



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

Document No: 21.7.1-2008-08

**AUDIT REPORT ON FINANCIAL STATEMENTS OF THE
MINISTRY OF LABOUR AND SOCIAL WELFARE FOR THE
YEAR ENDED ON 31 DECEMBER 2008**

Prishtina, July 2009

TABLE OF CONTENTS

- I. Executive Summary
- II. Introduction
- III. Status of Prior Years Recommendations
- IV. Audit Scope
- V. Audit Approach
- VI. Audit Opinion
- VII. Key Audit Findings and Recommendations

Annexes:

- I. Different types of Audit Opinion (ISSAI 400)
- II. MLSW Comments and OAG Reply against Comments

List of Abbreviations

AG	Auditor General
CA	Contracting authority
KCB	Kosovo Consolidated Budget
CPO	Commitment purchase order
DKPA	Department of Kosovo Pension Administration
DACS	Department of Administration of Civil Servants
IFAC	International Federation of Accountants
INTOSAI	International Organization of Supreme Auditing Institutions
LPP	Law on Public Procurement
LPMFA	Law on Public Financial Management and Accountability
MLSW	Ministry of Labour and Social Welfare
MEF	Ministry of Economy and Finance
MPS	Ministry of Public Service
SA	Social assistance
IAU	Internal Audit Unit
EO	Economic operator
PPD	Pensions for Persons with Disabilities
ISA	International Standards of Auditing
IPSAS	International Public Sector Accounting Standards
AI	Administrative Instruction
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 Labour and Social Welfare (MLSW) for the year ended 31 December 2008.

Our audit is carried out in accordance with International Accounting Standards issued by INTOSAI, and included such tests and procedures, as we deemed necessary to give an opinion with regard to the financial statements.

In our opinion, the financial statements *present a true and fair view* in all material aspects. As an Emphasis of Matter, the Registry of non-financial Assets is not disclosed. (ISSAI 400 ***Unqualified Opinion with an Emphasis of Matter***).

The carried out audit has resulted in the following findings and recommendations:

1. Non – financial assets were not presented within the financial statements.
2. Payment of wages for employees is not done by the respective department where the employees are recruited and there is non-observance of recruitment procedures.
3. The extent and the number of deficiencies that we noticed in particular, the procurement procedures regarding the expenditures stipulated in LPP and other applicable regulations are not implemented entirely. There was non- observance of terms determined by contract and there were numerous of errors during the bids evaluation carried out by the Committees.
4. Allowed expenditures of fixed telephony exceeded its limits.
5. Non-observance of laws, regulations and administrative instructions related to pension schemes, social assistance and subsidizing of NGO.
6. Non-closure of advanced payments in years indicates lack of proper management and creates possibilities to misuse public money.
7. Failure of internal control related to the Use of Official Vehicles.
8. Various examples of weak internal control within the whole organisation, emphasized in Section VII, make us conclude that the entire level of financial control is inadequate and it must improve.

Our key recommendation is that the Minister should urgently launch a revival program of internal control under his administration. Also, to undertake necessary measures for implementation of presented recommendations in the performance audit report for the retirement scheme of the persons with disabilities (No. 21.07.0-2008-08) dated 24th of June 2008.

II. Introduction

By the Law, Office of the Auditor General is accountable to perform 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 MLSW to prepare financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) on “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

MLSW has compiled a plan to implement 7 recommendations provided in the OAG audit report on financial statements 2007. Based on our audit, we have concluded that MLSW did not implement the recommendations from the previous year audit, such as:

- Registration of assets and their reporting within financial statements;
- Assuring that beneficiaries of basic pension to report within the assigned time limits- six-month and PPD to be approved and reviewed in accordance according to the law.
- Completion of subjects for the beneficiaries of Trepça pensions and PPD;
- Completion of subjects and payments’ control for social assistance;
- Observance of competitive procedures for establishing employment relationship in MLSW;
- Procurement should be in reconciliation with procedures and rules stipulated by LPP, and
- The observance of AI on the use of official vehicles.

The failure of MLSW management to implement completely our recommendations has resulted in the existence of the same problems as in previous year. The lack of measures undertaken by the senior management on audit findings and recommendations are a concern.

IV. Audit Scope

This MLSW audit has to do with financial statements for the year ended on 31 December 2008.

As a primary objective of this audit was to enable OAG to express its opinion whether MLSW financial statements give a true and fair view and, whether the financial registers, systems and transactions are in accordance with applicable laws and regulations.

V. Audit Approach

Our audit is planned and completed during the period from 14 November 2008 till 17 April 2009 based on the auditing standards of INTOSAI.

In order to fulfil our responsibilities we have:

1. Reviewed the MLSW financial statements against the approved budget for 2008;
2. Determined whether the MLSW 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 MLSW Internal Audit unit to determine whether we could rely upon their work 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 MLSW financial statements, the international standards set out specific criteria that govern the type opinion that can alter. Audit opinions can be unqualified, qualified, adverse or a disclaimer of opinion (Cf. Appendix 1 ISSAI 400).

