



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

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**AUDIT REPORT ON THE MINISTRY OF  
HEALTH FOR THE YEAR ENDED ON 31  
DECEMBER 2008**

**Prishtina, July 2009**

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## **List of Abbreviations**

AG	Auditor General
AI	Administrative Instruction
EO	Economic Operator
EL	Essential list (medicaments)
IPSAS	International Public Sector Accounting Standards
IFAC	International Federation of Accountants
KMA	Kosovo Medicines Agency
LPFMA	Law on Public Financial Management and Accountability No.03/L-048
LPP	Law on Public Procurement with amendments and supplements of date 8 February 2007
MoH	Ministry of Health
OAG	Office of the Auditor General
UCCK	University Clinical Centre of Kosovo

## **I. Executive summary**

Office of Auditor General (OAG) has carried out audit of Ministry of Health Financial Statements for the year ended on 31.12.2008.

Our audit was carried out in accordance with International Auditing Standards, compiled by INTOSAI and included such tests and procedures as we deemed necessary to arrive at an opinion on the financial Statements.

In our opinion the financial statements do present a *true and fair view* in all material aspects. (ISSAI 400 Unqualified Opinion).

Audit of financial Statements has identified weaknesses in field which should be addressed immediately by the management with a purpose to improve the efficiency and effectiveness of the organization.

This audit has drawn out these key weaknesses of the Ministry of Health;

### **1. Central Administration - MoH**

- The Ministry does not manage properly the implementation of contracts with Economic Operators. We have noticed long delays for their execution. In three cases, the contracts were not implemented completely, while the Ministry did not take appropriate measures for their full implementation;
- The internal financial controls are not established and they do not function to prevent, uncover, or correct the possible errors and irregularities;
- Our audit has shown that in general the Ministry of Health, they do not maintain complete financial and operational records in accordance with regulations and laws in force.

### **2. Kosovo Medicines Agency – KMA**

Internal Controls within KMA in general are in an insufficient level therefore this issue needs to be addressed urgently. The following we shall reveal the examples of non-functioning of those controls:

- In KMA, there were two contracts signed with two different contractors for the same works in value of €21, 550. These works were not completed by the first Economic Operator, while KMA has retendered them and contracted out with another Economic Operator without terminating the contract with the first Operator;

KMA has no Accounting Registers for registration of own source revenues, value of which during 2008 (according to Treasury report) was €1,250,307;

- Major differences within economic codes between Treasury records and the records presented within MoH Financial Statements, mainly on own source revenues;
- KMA did not register its fixed assets in the Free-Balance report system (KFMIS) as required with AI 2005/11 issued by MFE and the same ones were not disclosed within financial statements in the end of 2008 and there are weaknesses in proper management of assets in level of MoH;

### **3. University Clinical Centre of Kosovo – UCCK**

- During 2007, UCCK has spent €689.950 to purchase CT-tomography. The Device has been tested and physically accepted in a regular condition on 19.12.2007. However this Device was not put in function at all;
- UCCK did not monitor the execution of contracts from Economic Operators, the acceptance of Goods is made from the unauthorized persons and there is no proper segregation of duties related to the supplying processes.

Our overall conclusion is that Ministry of Health has the possibility not to achieve its objectives as a consequence of non-functioning of internal control system.

Our main recommendation is that the Minister shall urgently launch a revitalizing Internal Control Programme under his stewardship.

While launching this programme we should consider 8 recommendations given in “ the Performance Audit Report on delivering the Essential Medicines by the Pharmaceutical Department within Ministry of Health” with doc. no.21.4.9-2008-08, performed by OAG.

## **II. Introduction**

According to the Law, the Office of the Auditor General is responsible to conduct annual regularity audits.

Regularity Audit is defined as attestation of financial accountability 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 statutes and regulations;
- The appropriateness of internal control and internal audit functions;

- The probity and propriety of administrative decisions taken within the audited institution or entity and
- All matters arising from or relating to the audit.

It is the responsibility of the Ministry of Health (MoH) to prepare the financial statements in accordance with the International Public Sector Accounting Standard (IPSAS) on “Financial Reporting under the Cash Basis of Accounting”, and in accordance with Administrative Instruction 2008/13, and to present them on time.

### **III. Status of Prior Years Audit Recommendations**

The OAG’s audit report on MoH financial statements for the year ended 31 December 2007 resulted with 24 key recommendations. Our current audit has reviewed 15 recommendations, out of them ten (10) recommendations were partially implemented, while five (5) recommendations were not implemented at all, three of them in UCCK and two in KMA. The most important are:

- (a) Make equipments and medical devices, for which considerable investments has been made, more functional servicing the citizens needs;
- (b) Complete operational and financial data and records should be maintained within KMA Departments;
- (c) Procurement planning by UCCK should be finalized in the timely fashion;
- (d) Procurement processes should be carried through in accordance with legal requirements and a proper segregation of duties should be introduced for the purchase and receipts of goods.

These are several of recommendations that are not being implemented by the management, for years with an impact on the credibility of the Financial Statements.

Failure of the management to fully implement our recommendations from the last year has created the situation that the same problems as those still exist. Lack of the measures established by the management on the audit findings and recommendations present a concern.

### **IV. Audit Scope**

This audit has to do with Financial Statements of Ministry of Health (MoH) for the year ended on 31 December 2008.

The primary objective of our audit was to enable the OAG to express an opinion on whether the MoH 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 was planned and implemented based on the INTOSAI Audit Standards.

