



REPUBLIKA E KOSOVËS / REPUBLIKA KOSOVA / REPUBLIC OF KOSOVA

**ZYRA KOMBËTARE E AUDITIMIT
NACIONALNA KANCELARIJA REVIZIJE
NATIONAL AUDIT OFFICE**

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AUDIT REPORT
ON THE ANNUAL FINANCIAL REPORT OF THE MINISTRY OF
HEALTH
FOR THE YEAR ENDED 31 DECEMBER 2016

Prishtina, Jun 2017

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control which, according to the Constitution and domestic laws, enjoys functional, financial and operational independence. The National Audit Office undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

Our Mission is to contribute to sound financial management in the public administration. We perform audits in line with internationally recognized public sector auditing standards and good European practices.

The reports of the National Audit Office directly promote accountability of public institutions as they provide a base for holding managers' of individual budget organisations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Ministry of Health in consultation with the Assistant Auditor General, Valbon Bytyqi, who supervised the audit.

The opinion and report issued are a result of the audit carried out by Ylber Sadiku and Fjolla Bakalli-Sadiku under the management of the Head of Audit Department, Bujar Bajraktari.

TABLE OF CONTENTS

Executive Summary.....	4
1 Annual Financial Statements and other External Reporting Obligations	6
2 Governance.....	10
3 Financial Management and Control	14
Annex I: Audit Approach and Methodology	33
Annex II: Explanation of the different types of opinion applied by NAO.....	34
Annex III: Prior Year Recommendations	36
Annex IV: Letter of confirmation	42

Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2016 Annual Financial Report of the Ministry of Health, which determines the Opinion given by the Auditor General. The examination of the 2016 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions. Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in our External Audit Plan dated 20/10/2016.

Our audit focus (detailed in Annex 1) has been on:



The level of work undertaken by the National Audit Office to complete the 2016 audit is a direct reflection of the quality of internal controls implemented by the Management of the Ministry of Health.

Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

The Annual Financial Statements *present a true and fair view* in all material aspects.

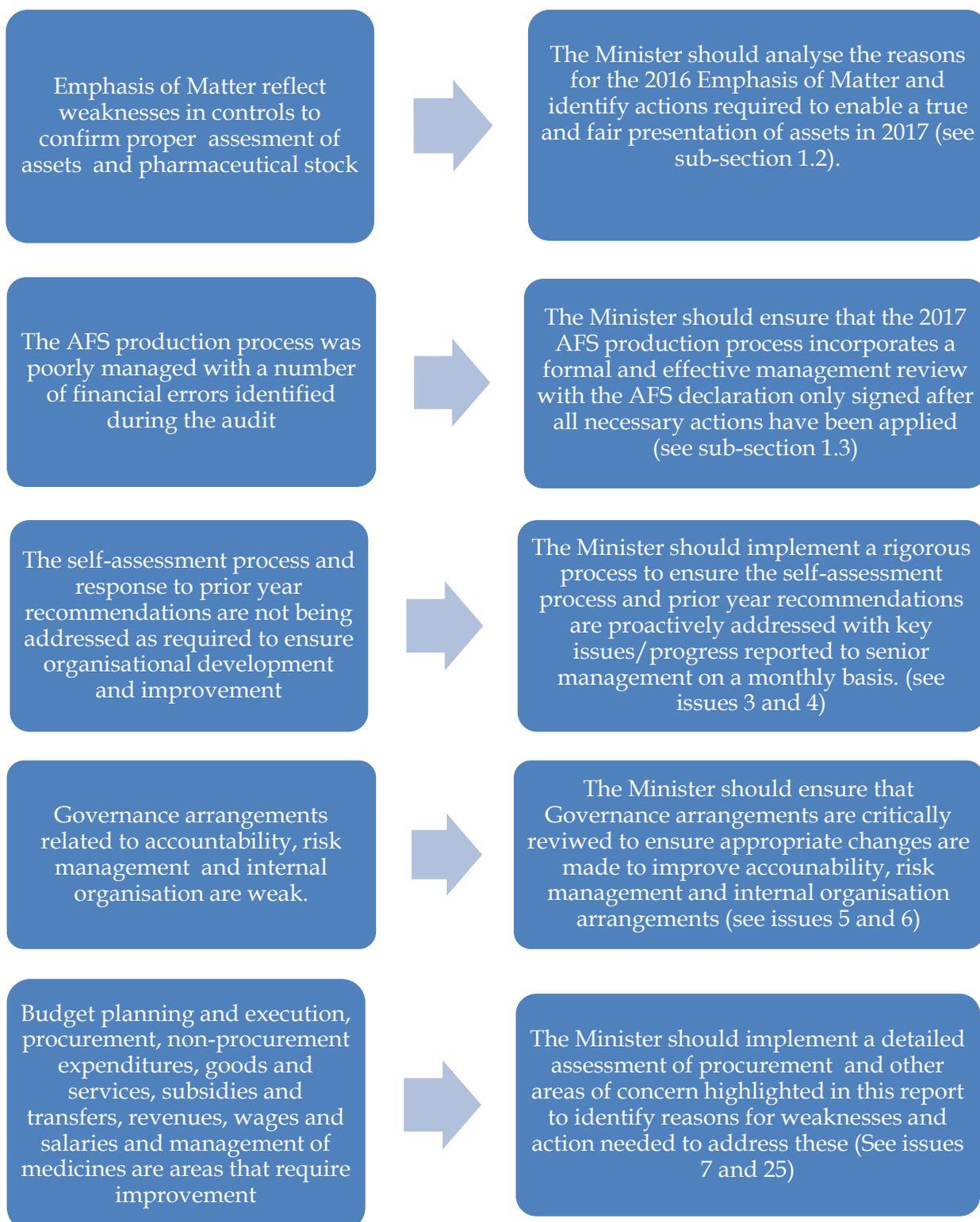
However, we draw your attention to the fact that the information disclosed in the financial statements, regarding assets and the pharmaceutical stock were incorrect.