VI. Audit Opinion

The Office of the Auditor General has performed an audit of the Financial Statements of the Ministry of Labour and Social Welfare (MLSW) for the year ended 31 December 2008.

Our audit is conducted in accordance with International Accounting Standards issued by INTOSAI, and included such tests and procedures, as we deemed necessary to give an opinion with regard to the financial statements.

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

We would like to emphasise the matter that the fixed assets are not disclosed in the financial statements. Furthermore, the assets registers are not kept appropriately. (ISSAI 400, *Unqualified Opinion with an Emphasis of Matter*).

VII. Key Audit Findings and Recommendations

1. The financial outcome against Approved Budget

The total expenditures for 2008 were €146,370,598, whereas the budgeted were €156,730,459. The Ministry has spent 93, 39% of the planned budget and at the end of 2008 there was a surplus of €10,359,861.

The own source revenues collected for 2008 were €152,115, 50.

Conclusions

According to our evaluation, the Ministry spent budget for 2008 within the limits determined by the Assembly in case of Budget approval for 2008.

2. Financial Statements

MLSW does not maintain comprehensive and clear register of fixed assets, where the total value of its property would be presented.

Financial statements are accurate and do present a true view in a material aspect in accordance with AI 2008/13 of MFE “Annual reporting of Budgetary Organizations”, in exception of article 16. Note 27, there are no records about the budget organization’s assets.

Conclusion

Financial statements are compiled based on AI 2008/13 of MFE “Annual reporting of Budgetary Organizations”, but the disclosure of the assets was not conducted as required by article 16 of this instruction.

We evaluate that MLSW, in the lack of the assets register, could not control and manage its assets properly, which increased the risk of damage, misuse or loss of assets.

Recommendation 1

We recommend the Minister of MLSW to assure that:

Financial statements are compiled in reconciliation with AI 2008/13 of MFE “Annual reporting of Budgetary Organizations”, and undertaking all necessary actions for registering all the assets as stipulated in Administrative Instruction No. 2005/11.

3. Expenditures

Table 1 presents expenditures for 2008 and 2007 according to financial statements of MLSW distributed by economic codes.

Table 1: Expenditures

Description of expenditures	Expenditures	
	2008	2007
Wages and salaries	3,370,913	3,363,402
Goods and services	3,976,117	3,375,836
Utilities	404,910	519,191
Subsidies and transfers	135,360,218	113,922,369
Capital investments	3,258,440	397,696
Total	146,370,598	121,578,495

3.1. Wages and salaries (personnel)

The budget for wages and salaries category for 2008 was €3,437,058, while the actual expenditures for wages in 2008 was €3,370,913. The surplus for 2008 from wages and salaries category is €66,135.

The number of MLSW employees for 2008 was 1,287.

We have selected a sample of 20 files from the personnel and three advertisements to review and analyse the internal control system with regard to the management of personnel files, payment of salaries and hiring new employees.

Findings

- Payment of salaries for 5 employees with contracts numbers 1634; 1649; 0643; 1557 and 0021 was carried out from the budget of departments where the employees were not assigned.
- The vacancy advertisement for a translator Albanian-English and vice versa on 27.02.2008 resulted in a mistake when collecting scored points during the interview process. The final report that was not signed by the Chairman of the Commission, the candidate that was supposed to be ranked in a third place, was ranked in the second one and the same one was selected.

Conclusion

The payment of salaries for employees from other departments provides an unrealistic view of the number of employees in certain organizational units of MLSW and for budget salary expenditures.

During the process of staff recruitment for job vacancies, item 5c and 5d of AI of MPS/DCSA 2003/01 were not respected.

Recommendation 2

We recommend Minister of MLSW to assure that:

Salary Payments of employees to be carried out from the relevant departments where the employees are assigned.

Full Observance of AI of MPS/DCSA 2003/01 recruitment procedures.

4. Procurement

The audit of expenditures for Goods and Services - Capital expenditures is focused to find out whether they are in accordance with following regulations and laws.

Law No. 03/L-048 on "Public Financial Management and Accountability"

Law No. 02/L-99 on "Public Procurement in Kosovo".

4.1. Goods and services

Findings

4.1.1 Servicing and maintenance of MLSW vehicles, Procurement No. Nr. MPMS/08/008/211

During the review of this case, we have noticed that the plan or the list of vehicle parts to be serviced or eventually replaced is incomplete, because it involves a limited number of parts, only 47 items (vehicle parts) are included.

Parts that were not foreseen to be serviced in the tender specification were replaced.

4.1.2 Integrated Information System of MLSW, Procurement No. MPMS/08/018/211

The contractor has provided the performance security from the Insurance Company, not from the Bank as required in the tender dossier. The delivery note no. 01/08 based on which the first lot is invoiced by the Economic Operator for the finalized work and which, was signed by members of admission committee, identifies no value of works at all.

4.1.3 Printing bulletin, Statistics reports, Computer design, Procurement MPMS/07/008/221

There is a difference of €636 between the amount noted in tender specification (contractual prices) and invoice amount of Economic Operator. At the same time, items in the value of €13,510 are paid too and this was not foreseen by the contract.