In order to fulfil our responsibilities, we:

1. Reviewed the MoH economic categories against approved budget for 2008;
2. Determined whether the MoH financial Statements were prepared in accordance with IPSAS “ Financial Reporting under the Cash Basis of Accounting “;
3. Undertook extensive substantive testing of financial transaction;
4. Used a combination of judgment and random sampling to select transaction for testing;
5. Relied on a combination of interviews, analytical reviews, document reviews and physical verification to assess the validity and propriety of financial transaction;
6. Assessed the independence and quality of work of the Ministry’s internal audit unit to determine if their work could be relied upon for our audit purposes;
7. Carried out test on design and function of Ministry’s internal control’s systems;

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

In regard to our audit opinion on MoH financial statements, international standards set out specific criteria which regulate the type of the opinion that could be given. Audit Opinion can be Unqualified, qualified, adverse or disclaimer of opinion (Annex 1 ISSAI 400).

## VI. Audit opinion

In our opinion the financial statements do present a *true and fair view* in all material aspects. (ISSAI 400 Unqualified Opinion).

## VII. KEY AUDIT FINDINGS AND RECOMMENDATIONS

### 1. Financial Result against the approved Budget

The analysis of the results within the financial Statements against the approved Budget shows that:

For 2008, Ministry of Health had a final budget in value of €68,503,141, while the expenditures were €62,629,704. Unspent means were €5,873,437. The Liabilities of MoH for 2008 carried forward to 2009 were €1,624,593.

The Dynamic of expenditures is presented as follows: in December-2008, 29% of the MoH entire budget was spent, while within this month (December-2008) around 58% of the budget was spent for capital investments.

MoH Own source revenues for 2008 were €3,488,994 (treasury expenditures – 2008) In comparison to 2007, the collected revenues were reduced for €96,190 or 2.7%.

### Conclusion

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

## **2. Financial Statements**

In the Financial Statements all assets of MoH are not completely recorded nor are disclosed. . Revenues reported are not fully supported by ministry's accounting records.

- Ministry of Health does not possess financial source registers which would be used to prepare Financial Statements and support data presented within FS;
- KMA did not carry out the registration of fixed assets within Free-Balance System and it did not present them within Financial Statements for 2008;
- There are no source registers within category of KMA revenues in order to verify whether they are true and complete;
- We have identified major differences in economic codes between Treasury Records and the records presented within MoH financial statements, mainly own source revenues.

### Conclusion

Financial source registers are basic records (documents) in order to prepare the financial reporting, while their absence impacts on non-inclusion of all financial transactions that directly impact on the credibility of financial Statements. The Differences in economic codes shows lacks of reconciliations between the source records of MoH and treasury records.

## Recommendation 1

### **We recommend Minister of Health to assure:**

- The preparation and complete maintaining of financial registers, financial and operative reports and in the end to have Reliable Financial Statements;
- To register all revenues within proper economic codes and to carry out proper monthly reconciliations between MoH' accountancy records and the Ministry of Finance and Economy.

## **3. Budget Execution**

Within the process of MoH budget execution, we have ascertained there was a weak functioning of controls within financial processes. Their impact is fundamental in execution of the budget according to the Plan.

### **3.1 Revenues**

#### Findings

MoH Own source revenues for 2008 were €3,488,994 (Treasury notes 2008). In comparison to 2007 collected revenues reduced for €96,190.

We conclude that this reduction were as a result of weaknesses in process of collecting own source revenues, mainly in UCCK.

Financial Statements of MoH reports less collected own source revenues in amount of €4,730 than the Treasury data.

We have also identified inadequate economic codes and major differences between the notes within Treasury and data within Ministry's FS, when it comes to the recording of the collected revenues

Table no. 1

<b>Revenues</b>				
		<b>As per FS</b>	<b>As per Treasury</b>	<b>Difference</b>
<b>Codes</b>	<b>Description</b>	€	€	€
50008	PUBLIC PARKING TAX - CAMPIM	114,048	82,074	31,973
50024	MED. CERTIF. TAX ( DRIVING LICENSE)	14,960	80,857	(65,897)
50104	FINES FROM INSPECTORATE	38,499	68,299	(29,800)
50409	PARTICIPATIONS EDUC./HEALTH	1,480,095	1,533,315	(53 220)
50412	BANDEROLS	93,203	108,648	(15,445)

### 3.1.1 University Clinical Centre of Kosovo (UCCK)

#### Findings

Activities regarding the collection of own source revenues were carried out by unauthorized persons, which is in contradiction with LPFMA. Register of revenues was carried out in wrong codes and FS were prepared based only on Treasury data and not on internal accounting registers.

Revenues from the parking during the period February –August 2008 were collected by Security Company of the UCCK Premises called “Rojet e Nderit”, while from August 2008, collection of revenues was carried out by employees of technical services within UCCK (fire brigade). Reducing of revenues collected from parking for 2008 in comparison to 2007 is €36,508.

There is a different reporting in regard to the revenues between the Treasury and source registers and there is a difference only in two economic codes in amount of €21,946.

#### Conclusion

Engagement of Private Security Company “Rojet e nderit” for collection of revenues from the parking within point 1 and 2 has no legal basis.

Collection of revenues by unauthorized persons (who are not employed within UCCK) is in contradiction with LPFMA, article 16 “Procedures of own source revenues”. We consider this to be one of the main reasons for reduce of collecting revenues.

#### Recommendation 2

**We recommend Minister of Health to ensure:**

- The increase of efficiency and achievement of objectives, by establishing and exercise proper control in process of collecting the own source revenues by implementing the laws and regulations in force.
- Receipts of public money must be carried out by the authorized persons according to LPFMA, Article 16;
- Employees of Technical services within UCCK must be authorized according to the Law giving the clear description on duties and responsibilities.
- All revenues must be registered on proper economic codes determined by Treasury (MFE) and to carry out proper monthly reconciliations between source records, MH records and Treasury records;
- To ensure that source registers are completed in order that they would serve to prepare the financial Statements.

