply with mobile phones with procurement no. 210/08/006/136 at value 6930 commitment is done at value of 4500, whereas the contract 6930 euro, the other part of commitment is done on 21.11.2008 at value of 3000 euro.

### **Conclusion**

Entering of entity into the obligations without commitment of means consists a risk that the obligations can't be completed in the future, expenditures can be created that can't be covered.

### **Recommendation 7**

- We recommend the MESP management to commit means before the initiating of procurement activities and to comply with Article 8.2 of the Procurement law and to apply the Treasury Instructions.

### **3.3.4. Conducting of payments without technical acceptance reports of works**

During the examination of these samples we have noticed that payment done to the economical operators is done in absence of technical reports which represent clearly that which positions are realized during work execution.

- Park improvement in Mitrovica with procurement no. 210/08/061/521 at value 52,893 euro. We have noticed that the entity made an advance payment (installment I) in 7,893 euro after the signing of contract and made the payment of second installment at the value of 13,174 euro to the economical operator without acceptance reports for the works executed.
- Rehabilitation of garbage site in Ferizaj with contract no. 210/08/028/521 at the amount 148,945 euro.
- Work execution at the memorial complex Adem Jashari in Prekaz, phase IV of works with procurement no 210/08/025/511 at value of 982,000 euro, whereas the paid value for three installments was 589,200 euro.
- Improving of river bend ,”Shushica” in Istog with procurement no. 210/08/007/521 at value 249,130, and annex contract dated 27/10/2008 at value 24,860 euro. The amount paid for

this contract was at the value of 271,660 euro. MESP Project Coordinator who was in charge to follow the performance, has had his remarks for the oversight body that the oversight was not done in a professional way, did not offer a working diary, work notebook, and there were remarks on the execution of works, but MESP didn't take any measures towards these remarks.

## **Conclusion**

The conduction of payments without technical acceptance reports represent clearly the positions of works executed, goods and service, increases the risk for misusing of allocated funds for public investments.

## **Recommendation 8**

- We recommend the management of MESP to have documented evidences for the accepted works, goods and services prior on making the payment of public funds for one supplier, respectively must act in accordance with article 7.1 Financial regulations and Treasury Guidelines - 02 Expenditure of public money.

### **3.3.5. Miss respecting of contracted deadline on works execution**

During the examination of these samples we have noticed that the economical operators did not respect the dynamic plan on work execution even though dynamic plan was a criterion for evaluation of bids and earned 20% of points in the case of bids evaluation.

- During the examination of garbage site sample in Ferizaj with procurement no-210/08/028/521 dated 10/09/2008 at value 148,945 euro. Work execution is not done as per the dynamic plan. According to the contract it is foreseen that works be completed for 21 days, whereas the final report on the work execution is dated 27/11/2008.
- During the examination of garbage site sample in Gjilan with procurement no-210/08/030/521, dated 18/09/2008 at value 76,940 euro, we have noticed that work execution is not done as per the dynamic plan, where in the contract it is foreseen that works be completed for 18 days after the signing of contract, whereas after two months contract signed only 50% of works were finished.

## **Conclusion**

Misapplying of taking measures determined by the contract if the entity doesn't perform its obligations based on the contract will result on not achieving of determined objectives by the entity.

## **Recommendation 9**

- We recommend the MESP management to act in accordance with dynamic plan as determined by the contract with the Economical operator, if the subject doesn't respect the contract on execution of services or foreseen works by contract must undertake disciplinary measures as foreseen by the contract.

### **3.3.6. Lacking of Committees for work acceptance**

During the examination of these samples we have noticed that MESP did not establish commissions for works acceptance realized by economical operators for.

- Rehabilitation of garbage site in Ferizaj with contract no. 210/08/028/521 at the amount 148,945 euro.
- Work execution at the memorial complex Adem Jashari in Prekaz, phase IV of works with procurement no 210/08/025/511 at value of 982,000 euro, whereas the paid value for three installments was 589,200 euro.
- Park improvement in Mitrovica with procurement no. 210/08/061/521 at value 52,893 euro. The entity made an advance payment (installment I) in 7,893 euro after the signing of contract and made the payment for the second installment at the value of 13,174 .

### **Conclusion**

This creates the possibility that works are accepted that doesn't fulfill the contracted requirements and criteria's because of lack of commissions on work acceptance

### **Recommendation 10**

- We recommend the management of MESP that on cases when accepting the executed works by the economical operators the MESP must establish a commission for work acceptance for executed works in a way tha executed works are in accordance with required specifications.