4.1.4. Supply with consumable office material. Procurement No. MPMS/007/024/111

The tender security in a value of 3% that was required by the tender dossier was not submitted by economic operators regarding total value of contracts but for a monthly value. Article no. 55.3 of the tender dossier.

There was a supply with items, which were not foreseen under contract. In addition, some items were paid in a higher prices than those contracted.

We have analysed the value of €22,011 from the total value of €254,271. And in this value we have found that there were items purchased which were out of the specification and there is a discrepancy of prices compared to the ones contracted by the Economic Operator in the value of €3,501.

4.1.5. Supply with groceries, procurement no. MPMS/08/002/111

The procurement procedure is carried out with no prior request as foreseen by Article no. 20 (20.2) of LPP.

During the audit of 4 payments in the value of €24,669, we have noticed that the Economic Operator has ignored the tender prices and invoiced items with higher prices. This over-evaluation in percentage is approximately 11%.

Within the economic operator bid, we have observed items with the prices higher than the market prices at the time when the contract was signed.

Conclusion

Improper specification planning regarding the services has resulted with non-observance of specification and contract in general.

Payment of lot without providing any evidence that the 30% of works were completed.

Purchase of items with higher prices compared to the ones contracted.

Purchase of items that were not included in the specification.

Recommendation 3

We recommend Minister of MLSW to assure:

- When compiling the procurement plan, they should consult experts in this field and the plan should be more comprehensive and clearly specified according to the requirements.
- To adhere the criterion of tender dossier, including time limits and the method of payment.
- Admission Committee, who are IT experts also, to not sign admission reports prior to clarifying the finalization of system's works.
- No payments shall be made without prior confirmation that the works are finalised pursuant to the contract.
- To adhere the procurement procedures and tender dossier requirements.
- To adhere the specification on the material of the tender dossier, signed contracts on types, quantity and prices.

- Specification (plan) of supply to be aligned with concrete needs of MLSW and not to carry out supplies with items out of contract.

4.2. Capital investment

Findings

4.2.1. Construction of Regional Employment Centre in Ferizaj, Procurement no. MPMS/07/010/521

Construction of Municipal Employment Office - Dardane, Procurement no. MPMS/08/009/521

Construction of Municipal Employment Office - Vushtrri, Procurement no. MPMS/07/015/521

Within these three projects, we found out that the Article no 12.1 of the contract where is foreseen that 10% of the total amount of the contract shall not be paid to the economic operators whereas, this amount shall remain as a guarantee in order to carry out the works, in such cases the contractor has received the guarantees issued from the bank respectively from the insurance companies therefore, the contractor paid the entire amount of the contracts.

4.2.2 Construction of Social Dwelling Premises in Drenas, Procurement no. MPMS/08/022/511

Construction of Social Dwelling Premises in Skenderaj, Procurement no. MPMS/08/020/511

The contract for the first project was signed on 02.09.2008 and the deadline for finalizing the works was 85 working days, while for the second project the contract was signed on 10.09.2008 and the deadline for finalizing the works was 102 working days. Works were not completed until the time of our audit.

One of four sub-criteria for the selection of the most advantageous Economic Operators was the time limit for finalizing the works i.e. Economic Operators scored points during the selection for this lot. However, these criteria were not respected.

4.2. 3. Renovation of Children’s Recreational Centre in Nashec

Procurement procedure was carried out without any previous request, as foreseen by LPP. The performance security of works was not provided according to Annex 8 of the tender dossier – from the Bank but it was provided from the Insurance Company. There were errors noticed in tenders of Economic Operators, initially from bidders and later on failures made by the Evaluation Commission. Adjustments of tenders were made, and Economic Operators were notified for such errors but they did not respond.

Conclusion

Non-observance of Tender Dossier requirements

Recommendation 4

We recommend Minister of MLSW to assure:

- Respect of terms determined by the contract.
- To see the possibility of contract termination or to apply fines, in case if EO does not fulfil the obligations according to the plan.
- Members of bid evaluation committee shall adhere to their obligations when signing the declaration under oath.
- All procurement activities shall be developed in full compliance with LPP.

4.3. Other expenditures

Findings

4.3.1. Contracts on different intellectual services

For the contract on deed (no number) signed between the physical person and MLSW in the value of €1,260 and for special services agreement with no. 2360 in the value of €1,360, payments were made in contradiction to the regulation 02 of the Treasury, ppoint 10.2.

4.3.2 Telephone charges

From the selected samples of roaming telephone charges for month June 2008 it was ascertained that the number 044/509-620 exceeded the allowed expenditures in amount of €61. While, for the landline telephony charges, as a sample we have analysed months September and October 2008 and we have discovered over-expenditure of allowed limit, according to decision no. 81 on 03.03.2008 for the implementation of AI 04/2008. There is an over-expenditure of allowed limit in amount of €4,255 (65% spent more than allowed).