### 3.1.2 Kosovo Medicines Agency (KMA)

Kosovo Medicines Agency functions on basis of Law no. 2003/26 on Products and Medical Devices. By performing its legal functions KMA consequently generates own source revenues by applying the assigned tariffs.

The revenues of KMA for 2008, based on the Treasury records reach the amount of €1,250,307. This amount presents 35.8% of overall revenues within the Ministry of Health.

Within KMA, main revenues are regenerated from the Licensing Department, Authorization, Marketing and Inspectorate.

#### Findings

During 2008, KMA did not have a Revenues Officer for managing the own source revenues, it did not maintain any financial register on own source revenues, while financial statements were compiled based on Treasury data.

The Departments within KMA have incomplete records regarding their operations; consequently they do not possess records on revenues generated during 2008.

#### Conclusion

Lack of the records is a matter of concern and creates the possibility of excluding and non-reporting all financial transactions.

In lack of internal financial registers on own source revenues, we were not able to make proper tests regarding the accuracy and completeness of the revenues registered within the Treasury and presented within financial statements of KMA and MoH.

The only thing that KMA could do was to use Treasury data in the category of revenues in order to present them within financial statements.

#### Recommendation 3

**We recommend Minister of Health to ensure:**

All revenues are controlled properly and processed in compliance with Treasury Regulation, by undertaking these following actions:

- KMA should appoint the Revenue Officer who will carry out his functions by maintaining complete registers on revenues;
- To prepare annual budget on foreseen revenues and to insure that actual revenues are monitored due to budget report;
- To register all revenues in necessary economic codes determined by Treasury Department (MFE) and to carry out monthly reconciliation between source data of individual Departments, data of the Officer within Ministry of Health,

deposited amounts and General Ledger in order to identify the differences and to undertake correctional actions where it is needed;

- To ensure that each Department which generates revenues should maintain complete operational and financial registers and with the same ones the Revenue Officer within KMA should reconcile with.

### **3.1.3 Official Laboratory for Quality Control of Medical Products (OLQCMP)**

Pursuant to Law no.2003/26 on Medical Products and Medical Devices, KMA through Official Laboratory for Quality Control of Medical Products (OLQCMP), ensures that all Medical Products that are in Kosovo or exported from Kosovo are in accordance with International Standards. This is the main function of KMA.

#### Findings

During the field work, we have noticed that Official Laboratory for Quality Control of Medical Products is not carrying out its complete function as required by Law 2003/26 on Medical Products and Medical Devices. Medical Products which enter into Kosovo market do not come under quality control in this Laboratory, as required with Law.

#### Conclusion

Lack of appropriate professional staff and failure to functionalize entirely the premises where the Laboratory is placed, are main causes for non-function of laboratory according to the Law. As a consequence KMA cannot provide a secure market related to the circulation of quality medical products within Kosovo market.

#### Recommendation 4

**We recommend Minister of Health to ensure:**

- KMA to conduct professional specialization of staff, and regulate the premise conditions in that way so the Laboratory would function as required by Law 2003/26 on Medical Products and Medical Devices.

## **3.2 Salaries and Wages**

In 2008, Ministry of Health on category of expenditures per salaries and wages spent €20,434,658, 32.5 % of the overall budget. We have tested the maintenance of personnel files, compliance of salaries between contract and Pay Roll system and the way of staff recruitment.

## Findings

We have tested 24 samples of personnel in level of Ministry of Health. Within these tested samples, we have noticed that the form of Annual Performance Evaluation of employees, job description is missing.

## Conclusion

The ascertained deficiencies within the personnel files cause uncertainty in performing their duties and responsibilities from the ministry's staff.

## Recommendation 5

**We recommend Minister of Health to ensure:**

- Each civil employee within the Ministry to be guided properly related to his/her duties, and to carry out the Work Appraisal of the Ministry's personnel.

## **3.3 Goods and Services**

Expenditures for goods and services for 2008 were in value of €31,749,084, while in 2007 they were €21,180,721. A more significant increase in this category occurred within Pharmaceutical Department for supply with Medical Products and medical supplies of Essential list (EL).

### **3.3.1 MoH Central Administration**

#### **List of Essential medicines**

OAG has performed a special Performance Audit on List of Essential Medicines, where the findings, conclusions and recommendations were provided in details.

Within this report, we have presented several deficiencies which have a financial impact.

## Findings

Receipt of goods (Essential Lists medicines) was made by unauthorized person while complete reports for Essential list of medicines were not maintained.

MoH could not provide us complete records regarding the planning and supply of the Essential List for the period of 2008.

## Conclusion

The Financial Regulation and Treasury Guidance 02 in regard to the process of receiving the goods, was not implemented. Lack of complete records regarding the supply for each product reduces the possibility of proper management with these medicines. The complete conclusions were provided in "The Performance Audit Report".

### Recommendation 6

#### **We recommend Minister of Health to ensure:**

- The implementation of 8 recommendations given in the Performance Audit Report on distribution of essential list by the Pharmaceutical Department-Ministry of Health, doc. No. 21.4.9-2008-08, carried out by OAG.

### **3.3.2 Kosovo Medicines Agency (KMA)**

#### Findings

KMA respectively Procurement Office does not maintain a list of contracts executed during the year. Within Procurement Process, LPP is not being respected. Due to the lack of contracts list we used data of Treasury system for testing the audit.

On the tests carried out on case with Procurement no. 700008067111” Supply with Hardware, Software and printer for application system for printing the pharmaceutical banderol”, we have ascertained that three responsive bids were not given. None of Economic Operators provided the complete documentation as required with Tender Advertisement, while the complete documentation in regard to the payment of this case is missing.