### **3.3.7. Supply with oil and gasoline derivatives for the needs of MESP**

During the examination of the sample Supply with oil and gasoline derivatives for the needs of MESP with procurement no. 210/07/009/111, The value of expenditures for vehicle derivatives 126,161,00 whereas we have tested the sample at the value of 34,795 euro.

MESP has signed a contract with the economical operator as per the Price /L, fixed or based on stock market.

During the examination of payments for derivative expenditures, the economical operator who has done the supply with derivatives in its invoices has included except the determined prices as per Stock market another additional value (Premium) which addition was not foreseen by contract.

### **Conclusion**

The including of additional value (Premium), in invoice and paying of this addition impacts on miss respecting of determined criteria's by contract and damages the budget of the ministry.

### **Recommendation 11**

- We recommend the management of MESP that in the case of supplying with derivatives to rigorously comprise the provisions as determined by the contract,

- The MESP management must deeply review this case and adequate measures must be taken.

### **3.3.8. Supply with drinks and working tools for the needs of MESP**

During the examination of the sample for Supply with drinks and working tools for the needs of MESP, based on the procurement nr. 210/07/022/235 at value 9,794 euro, at the technical specification are included drinks and working tools, where based on these specifications is selected the economical operator for supplying. But during the examination of sample it is seen that entity is not at all been provide with working tools.

#### **Conclusion**

The including of items (articles) into the technical specification of tender dossier which entity doesn't need to be supplied, has an impact that during the evaluations of bids to select the inappropriate ones, respectively the inclusion of unnecessary items in the tender dossier affects the change the total bid price. Also the application of such methods increases the possibility of fraud and eliminates fair competition

#### **Recommendation 12**

We recommend the management of MESP that with the case of technical specification of tender dossier not to include the items that entity doesn't have a need of supplying with these items.

### **3.3.9. Official trips outside the country**

During the examination of samples for official trips outside the country we have noticed that they lacked documents that justify the purpose of official trip to Albania dated 27 to 30 November 2008, to honor the holiday of 28 November.

#### **Conclusion**

Missing of official invitations and other documents required by AI. No.2004/07 for Official Trips affects on the installation of illegal practices in the Ministry and in the budget expenditure for not specified legal purposes.

#### **Recommendation 13**

- We recommend the management of MESP that in the case of official trips outside the country to comply with AI 2004/07 on official trips outside the country.

### **3.3.10. Expenditures of mobile and fix telephony**

During the examination of sample expenditures of mobile and fix telephony we have noticed:

- Excess of expenditures for fix and roaming telephony.
- Allowing for the use of roaming phones for officials who have no right to use the roaming phone according to AI-04/2008
- As far as the expenditures for scratch cards is in concern, it is seen that a clear evidence of

- the officials who receive scratch cards is missing
- Using of roaming phones of MESP also for the suspended officials.

## **Conclusion**

Irrational use of fixed and mobile phones, bypassing AI.no. 04/2008 has an impact on the violation of established governmental policies and irrational use of budget of the ministry.

## **Recommendation 14**

- We recommend the Management of MESP that the expenditures of fixed and mobile to be in full accordance with provisions of AI.no.04/2008 for the use of fixed and mobile phones in the Kosovo government.
- All officials of the Ministry who have exceeded the allowed quota of phone expenditures with AI no. 04/2008 to return the money back to KCB

### **3.3.11. Supply with mobile phone device**

During the examination of sample Supply with mobile phone device with procurement no. 210/08/006/136 value 6,930.00 euro we have noticed:

- Supply of mobile phones that have not been in the technical specifications of the tender dossier and in the contract
- Supply and equipping of other officials of ministry whom are not allowed to equipping with mobile phones as per the AI-04/2008
- Supply and equipment with mobile phones for the minister's cabinet (Iphone) in high values 750 euro 550 euro etc.

## **Conclusion**

Supply mobile phones for ministry officials bypassing AI-04/2008 issued by the Kosovo government, has an impact on expenditures of public funds in the unauthorized and damaging way of the KCB

## **Recommendation 15**

- We recommend the Management of MESP that supplying with mobile phones to do in accordance with technical specification of tender dossier and contract, and to act accordingly with the article 8 of AI-04/2008 on usage of fixed and mobile phones in Kosovo Government.