Conclusion

Financial Rules and Treasury Instructions – 02 “expenditure of public money” not adhered, avoiding tax on income.

According to AI no.08/2006 and AI no.04/2008, an unauthorised expenditure of KCB funds, concerning over-expenditure of the limit of cell phone charges was caused.

Recommendation 5

We recommend Minister of MLSW to assure:

- Adherence of Treasury Regulation – 02.
- Establishing control over monitoring and controlling the expenditures of telephone charges and comply with the allowed limits pursuant to the applicable laws and regulations.

5. Subsidies

Expenditures for subsidies and transfers for 2008 according to Financial Statements amounted at €35,360,218 or 93% in total from expenditures of organization, making control and management of this category important. In table no. 2 subsidies are presented according to schemes for 2007-2008:

Table 2: Subsidies according to the schemes

Type of benefit/subsidies	2008	2007
Basic pensions	65,633,679	63,196,775
Pension of contribution payers	11,289,104	-
Pensions for disability persons	10,019,003	10,092,562
Pensions for war invalids	18,417,154	8,770,832
Pensions of Trepça	2,775,750	2,818,480
Social assistance	26,066,215	28,017,564
Social services	825,916	689,907
Institutes	28,200	28,160
Maternity	205,324	208,488
Division of employment	99,874	99,599
Total of subsidies and transfers	135,360,218	113,922,369

5.1. Basic pensions

Basic pensions are regulated by UNMIK Regulation No. 2001/35 on Basic Pensions, Regulation no. 2005/20. For the amendment of Regulation No.2001/35 and Administrative Instruction No.2003/7 for the implementation of UNMIK Regulation No.2001/35 on Pensions in Kosovo as well as other Administrative Instructions that regulate this category of pensions.

Beneficiaries of basic pensions are Kosovo citizens who are 65 years of age, the amount of it is €40 per month, and this payment is made through the bank account to each beneficiary.

Findings

Out of 89 samples selected, one of them was not provided to us at all, 39 of them have no signed and registered decisions from competent officials, and no evidences were found that the beneficiaries received these decisions.

In one case, the pension was terminated with a justification that the pensioner deceased but, the decision was not signed and registered and it did not act according to the Administrative Instruction on fulfilment of the form – death report.

Also it was found that from the list for returning means (pensioners with serial number 1 to 107) compiled by the Control Section in DPAK, was required to return the means from 1 to 24 months, which means that DPAK did not carried out legal obligations according to the Articles 1,4,5 and 6 of AI 08/2007.

5.2. Pensions for contribution payers

This scheme is regulated by AI No.11/2007. Beneficiaries of this scheme are the citizens who are 65 years of age and were insured and paid contributions according to the employment relationship.

Findings

Out of 44 examined samples, we could not find any administrative – decision in order to approve the right to this scheme. Also, the requests of 50 pensioners (applicants) from the Municipality of Podujevo which applied for this scheme were not reviewed in the foreseen legal timeframe.

5.3. Pensions for the employees of Trepça compound

Findings

Out of 25 selected files 24 of them were reviewed, since the sample with no. 25 was not provided to us from the North part of Mitrovica.

We have noticed that the files are incomplete with documentation according to criteria determined by Article 2 of Administrative Instruction No. 10/2007. Missing items within the files: decisions, health committee assessments; working experience; termination of employment relationship; unsigned applications and no dates; evidence on working background.

Further on:

- Pensioners with ID No: 2001741147; 1015495517 and 1004793460; 1005244966 have received pensions and regular salaries from Kosovo Consolidated Budget during entire year, 2008.
- File with no.928/08, after losing the right for pension, the pensioner re-applied again in October and he is paid retroactively since May to the September, which is in contradiction to AI 10/2007.

5.4. Pensions for disabilities - PD

Pensions for disabilities are based on Law No.2003/23 on pensions for disabilities in Kosovo promulgated based on the Regulation No. 2003/40 and supplementary Administrative Instructions, which regulates this area.

In regard to the pensions for persons with disabilities we have selected 33 samples for testing.

Findings

During the review period of these files, we have noticed 12 files with unsigned decisions, 2 files with Assessments from Health Committee without dates, and one file where the payment is made without a decision.

In none of these cases, the health committee does not define in its assessment the percentage of disability according to the Article 7(7.1) of Regulation No. 2003/xx.

5.4.1. File no. 5034963 following the refusal of the right to PDP from DPAK (from the first and second instance authority) and the Supreme Court of Kosovo, according to decision A.No.2245/2006, DPAK decides once more on 19.01.2007 on non-recognition of the right to the pension. Legal counselling states that the party may address to the Supreme Court of Kosovo in a time limit of 30 days.

However, on 21.02.2007 the party's complaint is acknowledged in DPAK addressed to the Appeal Council that considers the complaint (the date of reviewing does not exist) and a decision is taken on 21.02.2007 by recognising the right to the pension from 01.01.2006. There is no evidence that the decision was submitted to the party.