#### Conclusion

The selection of the winning tender in lack of three responsive bidders increases the risk for inefficient, non-economic and illegal selection.

### Recommendation 7

#### **We recommend Minister of Health to ensure:**

- KMA Procurement Office implements LPP 2003/17 and to maintain a complete list on the contracts executed during the year.

### **3.3.3 University Clinical Centre of Kosovo (UCCK)**

#### Findings

For 2008, UCCK did not have an adopted procurement plan.

#### Conclusion

In lack of such plan, the UCCK has carried out an ad hoc procurement to a large extent and spontaneous based on the requests approved by the Executive Director. The lack of strategic perspective hampers effectiveness and is in contradiction with LPP. This kind of misuse increases the risk for irrational use of means.

### Recommendation 8

#### **We recommend Minister of Health to ensure:**

- UCCK should prepare an adopted plan, which based on the requests identifies in reasonable details the supplies, services and the works that the contracting authority aims to procure during the fiscal year.

Also, UCCK doesn't monitor properly the execution of contracts awarded to economic operators. Receiving of goods is done by unauthorized persons and there is no proper segregation of duties.

### Findings

Regarding the contract "Supply with Information Technology" procurement number 701/08/045/121, in value of €33,000, the execution of this contract was with 30 days. The contract was realized partially while the last delivery delayed for 70 days (07.10.2008). UCCK did not undertake any kind of measure regarding this delay in delivering the goods.

Regarding the contract, "Supply with chemical reagents" procurement number 701-08-061-121 in value of €56,774, the same person participated in the tender opening and evaluation, as well as he physically received the goods.

### Conclusion

Delay on delivering the goods and non-application of penalties for delays shows weakness within the area of contract management. Improper segregation of duties increases the risk of exposure of UCCK against the irregularities during the procurement of goods and their non-discovery.

### Recommendation 9

#### **We recommend Minister of Health to ensure:**

- Contracts signed by UCCK are implemented from economic operators completely and timely as required by the terms of contract;
- Within UCCK, during the supply process, there is a sufficient internal control at the initiation of supply up to the receiving of goods;
- Receipts of goods should be in compliance with Article 7.1 of Financial Regulation of Treasury on Expenditure of Public Money.

## **3.4 Capital Investment**

For 2008, the approved budget for Ministry of Health in category of capital investments was €9,951,919, while the expenditures were €7,674,596.

### 3.4.1 Central Administration

Within Central Administration, in total we have audited 4 contracts for capital investments and in 3 of them we have indentified several irregularities in their management which we have presented below of this sub-chapter. (Table 3)

Table no. 3

No.	Description	Date of contract	No. of procurement	Value of contract in €
1	Supply with medical equipment for emergency intervention in Kosovo's Radiology- Lot-1	18.11.2008	72100/08/246/111	887,850
2	Supply with medical equipment for emergency intervention Kosovo's Radiology - Lot-2	24.10.2008	72100/08/246/111	1,439,250
3	Adaptation of space for installing the Radiology equipment	05.12.2008	7210008840521	182,063

#### Findings

MoH did not carry out the monitoring on that whether the economic operator executes the contract timely, completely and according to the contracted specifications, while the payments were made completely.

The first case with procurement no. 72100/08/246/111, Lot-1 "Devices for control with magnetic resonance for the entire body with magnetic power of 1.5 T"

This device was physically accepted by the Receiving Commission on 15.12.2008. The technical acceptance of this device was not made yet, and its software parameters are not ascertained, in order to verify if those parameters are in accordance with specifics required with contract.

Also, the abroad training for two months in regard to the medical personnel was not carried out as it is required by the contract. The Agreement foresees those 3 Doctors and 2 technical physicians to be trained abroad so they would prepare and be able to use this device.

The second case, with procurement number 72100 08 246 111, Lot -2 , supply with "Computerized Tomography with minimum 6 sheets, in five regions: UCCK, Regional Hospital of Gjilan, RH of Mitrovica , RH of Peja and RH of Gjakova.

Deliver of these equipments was made on 06.12.2008.

The full payment was made after delivering the devices, while there is still no technical acceptance. .

The personnel did not carry out the training foreseen with the contract yet, (two doctors and two medical technicians for each Centre where the device (CT) is set out.

## Conclusion

We estimate that the project is not finalized because the technical acceptance of devices (CT) was not carried out, to ensure that the supply is in accordance with all contracted specification. Also, the training of staff for two Lots of the contract was not carried out, which according to the contract was the obligation of economic operator.

During the time of audit (10.03.2009) these equipments were not set in function.

We have received a verdict from Ministry of Health on establishing a professional commission for technical acceptance of these devices; however we do not have a report for the work of this commission yet.

## Recommendation 10

**We recommend Minister of Health to ensure:**

Case no. 1 and 2

- Committee for technical acceptance of equipments should carry out necessary tests of the devices based on contract specifications in order to ensure that the devices required with contract were paid;
- To send the personnel to training according to the contract with Economic Operator;
- Devices should be fully functionalized for Citizens according to the Law on Health no. 2004/4.

The third case with procurement no. 7210008840521 “Adaptation of space for installing the radiology devices” was signed on 05.12.2008. According to the contract, the work should be carried out in 30 calendar days; however on 10.03.2009 we have carried out a physical examination and ascertained that economic operator (EO) did not perform all contracted works.

## Conclusion

Failure to execute the contract on time presents a violation of contract (article 5 of contract) and as an impact has a failure to realize other relevant projects, respectively the function of CT.