## **3.4. ASSET MANAGEMENT**

The Law on Public Finance Management and Accountability requires that all transactions are registered and the accounting records be kept in accordance with Administrative Instructions no. 2005/11 issued by MFE.

### **3.4.1 Findings**

- Not appointing of commission for evaluation of assets. MESP has in its disposal a large number of old equipments and that are out of use and the commission will have to make an evaluation of all assets, including damaged assets as well as make an eventual evaluation of requests for their depreciation
- During the examination of assets we have noticed that MESP did not take measures on returning of assets (laptop), from a former Ministry official.
- Miss harmonization of total asset values by the treasury register with the general asset registry which the Ministry uses.
- Assets of MESP are not presented into the financial statements, by not following the AI-2008/13

### **Conclusion**

Disobedience of provisions of AI 2005/11 has an impact on the inaccurate presentation of assets into asset registries and accounting registries.

### **Recommendation 16**

We recommend the Management of MESP to do the regular evaluation of assets, to take measures on returning of assets by former officials of Ministry and do the harmonization of asset registry with treasury registry, respectively to act precisely with AI 2005/011.

## **3.5. VEHICLE MANAGEMENT**

Administrative Instruction of MPS no. 03/2008 – On using of vehicles of Kosovo Government determines the way on how vehicles can be used and maintained and what must be reported.

We have come to the conclusion that at this Ministry there is no adequate control over the vehicle management. During the interview with logistics officer and in examination of vehicles we have noticed that during 2008 within MESP there were 37 vehicles, whereas we have examined 8 cases (Vehicle files).

### **3.5.1 Finding**

- Official vehicles we taken for use without relevant approval.
- Lack of evidence on passed kilometers during the use of vehicles.
- Missing of requests for official trips as well as descriptions for purposes for the use of vehicles.
- In the case of accidents of official vehicles there are no official reports from the competent authorities that provide assessments on the accident.
- During testing of the invoices in terms of service and maintenance of vehicles we have noted that within a very short period there were frequent changes made of the same parts of the same vehicles.
- During testing of the invoices in terms of service and maintenance of vehicles most of

positions in the invoice were not in the technical specification of tender dossier

## **Conclusion**

- Lack of control over the vehicles will affect that ministry vehicles are used in a uneconomic, inefficient and irrational way and caused expenditures for not approved purposes.

## **Recommendation 17**

- We recommend the management of the Ministry to strengthen the controls on the way, format and usage of official vehicles.
- We recommend the management of the Ministry to act in accordance with Administrative instruction 2003/8 on using the vehicles of Kosovo Government.

## **4. INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT**

The governmental policy document determines main objectives of Financial Management and Control (FMK) and that are to ensure:

- Credibility and integrity of information;
- Accordance with policies, plans, procedures, laws, regulations and standards;
- Preservation of assets;
- Economic, efficient and effective use of resources

To act in accordance with practices of good governance, the MESP during its activities should of paid attention to:

- Evaluation Credibility, Adaptability and Efficiency of book-keeping, operative and administrative controls.
- Ensuring that internal controls result in immediate and accurate registration of transactions and the appropriate maintaining of assets.
- Ensuring that MESP acts in accordance with laws and regulations and if they comply with policies set by the Government.
- Ensuring that is taking appropriate steps in addressing current and earlier weaknesses of control and recommendations that are out from the audit report.

### **4.1. Findings**

During the audit in MESP we have concluded that there is a good internal control in terms of, approval of environmental certificates, harmonization of reports between the finance sector and Treasury (ISFMK), yet also reflect weaknesses in the managing of expenditures which are realized through the procurement procedures as well as weaknesses in the management of vehicles.

## **Conclusion**

The lack of internal control has an impact on the credibility of financial reporting, bypassing of applicable laws and regulations, inefficient and uneconomic use of regular activities and poor management.

## **Recommendation 18**

- We recommend the management of MESP to increase the system of internal control to the proper level with particular emphasis on the revenue procedures, expenditures and asset management, in that way that reporting is more accurate, and to eliminate the identified failures.

## **5.1. Internal Audit**

Existence of internal audit units, which should be well structured and effective within each Ministry, is key element of the functioning of the internal control system which is designed to prevent and detect errors and irregularities, whether they caused by negligence or in purpose.

In January-July period MESP did not have an internal auditor for the reason that he was expelled from work and filling of that post was delayed without any justifiable reason.

During the period July – December the internal auditor conducted only one audit at the personnel office with a subject, “Implementation of recruitment Procedures in MESP”.