5.4.2. File no. 5045330

The party submits the compliant on 07.06.2005 against the decision dated on 04/2005, which is not in the file. The non-existence is confirmed by the Head of division's inscription within the complaint saying that such decision is not in the file and has to be found. This act is in contradiction to the Article 10(10.1) of the Law No. 2003/23, the time limit of the complaint is 14 days following the notice and section 9 of AI No.9/2004 supplemented by AI No.9/2005 the party may re-apply one year after the date of the submitted request.

The Chairman of the Appeal Council did not sign the Decision.

5.4.3. File No. 5058451

The submission of the request was made on 08.10.2004 whereas the evaluation from Medical Committee on 30.08.2005 when the physical disability for five years was confirmed, however DPAK did not take decision related to this issue (in contradiction to Article No. 7(7.1) of the Law No. 2003/23. The responsibility to inform within a period of three months time article no.3(3.1) of AI No.15/2004 that within a year from the date of application submission, deserved decision must be taken.

On 24.02.2006 the Medical Committee in the session held on reviewing and reevaluation, takes a decision with regard to the complainant that he is not disabled and abrogates the evaluation of previous Medical Committee and a decision on refusing of the request is taken.

On 20.05.2008 a (unsigned) complaint is received and at the same day the appeal committee takes a decision that the complainant will be physically disable for three more years, and on 21.05.2008 a decision is taken without any legal ground at all on recognising the right and that retroactively since 01.01. 2007. The decision signed by DPAK Director, but not by division's director as it is required.

5.4.4. No. 5084201

Submission of the request in this scheme is made on 12.01.2006, the doctor's certificate on 12.01.2006, confirms the pensioner's permanent physical disability. DPAK Medical evaluation Committee, on 31.07.2006, based on position (score) under A- the applicant has totally lost his legs due to the paralyses, and the recommended date for the next medical examination will be in one year.

On 17.11.2006 the first instance of Medical Committee abrogated the evaluation of the regional Medical Committee and concluded that the applicant doesn't possess any disabilities, based on which the decision is taken, with the right to complain within a period of 14 days.

The applicant files a compliant on 27.06.2007 and his complaint is rejected, a compliant follows on 04.07.2007 and is again refused on 29.05.2008, with a right to file a lawsuit to the Supreme Court of Kosovo in a timeline of 30 days. However, on 17.09.2008 with no file submission, contrary to the Law on PDP, the commission for the review of the complaints evaluates that there is physical disability and sets the recommended time for review after five years. A decision is issued to recognise the right retroactively from 01.01.2008, which presents another violation of the Law on PDP since if the pension belongs to him then it should have been approved from the day of application. Following the complainant's compliant to the decision, the pension is approved from the day of the application.

5.5. War invalid pensions

War invalid pensions are based on the:

- Law No. 02/L-2 on the status and the right of the families of martyrs, invalids, and KLA members and the families of war civil victims.
- AI No.02/2007 and 03/2008

Out of this scheme, we have selected 30 samples to review and we have noticed no irregularity.

Conclusion

Out of the above-mentioned audit findings described in paragraph 4 of the report, we concluded that there was an avoidance of procedures on granting pensions, files were incomplete according to legal requirements, insufficient recurrent control on valid possession of the pension right, making requests out of the frame of timelines, etc.

Lack of overall controls on fulfilment of policies on pensions might have caused loss of KCB funds or on the contrary might have damaged the applicant's interests to enjoy the right to a pension.

During 2009, OAG has also carried out a performance audit on the pension scheme for persons with disabilities (Ref no. 21.07.0-2008-08).

Recommendation 6

We recommend minister of MLSW to assure:

- Control measures that accurately to implement the laws and administrative instructions regarding the fulfilment of pension schemes.

- Measures undertaken on objective evaluations and especially the strengthening of Medical Committees control to be objective and responsible during the evaluation of subjects.
- To implement the recommendations arising from the performance audit.

5.6 Social assistance and social services

5.6.1 Social assistance

Regarding the subsidy of social assistance, we have reviewed a sample of 83 units and we have noticed some irregularities. Our findings dealt with files when application forms were not filled in as required by the complainant and the officer of SEC; files were partially filled in; payments were made with no decisions, and files with no attestation reports.

Below we present some of the file cases, which we think were not in accordance with legal criteria:

- Files with application forms were not completed properly by the complainant and officers of SEC: No. 20-09020;09794;19-06295;19-5184;19-11572; Files with application forms are partially completed, but the test of material goods and income were not completed; 04-3256;11-09149;11-05780;1109519; 25-03609;15-01991; etc.
- Files with no verification report; 19-12823;19-8081;19-6295;19-11615;19-5868;19-11644.
- File no.19-11572 has two decisions for the same period with different amounts (75 and 70 €).
- Payments with no decisions;
- Files: 25-02857 there is no decision for the last months of 2007 and first and second month of 2008.
15-01770 payment with no decision for the months 06, 07 and 08.
15-02697 payment with no decision for the months 03 and 04.
25-00688 payment for three more months since they lost their right to the scheme.
- Files uncompleted as required by Article 2.7 of the Law No. 2003/15 and Article 3(3.14) of Regulation No. 2003/xx.,15-01741;15-02470;15-02182;19-90241;
- File No.90-90325 one member of the family worked in KPS for 11 months during 2007 and 2008 and he received assistance until 16.05.2008. Article 3 paragraph 3.14.(iii), Article 6(6.2) of Regulation No. 2003/xx.
- File 19-12075 the data from the application form does not match with the ones in the documentation.