## Recommendation 11

**We recommend Minister of Health to ensure:**

- A complete fulfilment and on timely basis of contract execution signed with Economic Operator. In case of non-execution, should be applied penalties based on the contract.

### 3.4.2 University Clinical Centre of Kosovo

Within the category of Capital Investments in UCCK €1,340,828 were spent for 2008.

#### Findings

Report on receiving the goods was signed without physical acceptance of goods while the complete payment was made at the day of contract. Economic Operator is late regarding the execution contract. There is no proper segregation of duties.

While testing the case with procurement no. 701/08/153/111 “Supply with spare parts and medical equipments” value at €95.019,00, we have noticed a non-compliance with LPP as well as with terms of contract which was signed during the process of procurement and we have presented them below.

Contract was signed on 19.12.2008; and at the same day the complete payment was made, even though within the contract it is foreseen that the last payment should be made after the final acceptance of goods. Contract execution (hand over of equipments) was foreseen within 20 days, however till 16.01.2009 the equipments were not handed over. Report on receiving the goods was signed even though the equipments have not been submitted yet, just to carry out the payment.

The payment was supported by bank guarantee on equal value with contract which was provided by Economic Operator.

Case no.2 “Supply with monitors for patients” in value of €107,840 , request for supply with monitors for patients was made from Chief of Biomedical Equipment Services (BES) , and the same person participated in preparation of technical specification in evaluation of bids for acceptance of goods and their registration.

#### Conclusion

This kind of project execution has a negative impact over the efficiency and effectiveness of the use of UCCK funds. The payment executed in this manner was not legally supported and increases the risk on non-fulfilment of the contract.

Report on receiving the goods was signed in absence of physical acceptance of equipments.

Involving the same person to carry out controversial assignments signifies an improper segregation of duties.

#### Recommendation 12

**We recommend Minister of Health to ensure:**

- UCCK to prepare a final detailed plan in order that the supplies will be carried out timely and based on plan;

- Payments should be made based on terms of contract, while the report on acceptance of goods is signed at that moment when the goods have been received in storage based on the Financial Regulation of Treasury 02 article 7.1;
- During the supply process, within UCCK has to ensure that there is a sufficient internal control from the initiation of supply up to the acceptance of goods.

### **3.4.3 Kosovo Medicines Agency (KMA)**

For 2008 KMA has spent €216,953 in category of Capital Investments.

#### Findings

The tested case with no.7 2000/07/24/111- “Supply and installation of ventilation”- LZKKPM/KMA in a value of €169,766.

In regard to this project, economic operator, 11 month delayed to perform his works while, the responsible officials for contract management within KMA did not take any actions regarding the complete contract execution.

The retender of the same work was done in value €21, 550, without review or ending the contract with the first operator.

The works within this project had to be completed on 30.02.2008, however up to 05.02.2009 or one year after the deadline the work was not completed yet.

Partial technical acceptance was made in July 2008 which had its remarks on quality of work and quantity of completed work respectively the goods received was unclear.

While the full technical receiving was foreseen to be completed in period when the temperatures are lower, this did not occur till the end of our field work (February 2009).

With all these deficiencies, the case was certified in lack of reports on receiving the goods and completed work.

We have noticed that the works for the part of “Automatic and monitoring” valued at €21,550 foreseen with this contract were not completed, while identical parts were retendered and contracted in project: “Installation of sterile room for microbiologic section” dated 11.12.2008

#### Conclusion

Tender File for this project was not made in compliance with LPP article 12. The certification of the subject was not made in compliance with LPMFA and Treasury Regulation 02. The work was not performed based on contract, while KMA did not take any action to apply the penalties foreseen with contract, 10% of the contract or in value of €16,976, is considered as a damage of budget for contract non-implementation.

Contracting the same work with the two EO has no legal basis and causes a damage of budget for this value.

### Recommendation 13

#### **We recommend Minister of Health to ensure:**

- KMA Management to address this issue by acting immediately in order to prevent the double payment for the same work;
- KMA Management and current officials should ensure that during development of the procurement process LPP is fully implemented;
- Certification of cases to be in compliance with Financial Regulation of Treasury 02 article 7.4 ;
- KMA, respectively office of procurement should ensure complete implementation of contracts signed with Economic Operators, and for every deviation to take necessary measures based on contract and LPP.

## **3.5 Asset Management**

### Findings

KMA did not carry out registration of fixed assets in Free Balance at all and it did not present them in its financial Statements for 2008.

UCCK did not appoint an official for receiving the goods or logistics; it did not carry out an accurate asset evaluation as well as it did not place the barcodes in its assets.

Central Administration did not evidence the vehicles within MoH asset register.

#### **3.5.1 Central Administration within Ministry of Health**

In Ministry of Health assets registers, vehicles of MoH were not evidenced. As result of non registration of the vehicles, we have ascertained that this register was not completed as required with Administrative Instruction 2005/11.

### Recommendation 15

#### **We recommend Minister of Health to ensure:**

- MoH to carry out the evidencing of all its assets in asset register as soon as possible, as well as to register all vehicles that are in possession of MoH in the mentioned register;
- MoH that during the annual asset inventory to include within the report all assets which are in its possession.

#### **3.5.2 University Clinical Centre of Kosovo –UCCK**

UCCK still did not carry out an accurate evaluation regarding its assets (despite recommendations from previous years by OAG).

UCCK doesn't have a logistics officer, which will be responsible for receiving and storage of assets.

Failure to place barcodes to UCK assets is in contradiction with AI 2005/11, respectively with article 9 of this Instruction.