During the time when we were in the process of audit, MESP recruited another auditor for the purpose of completion of the audit unit, which is a good step towards better functionality of the internal audit unit in MESP.

## **Conclusion**

Delay and lack of recruitment of internal audit staff, has caused to MESP difficulties in proper functioning of internal control system during the first half of 2008.

## **Recommendation 19**

- We recommend the management of MESP to encourage the work of Internal Audit Unit and in cases of staff lacking to initiate as soon as possible the recruitment procedures with the purpose of filling of vacant places in Ministry.
- Internal Auditor is given full independence in exercising its functions and fulfilling the annual working plan which must be previously approved by management.

## 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 2. MEPS coments and Auditor Responses

	MESP comments	Auditor Responses
<b>1</b>	<b>Financial result in comparison with Approved Budget</b>	
1	This is true but taking into account that most of the projects which in themselves carry a great cost of the budget the could not been realized due to property disputes that was supposed to be taken over by the municipalities and resolve them	From the planning analysis and expenditures within the MESP as well as the expenditure report carried out in relation to planning, it is seen that that there is a big difference between planning and expenditures realized. Therefore MESP must analyze all factors when planning expenditures. Entity has agreed with finding
<b>2</b>	<b>Financial Statements</b>	
2	Financial Statements are prepared in accordance with A/I of MFE 2008/13. Otherwise MFE would not accept them.	These financial statements are the responsibility of MESP Management. Management is responsible for preparing and fair submitting of these financial statements, A/I MFE No. 2008/13 requires that assets are presented at F/S, while in the F/S of MESP assets have not been presented. Finding remains.
<b>3</b>	<b>Revenues</b>	

3.1	<p>MESP has made two reconciliations for revenues during the year 2008 with the Department of Treasury and Free Balance system, that all data's that are in financial statements are accurate and reliable, with regard to the reconciliations there are evidences. First reconciliation 07.07.2008 and second reconciliation 27.01.2009 with a total value 79,638.80</p>	<p>Although from reconciliation reports between the treasury and MESP it is emphasized that data presented are the same. From analyzing of internal original documents of MESP it is seen that the revenue realized based on internal documents are 72,762, while presented in the F/S are 79,639 euros. Finding remains.</p>
<b>3.2</b>	<b>Salaries and Wages</b>	
	<p>All requirements for the initiation of recruitment initiative (those who are thought that are missing are in different format from the application). Even though there was missing a decision on the appointment of selection and interviewing committees, the Permanent Secretary has approved the composition of the panel in the list of candidates that have applied.</p>	<p>Based on AI -MSHP/DASH 2003/01, the establishment of the committee for selection and interviewing candidates for employment must be on the basis of certain decisions Finding remains.</p>
<b>3.3</b>	<b>Procurement</b>	
3.3. 1.	<p><b>Procurement conducted out of procurement plan Supply with reagent.</b> This was due to the urgent need and due to increase of requests for examining of cases and performing of analysis</p>	<p>Urgent expenditures are when the entity can not predict within a certain period of time. Supply with reagent is made also in previous years, so the planning for reagent did not present an urgent need for MESP Finding remains.</p>
3.3. 1	<p><b>Park in Mitrovica</b> This came as a gift to the citizens of Mitrovica after saving of means that the government has allocated for destruction of dangerous materials this procurement came as an emergent one and it was impossible to be planned.</p>	<p>Based on the additional information's by MESP and the review made for the park in Mitrovica, it is seen that procurement is done based on decision from the Government, MESP comment is accepted.</p>
3.3.		

2	<b>Signing of contracts prior to the evaluation</b> There was a technical mistake in the evaluation report	In the case of signing of contracts and evaluation reports MESP must be careful in avoiding of possible technical errors. Finding remains.
3.3. 3	<b>Signing of contracts prior to the commitment of means</b> Commitment of means can be done only in the amount allocated for signing of the contract conform procedures whereas other commitments can come as per the requirements till to the demand implementation of the contract which is more signed for a certain amount	Based on article 8.2 of LPP and the treasury guideline the entity can't enter into obligation without the commitment of means. Finding remains.
3.3. 4	<b>Conducting of payments without technical acceptance reports</b> No payment can not be made without technical acceptance report, however in some cases it is issued without work situation but only based on the conditions of payment specified in the contract where installments are expressed in percentage of work performed	In all cases, payments for economical operators for the works finished must be issued on the basis of technical acceptance report (work situation). Finding remains.
3.3. 6	<b>The lack of commissions for work acceptance</b> They existed and were made based on regulations	From the examination of certain cases, in some cases the acceptance reporting commission was missing, for this we have in possession convincing evidences from the examination of certain cases. Finding remains.
3.3. 7	<b>Supply with derivatives</b> This contract is terminated and new tender is announced	During the year 2008 supply with derivatives is done based on the contract no. 210/07/009/111 , whereas for a new contract for supply with derivatives it will remain to be analyzed during the audit of F/S of 2009 Finding remains.
3.3. 8	<b>Supply with drinks and working tools</b> For working tools the need was not	During planning of buying it must be determined clearly the needs for buying from