Conclusion

During the audit, we have noticed considerable weaknesses in the functioning of internal control system. Acceptance of incomplete cases, uncompleted application forms properly by the complainant and the officers, there are records that do not match with the documentation, lack of verification in the field, unsigned, unstamped and unregistered decisions, and applications approved disrespecting Law criteria No. 2003/15 and Regulation No. 2003/xx on the scheme of social assistance.

Recommendation 7

We recommend Minister of MLSW to assure:

- Strengthening of controls for the proper management of these subsidies
- Adherence of the Law 2003/15 and applicable regulation 2003/xx
- At the same time, the implementation of Control Section recommendation and the DPAK supervision, and those of Internal Audit Unit.

5.6.2 Social Services

Out of this scheme, we have selected 17 samples to review and we have noticed no irregularity.

5.7 Expenditures Subsidies for NGO

When we reviewed the category of expenditures, we identified as follows:

- Request No. 194 on 07.07.2008 was approved by the Conference of free Unions of Kosovo according to the project of construction its capacities amounting to 5,480 €. This association was not included in AI No.1/2008 to benefit financial sustainability from MLSW and the same one provides no report to MLSW on the expenditures as required by Article 4 of this AI.
- According to the decision of Prime minister No. 10/22 on 30.05.2008, the request of the associations derived from war for the allocation of financial means amounting to 153,000 € for health rehabilitation of 800 UCK invalids and 200 members of martyr's families, was approved. The association provided no report regarding the use of this means.

Conclusion

Article no. 2 and 4 of AI of this Ministry, and Article 3 of the Memorandum of Understanding were not respected, which foresee that the MLSW ask for written reports from NGOs, for rational and designated use of financial means.

Recommendation 8

We recommend Minister of MLSW to assure:

Discontinuation of previous practices and to precisely comply with AI and agreements signed with NGOs. Reports on expenditures of subsidies in accordance with legal requirements should be an integral part in order to fulfil procedures.

6. Petty cash and advance money

6.1. Inadequate controls regarding petty cash and advance money

Inadequate controls for the management of petty cash and advance money increase the risk for frauds, misuse and abuse of public means. Adequate controls, therefore, should exist to ensure compatibility with instructions, rules and stipulated regulations.

\

Findings

Advance money for official trips are not closed for 2005 to 2008 amounting to 33,267 €, whereas the amount of 25,847 € was not justified with relevant documentation.

Also the petty cash was not closed in 2008 amounting to 5,000 €, and advance money amounting to 2,753 € was distributed.

A detailed overview on unclosed advance money which are not justified with supporting documents for 2005,2006,2007 and 2008 is presented below:

Table 3: Advance money

	2005	2006	2007	2008	Total
Unclosed advances	2,744	2,783	4,791	22,949	33,267
Justified with documentation, invoices	-	-	-	7,420	7,420
Unjustified	2,744	2,783	4,791	15,529	25,847

Conclusion

From this information we have established that the budget organization has acted in contradiction to the Law No. 03/L-048 on Public Financial Management and Accountability and AI No.2008/10 Article 10, which states that all advances should be closed until 19 December 2008 and Article 11 paragraph 2 and 3, the closing of petty cash should be done until 26 December 2008. It is clear that we are dealing with non-tolerable actions, in particular for the three previous years.

Recommendation 9

We recommend Minister of MLSW to assure:

- Immediate measures undertaking to consider this issue in details and to request the users of these advances to return all KCB means.
- That in the next audit, implementation of this recommendation and we will pay a special attention to the actions taken.

- Implementation of provisions of the Law No; 03/L-048 on Public Financial Management and Accountabilities and Administrative Instruction No: 2008/10

7. Use of vehicles

In order to test internal controls and their compliance with legal rules during the period of utilization of vehicles based on professional judgement we have selected to review evidences for 9 vehicles. The Minister's cabinet did not provide evidences for two vehicles with regard to registration of mileage, whereas the total expenditures on fuel for these vehicles during 2008 are 8,127 litres.

The mileage was done partially for seven other vehicles, therefore based on these offered and insufficient records, the average of the spent fuel is 44,5 litres/100 km.

Whereas for all other vehicles of MLSW the average use is 15 litra/100km.

MLSW has no internal regulation on using vehicles; neither there is any normative on the allowed and accepted expenditures for fuel for vehicles according to the type and their technical characteristics.

Conclusion

The procedures when using vehicles were not respected; there is no written request and authorisation on using vehicles. There are numerous deficiencies in the functioning of internal controls and there is avoidance of the implementation of AI No. 03/2008 on using governmental vehicles.