#### Recommendation 16

**We recommend Minister of Health to ensure:**

- UCK to respect Administrative Instruction no. 2005/11 regarding the Government Asset Management, and to finish the procedure regarding the evaluation of its assets as soon as possible;
- To appoint an Receiving officer (logistics) who must be placed under the Central Administration Department and the same one must receive goods in compliance with Administrative Instruction 2005/11 , as well the same one must maintain electronic evidence regarding the reserve of assets within UCK;
- UCK to put barcodes to all its assets as soon as possible.

#### **3.5.3 Kosovo Medicines Agency – KMA**

KMA did not carry out the registration of fix assets in accounting registers respectively within Treasury data base. Despite the recommendations from the previous years from OAG, KMA has no receiving officer/logistics as required by AI 2005/11. In lack of this officer, the receiving of goods was carried out by Assets Officer.

#### Recommendation 17

**We recommend Minister of Health to ensure:**

- KMA to manage and register its assets in compliance with Administrative Instruction 2005/11, and to register all its assets in accounting register ;
- KMA that in future to make clear segregation of duties, so the Assets Officer would not receive goods, but to appoint the Logistics Officer which will carry out the receive of goods.

### **4. Internal Audit**

Internal Audit is the most important segment in ensuring the higher management that the internal control mechanisms are designed and implemented in the appropriate way. There where it is noticed that the internal control systems are not functioning properly, the internal audit offers advices and recommendations on how should they be improved.

#### Findings

Internal Audit was not able to carry out a comprehensive audit for Ministry of Health for 2008.

We reviewed a report and noticed that findings presented by Internal Audit are factual and recommendations were given, although the management did not prepare a detailed plan for implementation of recommendations.

## Conclusion

Our audit work showed that a comprehensive audit of Ministry by IA unit is significant. This audit is also required by Law on Internal Audit. While, in this situation it is important to pay attention to activities planning, risk assessment and define the priorities.

## Recommendation 18

**We recommend Minister of Health to ensure:**

- Management should prepare an action plan where the time period for implementing the given recommendations from internal audit will be specified;
- Internal Audit Unit should prepare an annual report which will specify the activities and progress made in implementation of recommendations;
- Internal Audit should plan and perform a comprehensive audit of Ministry for period according to the Law no. 02/L-74 on Internal Audit article 4.

## **5. Internal Control System**

According to Government Policy, systems for Public Internal Financial Control must be designed in order to ensure that:

- Obligations and costs comply with applicable law.
- Assets are safeguarded against waste, loss, unauthorized use and misappropriation.
- Revenues and expenditures, liabilities and recovery of undue paid amounts applicable to budget spender operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and the accountability of the assets may be maintained.
- Programs are efficiently and effectively carried out to meet objectives in accordance with applicable law and management policy.
- All management risks have been detected and addressed by an appropriate and proportionate control.

## Findings

**Kosovo Medicine Agency** did not have an appointed Revenues Officer whereas the cases for payment were not certified in accordance with LPFMA. Since August 2008 within KMA, the Inspectorate Department for Medical Products and Supplies does not function.

Within UCKK there is no Logistics Officer, and there is no proper segregation of duties related to the Procurement procedures.

## Conclusion

Based on these deficiencies related to the functioning of internal controls, the Ministry is not able to identify or prevent the possible errors or frauds. Also, the Ministry cannot achieve its assigned objectives.

## Recommendation 18

**We recommend Minister of Health to ensure:**

- Launch a revitalizing Internal Control Programme under his stewardship;
- To appoint persons within key positions of financial control based on laws in force;
- To ensure that internal controls are achieving the assigned objectives;
- KMA to have its own Inspectors in order to perform the functions as required by Law no. 2003/26 on Medical Products and Medical supplies.

## Annex I

### 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 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 cannot be given, specifying clearly and concisely all matters of uncertainty.

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

## Annex II: MoH Comments and OAG response to comments

In the following we shall disclose in details the comments of the Ministry and OAG responses to these comments.

<b>Ministry's Comments</b>	<b>OAG Response</b>
<p><b>Comment no. 1 in regard to the chapter 3.1.1 UCCK revenues</b></p> <p>The ascertainment according to the Draft Report, is that within MoH, the amount of own source revenues has been reduced drastically, mainly as a consequence of weaknesses regarding the collection of revenues within UCCK. We think that these reduce does not stand, since the UCCK revenues, within the overall structure of own source revenues within Ministry of Health, take part with 18.84%, ascertained in nominal amount is €19.377,44.</p> <p>In regard to the own source revenues from the parking place, we ascertained that they were collected by the Private Company “Rojet e Nderit”. This ascertainment is accurate. The reason is that the employees placed to secure the UCCK entrances they belong to the service privatized in 2006. By accepting the audit recommendations for 2007, UCCK has made a half-witted solution, in regard to the collection of own source revenues from the parking place, and it has assigned the employees of Fire Department to collect these revenues. The Instruction of Emergency Headquarters based on the Information Circular No. 4/2008 dated 31.01.2008 of the Ministry of Health, for Mobilizing within the occasion of Declaring the Independence of Kosovo, in February, all fire department employees, should be mobilized. UCCK, has withdrawn the collectors- fire department employees from this duty and since it could not find another solution, due to the lack of internal reserve staff and incapability to recruit new employees for this duty, they consigned the collection to the Private Company “Rojet e Nderit”, since the security and control at the entrances and exits in UCCK, would be safer. After the risk has passed, UCCK has its own employees at the previous positions.</p> <p>In regard to the ascertainment that own source revenues are not reconciled with Free Balance, UCCK ascertains that this reconciliation stands and the submitted amounts and their registration within Free Balance are completely reconciled. The ascertainment that a permutation within the codes of own source revenues has been made.</p>	<p>UCCK has partially accepted our findings, conclusions and recommendations. We have analyzed these comments and came to a conclusion that UCCK did not provide supporting evidence, that would alter our opinion. Therefore, OAG ascertains that the management of revenues within UCCK is not on the appropriate level.</p> <p>Audit findings and conclusions remain unaltered.</p>