	presented to buy them since our projects have helped also other public enterprises and they have done work.	MESP, in that way that in tender dossier not to include unnecessary supplying. Finding remains.
3.3.8	<p><b>Supply with oil and gasoline derivatives for the needs of MESP;</b></p> <p>At this point the auditor has noted that the operator is paid the margin, which we think it is normal and this is seen in the tender document, a copy of which we bring as evidence to the auditor, where it is seen clearly the inclusion of calculated margin</p>	<p>From the examination of cases for supplying with oil and gasoline derivatives for the needs of MESP with contract no 210/07/009/111 it is described clearly that the supply with derivatives will be done as per fixed prices as per the stocj market. Whereas the addition payment (Premium) is not foreseen with contract. Finding remains.</p>
3.3.11	<p><b>Expenditures of fix and mobile telephony;</b></p> <p>The exceeding of expenditures for fix telephony, is justified based on given the proportion of official users and existing numbers. This means that a phone number has the ability to use up 10 or more people, which as a result it increases the value of expenditure, but in proportion to the number of users this won't be a value of more than 10€, much as is allowed for each regular official, by not taking into account other levels.</p> <p>Mobile telephony, also contracts with Vala are used, as a easement format, except this other excess of allowed values did not have, or they have been very small, which except the warnings that we've made for bypassing and not repeating of them have made also the excess reports when they have occurred</p>	<p>A/I no 04/2008 determines clearly the limit of expenditures for fixed and mobile phones by the officials of Ministry, whereas it doesn't do any proportion of expenditures of telephones with the number of officials. Finding remains.</p>
7	<b>Asset Management</b>	
7	<p>MESP comment</p> <ul style="list-style-type: none"> <li>Missing of assets determined as a result of theft of official</li> </ul>	<p>MESP must draft policies and procedures on asset management. MESP must harmonize reports with treasury There was no evidence offered that assets are presented into the financial statements.</p>

	<p>equipments who have been charged with them for this case the police continues the procedures and the address to us is the police report.</p> <ul style="list-style-type: none"> <li>• Due to a leak that a technical error in the free balance system it can't make the reconciliation with the ministry data's</li> <li>• Assets are presented into the financial statements.</li> </ul>	Finding remains.
<b>8</b>	<b>Vehicle Management</b>	
8	<p>At the use official vehicles, it should be noted that on the selection of vehicles for examination by the auditor there were vehicles used by the political staff, respectively the Minister's cabinet, and these vehicles are not directly managed by logistics anymore which as a result there are weaknesses in keeping of records as it is specified in the MPS Administrative Instruction no. 03/2008. So, at these records there were findings like: missing of approval; evidence of passed kilometers or the destination; requests for official trips. Official vehicles were taken for use without relevant approval; lack of evidence on kilometers passed during the usage of vehicles; lack of requests for official trips; The missing of the accident report by the competent bodies; the logistics part, drivers report from the accident and annex 6 the accident report, we had showed to the auditor);</p> <p>in cases mentioned above there is a possibility that provisions of the AI 03/2008 were violated but mainly are cases where the political staff is involved</p>	<p>All vehicles of the ministry must be managed by the logistics sector, therefore all vehicle files must be completed.</p> <p>Finding remains.</p>
<b>4</b>	<b>Internal Control</b>	
4	It functions	During the audit of MESP, and from the testing's of internal control we have noticed

		that an adequate internal control is missing as far as the approvals for environmental certificates, and harmonization of revenue reports in between the finance sector and treasury. Finding remains.
<b>5</b>	<b>Internal Audit</b>	
5	Completed, organized and functional	On behalf o MESP during 2008 the internal audit unit was not completed and functional. At the period of January – June 2008 MESP didn't recruit an internal auditor. Finding remains.