Recommendation 10

We recommend Minister of MLSW to assure:

Immediate measures undertaking regarding the above-mentioned findings and establish proper control on the utilization of vehicles:

- Internal Instruction or Regulation should be issued which would clarify the means of utilization of Ministry's vehicles, establish accepted norms of fuel expenditures in accordance with technical characteristics and the vehicle's age, implementation and signing of orders on utilization of vehicles, keeping correct evidences on the mileage spent.
- Cases when there is an enormous expense of fuel should be reviewed by a special panel and concrete measures should be proposed to compensate expenditures, which are logically unjustified by the persons who caused it. In our next audit, OAG will concentrate on the implementation of this recommendation.
- Improve functioning of internal control on utilization of vehicles, and provisions of AI No. 03/2008 on the management of governmental vehicles should be applied in maximum.

8. Internal control system

Our audit objective was to review the functioning of internal control. We have tested the efficiency of internal control system by interviewing managing staff members of MLSW and we have reached to the conclusions during the period of completion of audit process. Internal control is an entirety of policies and procedures implemented by the organisation management in order to ensure as practically as possible, regular and efficient performance of the activity. Main objectives of internal control are:

- Efficiency and effectiveness of the activities;
- Reliability of financial reporting; and
- Compliance with applicable Laws, Regulations, and Accounting Standards.

Our conclusions are that current internal control measures within MLSW do not meet the standards and good practice criteria in order to provide sufficient security, that the organisation has fulfilled its mission and the objectives in general. Our assessment has been based on facts, there were numerous weaknesses noticed in the above-mentioned cases.

8.1. Internal Audit Unit (IAU)

The management is responsible to establish the IAU, which would help legal and efficient functioning of the internal control activity. MLSW has established internal audit unit staffed with two staff members; head of audit unit and one auditor.

IAU in MLSW has compiled an annual working plan for 2008 and the strategic plan for 2009-2011. IAU has conducted audits in high-risk fields such as; Subsidies, Procurement, Logistics, Central Administration – Personnel.

We have identified numerous findings in reports, and adequate recommendations have been given accordingly to be implemented.

Conclusion

In spite of the engagement, IAU did not manage to fulfil the annual working plan. In our opinion, the function of internal auditors cannot be covered in numerous activities in the Ministry with the current number of auditors.

Recommendation 11

We recommend Minister of MLSW to assure:

Review of budget possibilities in order to increase the number of auditors within this unit. Also, the internal audit role should be strengthened even more and the recommendations given by IAU should be implemented.

Annex 1

Various types of audit opinions implemented from OAG side in the Annual Auditing Reports for 2009 (extracted from ISSAI 400)

9. An audit opinion normally is in standard format liaised entirely with financial statements avoiding the needs to determine its length but carrying forward an understanding in general to the readers according to its meaning. The auditing legal frame will affect the nature of these words, but the content of opinion should clearly show if it is unqualified or qualified, or if it is qualified in some certain issues or is an adverse opinion (paragraph 14), or it is a disclaimer of opinion (paragraph 15).

10. An unqualified opinion is given when the auditor is satisfied at all material aspects that:

- (a) financial statements are prepared by using the basis and recognised policies of accounting which are implemented in consistent manner (sustainable);
- (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 judgement, 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 can not 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. Comments of MLSW and OAG responses

Comments of the Ministry	OAG response
<p>Comment 1. Point 4.2.2. Considering the fact that the contract for construction of the social residence building in Drenas is signed on date 02.09.2008 and that the dynamic planning for completing the works was 85 working days. On date 29.10.2009 we've received an official letter by the supervising authority of works where was mentioned that it has been requested from procurement office to take into consideration the atmospheric climate conditions because of the winter season, therefore based on the report of supervising authority and work schedule presented to Ministry, the company comply with its provided dynamic plan. It is the same also, for the other project of construction of social residence building in Skenderaj, that these two projects are already completed and in the work schedule managed by the executing company and signed by the supervisor of the works is entirely in line with the provided dynamic plan, therefore we are sending you the notes of supervising authorities.</p>	<p>The existence and the approval of the official memo for extending the timeline of execution of the works by the supervising authority, is not proved to us during the audit, and this memo is not attached to the MLSW comments.</p> <p>Audit findings and conclusions remains the same.</p>
<p>Comment 2. Point 5.1. It's ascertained out of 89 selected samples of this scheme, 39 of them doesn't have the signatures of the official person or by the person in charge. We remind you that the verdict that doesn't have the signature and that is found in a respective file is an additional note of the procedure which is needed for the completion of the case, while, the decisions upon final processing, - processed to the parties are already signed by the respective authorized person of DPAK.</p>	<p>Although, MLSW (DPAK) in its comments claims that the decisions are signed but, no prove is provided to us when receiving the comments.</p> <p>Audit findings and conclusions remains the same.</p>
<p>Comment 3. Point 5.2. At the second paragraph, findings, the possibility of compilation respectively, submitting the decision for the beneficiaries at DPAK was impossible because, the system management of the Information Technology and database was and now it is not in the competence of DPAK. Therefore, bringing the decision for this retirement scheme was impossible, although DPAK has made an effort along with their staff through a pilot project to prepare such decision, while the payment issue through IT is proceeding in appropriate way, on the other way, DPAK staff doesn't have the possibility for preparing the decisions' form because they don't have an available program for it.</p>	<p>MLSW in its comments doesn't deny the ascertained fact by the auditor but. Only clarifies the reason of happening. Since there is a lack of proves, we asses that the explanations of MLSW in its comments can't be used as a basis for changing the findings and the conclusions of the audit.</p>