<p><b>Comment no. 2 regarding the report's chapter 3.1.2 KMA Revenues</b>  A person for evidencing the revenues throughout Departments is Sevdije Rushiti.  This occurred due to the lack of staff, however the own source revenues within the Free Balance System are managed by the Officer for Revenues at MoH, which is in contradiction with Treasury Regulation 01, article 8.3.2 which specifies that the revenues should be registered at the place that they are collected, therefore in lack of extracts, the evidencing of revenues cannot be made.</p>	<p>KMA accepts the OAG conclusion, and it undertook concrete actions on implementation of the recommendation given in the report.</p>
<p><b>Comment no. 3 regarding the chapter 3.1.3 Official Laboratory for Quality Control of Medical Products - KMA Ref. No. 001</b>  <i>KMA comment summary</i>  Staff of OFQCMP has a quite knowledge on how to carry out the required work, however a formal certification is needed and normally a continuous training which is a practice within all referent Laboratories ( to follow-up of new developments and fulfilment of Best Laboratory Practices).</p>	<p>KMA accepts partially our conclusion in regard to the functioning of OFQCMP, while it has explained thoroughly the position of staff and the situation of the Premise where the Laboratory is placed, respectively the problems with KMA roof leaking. We encourage KMA to undertake immediate actions to regulate this situation.</p>
<p><b>Comment no.4 regarding the chapter 3.2 – Wages and Salaries</b>  In regard to the findings of the Auditor General on point 3.1 (Central Administration) we would like to explain the following:  Within the level of MH Administration we have checked 5 dossiers where several descriptions were missing, since the job description has been changed. In regard to the annual evaluation, the forms of work evaluation were not placed within personal dossiers (in several cases), however we have copied the forms of work evaluation and provided them to the auditors, in regard to the requested dossiers. Also, we have completed the entering of work evaluation forms into the personal dossiers.  In regard to the contract number, the MH Administration is under finalization of the process of entering the contract number and according to the planning of Personnel Division within the second term of this year all the contracts shall have their numbers.</p>	<p>MoH Central Administration has explained the situation of MoH dossiers, while they explained that concrete actions were undertaken in order to regulate the situation.</p>
<p><b>Comment no. 5 regarding the Chapter 3.3.1 of the</b></p>	<p>Pharmaceutical Department</p>

<p><b>report, MoH Central Administration</b></p> <p>In regard to the goods acceptance report, we would like to inform you that according to the treasury financial regulation (12 we have prepared the Administrative Instruction on goods acceptance which will be send to the legal office and the Ministry's Cabinet for review, very soon.</p> <p>The Pharmaceutical Department has a lack of staff and during the daily work it tries to delegate tasks that are in reconciliation with the work descriptions and processes. Two officials that work within the DF, one of them is engaged in organizing the supply and the other on monitoring and accepting the goods.</p> <p>2. The Pharmaceutical Department despite the lack of a comprehensive software system which would generate the Items in general, they tried and each year they possessed data regarding the supply and execution of contracts. Last year, there was a staff turnover within DF and data could not been transmitted. As a consequence of this, several of reports for certain periods were missing. DF in lack of an electronic version has provided to the Auditor General an Essential List for each item (electronic copy). Perhaps these data were insufficient to have e detailed report on annual needs and supply with medicaments, however MH has prepared and very soon it will announce a tender on selection of program in order to manage the pharmaceutical items which enable us to generate data which would facilitate excessively in the work of DF.</p>	<p>with MoH accepts our finding and conclusion, and also it has mentioned the actions which are undertaken to regulate the actual situation within this Department.</p>
<p><b>Comment no. 6 regarding the chapter 3.3.2 Goods and Services – KMA</b></p> <p>Within the procurement processes, KAMP Procurement Office has implemented LPP in all cases as well as within the case No. 720008067111. E.O has completed the entire documentation as required by Tender Announcement. The full documentation in regard to the payment of this case is submitted to the Department of Budget and Finance. Please refer to, Ref. No. 002. Ministry of Health has undertaken proper actions according to laws in force, due to this, please refer to the memo with Protocol number 05-421/3 dated 06.5.2009.</p>	<p>We have found that within this tender there were no three responsive bids and the provided documents by KAMP are insufficient to alter our finding and conclusion. However, MoH has provided evidences for the undertaken actions in regard to these findings.</p>
<p><b>Comment no. 7 regarding the chapter of report 3.3.3 on Goods and Services in UCCK</b></p> <p>The ascertainment that UCCK does not have any final procurement plan – it is not true but this plan for 2008</p>	<p>UCCK has denied OAG finding and conclusion, however it did not provide any evidence that would alter</p>

<p>was not submitted to PPA. We, with full responsibility, ascertain that UCCK possesses a procurement plan, but due to some different specifications and emergent needs, it is difficult to have it considered entirely.</p>	<p>our finding. OAG shall not alter the finding and the conclusion given in the report.</p>
<p><b>Comment no.8 regarding the chapter of report 3.3.3 on Goods and Services in UCCK-</b>  This has to deal with procurement no: 701-08-153-111 "Supply with Spare Parts and Medical Equipment" in the amount of € 95.019. It is said that the reception of goods already signed without physical presence of purchased goods and the economical operator has delayed in completion of contract.  UCCK accepts this laxity with the reasons that the very limited budget and allocated with delays has influenced that UCCK to enter the contracting process with the economical operator with the conditions concluded in this draft-report. The Clinic, to assure that these contracted means shall be delivered from economical operator, has requested that for the secure of completion of contract the economical operator to cover with a bank guarantee list. All contracted means and with quality received by UCCK at the beginning of 2009 and the contract has been fully completed.  UCCK even further continues with the same employees to receive the goods and services, but considering the findings of the general audit auditing, has done the appointment of warehouse officers for reception of goods into the official reception appointment of goods. This register of official receivers is composed from 5 officers while the problem of receiving goods in UCCK is various.</p>	<p>UCCK agrees with the finding, OAG conclusion and recommendation, while they have given explanations and reasons in regard to the failures done. OAG has recommended that the goods acceptance is carried out in accordance with Treasury Financial Regulation 02 on Expenditure of Public Money, article 7.1</p>
<p><b>Comment no. 9 regarding the chapter of report 3.4.1 on capital investments – CA</b>   Ministry of Health has formed a professional committee for Technical Acceptance of this equipment with the Decision ZSP No: 13/III-20 and this committee is functioning.</p>	<p>MoH did not deny our finding while within the comments; they have only provided information on how much work is done. The report remains unaltered.</p>
<p><b>Comment no: 10 regarding the chapter of report 3.4.1 on capital investments – CA</b>   This project has been initiated after the sign of equipment contract and it is liaised with the equipment project, because it has been necessary to prepare the space for this equipment to be settled and installed in all hospital centres in Kosovo.</p>	<p>MoH did not deny the major delays in performing the works, while they have only provided information on how much work is done. The report remains unaltered.</p>

<p><b>Comment no.11 regarding the chapter of report 3.4.2 on capital investments – UCCK</b></p> <p>UCCK even further continues with the same employees to receive the goods and services, but considering the findings of the general audit auditing, has done the appointment of warehouse officers for reception of goods into the official reception appointment of goods. This register of official receivers is composed from 5 officers while the problem of receiving goods in UCCK is various.</p>	<p>Even after this comment by UCCK, OAG recommends UCCK Management to refer the Conclusion and recommendation given in the report.</p>
<p><b>Comment no: 12 regarding the chapter of report 3.4.3 on capital investments – UCCK</b></p> <p>Ref. No; 002</p> <p>This reference consists of a list of KMA contracts completed in 2008 and the report on technical acceptance of ventilation projects.</p>	<p>During the course of our audit work in February 2009, KMA was not able to provide us any list with contracts executed during 2008. the report of technical acceptance provided by KMA together with comments, has mentioned the same deficiencies of this project evidenced during our field work. OAG considers that for the reporting period, the findings and recommendation remain unaltered.</p>
<p><b>Comment no;13 regarding the chapter of report 3.5.1 Assets management Central Administration of MoH</b></p> <p>In terms of chapter 4 paragraph 4.1 of the draft-report on Assets management in CA of MH where it is emphasized that the vehicles of MH are not evidenced the in the Assets Registry of the same Ministry.</p> <p>The Assets Office possesses a complete register in electronic version in Microsoft Office Excel with general data according to the types of vehicles, year of manufacture, engine capacity, number of chassis, supplier, purchasing price, plate number after registration made, evaluative price without customs clearance, evaluative price with customs clearance and the section charged on. The register is drafted in harmony with Administrative Instruction 2005/11, section 9 on Assets Register. All MoH vehicles which have the value of more than €1000 are registered in the informative system of Kosovo Financial management (Free Balance). Immediately after the Auditor General verbal recommendation given during the auditing period</p>	<p>MoH does not deny OAG's conclusion, while it has committed to implement the recommendation. Conclusion and Recommendation given by OAG remains the same.</p>

<p>that to enter in the database even the MoH vehicles, DCA has implemented this recommendation. Also, you have the above mentioned registers attached. Ref No: 003.</p>	
<p><b>Comment no.14 regarding the chapter of report 3.5.2 Assets Management UCCK</b>  The conclusion that UCCK has not made registration and assets evaluation is partially so while till 2008 UCCK has not evidenced the asset and neither reconciliated with free balance. At the end of 2008, UCCK has appointed the logistics officer who, in the cooperation with Registering Committee, has carried out the assets registration.  This registration is ciphered with barcodes, but even UCCK appraises that this process is not completed yet while the assets evaluation committee has not completed the work yet but is in the continuous of it. We have big problems to transfer the data to free balance, while in UCCK internet functions with difficulties.</p>	<p>UCCK has partially accepted our findings and conclusions, also they have explained that the problems that follow-up the process of registration of assets and entering the data into Free Balance. Although, the conclusion and the recommendation given by OAG remains the same.</p>
<p><b>Comment no.15 regarding the chapter of report 3.5.3 Assets Management KMA</b>  The logistics officer for goods reception Mrs. Ardiana Arifi already appointed and this recommendation is fulfilled.  In the second half of 2008, the assets officer was recruited and the whole KAMP inventory was registered.  Meanwhile, the data are being evidenced in the accounting register.</p>	<p>KMA does not deny our finding and conclusion however it indicates that actions were undertaken to implement of recommendation given by OAG.</p>
<p><b>Comment no.16 regarding the chapter of report 4. Internal Audit in MoH</b>  The action plan for 2009 already compiled for implementation of recommendations. IAU has prepared the annual work plan on foreseen legal framework according to the Internal Audit International Standards.</p>	<p>MoH accepts our conclusion; also they have undertaken actions to implement a part of the recommendation indicating that it will continue to implement the other part of recommendation.</p>
<p><b>Comment no. 17 regarding the chapter 5 of the report – MoH Internal Control</b></p>	<p>MoH did not send comments for this part of audit, the report remains unaltered.</p>