<p>Comment 4 Point 5.3. Pensions for the „Trepça” compound employees. Within the general auditor ascertainment, there are some actions ascertained which doesn't meet the administrative instruction. We are notifying you that the retirement scheme for the employees of the complex "Trepça" was managed by the management staff of »Trepça« nill, hence, the process of reviewing, re-assessment of all pensioners' files is ongoing.</p>	<p>MLSW in its comments does not deny the ascertained fact by the auditor but. Only clarifies the reason of happening. Since there is a lack of proves, we assess that the explanations of MLSW in its comments can't be used as a basis for changing the findings and the conclusions of the audit.</p>
<p>Comment 5 Point 5.4.2 – File no. 5045330 The ascertainment of unsigned decision by the head of “Complaints’ Council”, we remind once more that the decision that was sent to the party is now signed and now it's a part of file content.</p>	<p>MLSW didn't provide the proves that the decision is signed and that the party received this decision</p> <p>Audit findings and conclusions remains the same.</p>
<p>Comment 6 Point 5.4.3 - File no. 5058451 We are notifying you that it is the right of the executive head of MLSW – (permanent secretary) to establish a special professional committee, which would perform re-assessment and review a prior decision, hence, the respective committee has specifically conduct re-assessment of the first step and devaluated it. While, it is the right of DPAK director to sign the decision or to delegate that competence to the other officials, although there is no warning that he didn't have the right to sign.</p>	<p>We are not putting in question the right of executive head for establishment of special professional committees on re-assessment of previous decision, but, the decision-making procedure was not in accordance with the Law and the decisions shall be signed by the person to whom this right is given and, not by director.</p> <p>Audit findings and conclusions remains the same.</p>
<p>Comment 7 Point 5.4.4 - File no 5084201 Inability of the party to be present on the date when the medical committee session was held, because the party was admitted in the hospital – medical rehabilitation and also, not presenting the documentation stagnated the decision of this case. But, with further commitments and by forming the medical committee, and the promptness of the audit personnel, the party now got the right, and by this it is concluded and the payment is continuing.</p>	<p>MLSW clarifications can't be used as a basis to change the findings the audit conclusions.</p> <p>Audit findings and conclusions remains the same.</p>

Comment 8. Point 5.6.1 a) Improperly completed files with application form by the submitter of the request and by the QPS officials.

These failures- irregularities ascertained by OAG are more administrative and technical in a nature. Not attempting to justify them, these irregularities are as a consequence of unique standards upon the recruited number of employees at SAS. At some of the QPS, one SAS employee is obliged to manage an enormous number of the families (more than 500) which makes impossible an achievement of effective and efficient work.

b) Files without verification report. During the whole year 2008, the QPS directors were continuously complaining that they have lack of fuel, lack of vehicles, that their vehicle are old and they often breakdown, which disabled that a lot to perform in time and in appropriate manner the process of verifying the families at SAS, or the families that applied for the first time to receive social assistance.

c) Files without decisions. The file no. 19-11572, there were really two decisions in the same period of time (70 and 75), but, in this family has been a change in the number of the family members, therefore, another decision with different amount was issued, which abrogated the previous decision, but, in the file the previous decision was left. In some of the case-files a decisions were missing, because at the period when the audit was performed these cases were in the process of examination by the medical committee, and this committee delayed these cases for more than 2-3 months

d) Out of 26 files – cases with irregularities ascertained by /AG'. DNS has certified 12 of the cases of this kind are separated from SAS during year 2008, while, the other 15 cases have already completed submission of all required documentation by re-applying on the basis of SAS Law.

MLSW in its comments doesn't deny the audit finding, but, only clarifies the reason of happening, because of lack of proves, we assess that MLSW clarifications can't be used as a basis to change the findings the audit conclusions.

Comment 9.Point 7. Within the samples taken was also Bus Fiat – Iveco with plate numbers 514 –KS-159, engine power 12.000 ccm, and made on 1980, which means that the bus is old for 29 years and it's itinerary is local at all times, thus, it's costs are higher, explaining this we've got the report of the year 2008 for every month. (Pursuant to this statement of the costs (I)). Regarding the other vehicles that were taken as samples, it's a fact that they didn't submit the reports regularly for this case the percentage of the costs of mentioned samples got higher.

MLSW in its comments doesn't deny the audit finding, but, only clarifies the reason of happening, and it doesn't attach the mentioned expenditure statement to the comments

Audit findings and conclusions remains the same