For more, please refer to Section 1.1 of this report.

Annex II explains the different types of Opinions applied by the National Audit Office.

We would like to thank the Minister and his staff for the cooperation during the audit process.

Key Conclusions and Recommendations



Minister's Response - 2016 audit

The detailed audit findings and conclusions in this report have been considered and agreed by the Minister, and committed himself to address the recommendations given.

1 Annual Financial Statements and other External Reporting Obligations

Introduction

Our review of the Annual Financial Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information recorded in the AFS. We also consider the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance (MoF).

The declaration regarding presentation of the AFS incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the AFS. These declarations are intended to provide the Government with the assurance that all relevant information has been provided to ensure that a comprehensive audit can be undertaken.

1.1 Audit Opinion

Unmodified Opinion with Emphasis of Matter

We have audited the AFS of the Ministry of Health for the year ended on 31st of December 2016 which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement and the Explanatory Notes of the Financial Statements.

In our opinion, the Annual Financial Statements for the year ended on 31st of December 2016 present a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (cash based Accounting), Law no.03/L-048 on Public Finance Management and Accountability (as amended and supplemented) and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

Basis for the opinion

We conducted the audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the AFS section of our report. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.

Emphasis of Matter

We draw your attention to the fact that the information disclosed in the AFS about assets and stocks is incorrect. This occurred because:

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- MoH did not maintain asset registers in line with the legislation in force and as a result, purchases of equipment and construction financed for other Budget Organisations in the amount of €3,220,848¹ were not recorded as the ongoing investment;
 - The assets purchased in 2016 by the Kosovo Medicines Agency (KMA) in the amount of €101,180 and the renovation of the rooms at the Kosovo National Centre for Blood Transfusion (KNCBT) in the amount of €3,626 were not recorded in the assets register;
 - The value of non-capital assets (under €1,000), disclosed in the AFS, was understated for € 43,846 as a result of not recording assets in e-assets (see issue 24 for details); and
 - There was no disclosure of information on medicine stocks from the essential list because the Health Financing Agency (HFA) was unable to provide information on the situation of supply with medicines. Information on the primary health pharmacy stock was provided after the revised AFS have been submitted, while there was no evidence of secondary and tertiary healthcare because no monitoring was performed and no reconciliations were made with the Kosovo Hospital and University Clinical Services (KHUCS)

Responsibility of Management and Those Charged with Governance and AFS

The Secretary General of the Ministry of Health is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Modified Cash based Accounting and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law no. 03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

The Minister is responsible to ensure oversight the Ministry's financial reporting process.

Auditor General's Responsibility for the Audit of the AFS

Our responsibility is to express an opinion on the AFS based on our audit. We conducted our audit in accordance with ISSAIs. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists.

¹ Construction of QMF in Bair Mitrovica in the amount of 70,000; Construction of emergency clinic at UCK in the amount of €1,689,070; Purchase of equipment for Endocrinology Clinic at UCK in the amount of €14,400, biochemical devices for MFMC in Obiliq in the amount of €14,900 and two stomatological chairs amounted to €17,400 within the project "RAE community support"; Supply with ambulance and vehicles in the amount of €226,830; Supply of medical equipment for MFMC in Podujeva in the amount of €62,000; Medical equipment for Regional Hospitals from the Borrowing in the amount of €1,097,328; as well as medical equipment including 2 dental chairs, 7 defibrillators and a dental surgeon purchased for prison services in the amount of €28,920.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

An audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the entity's circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the presentation of the financial statements.

1.2 Compliance with AFS and other reporting requirements

MoH is required to comply with a specified reporting framework and other reporting requirements. We considered:

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
- Requirements of LPFMA no. 03/ L-048, as amended and supplemented with Law no.03/L-221, Law no. 04/L-116 and Law no. 04/L-194;
- Compliance with Financial Rule no.01/2013;
- Compliance with Financial Rule no.02/2013;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures.
- Nine month Financial Statements; and
- Final Procurement Plan.

In the context of the AFS we have no material issues to raise. Issues raised in the Audit Memorandum dated 20/12/2016 regarding the reporting framework have been addressed by the Management. However, there are a number of errors:

- The value presented in the AFS for receivables was €252,620. However, this value is understated by €209,969 because the receivables of the Health Inspectorate in the amount of €120,620 were not included, those the Pharmaceutical Inspectorate of €18,000 and receivables from the National Institute of Public Health amounted to €71,349 which belong to the period before 2016;

- The value presented in the AFS for outstanding liabilities was €2,501,287, out of which €2,023,253 are outstanding liabilities for the supply of medicines from the category of goods and services under the management of HFA. However, we have not been able to obtain assurance that the disclosed value of the liabilities is accurate because it includes four (4) invoices of January 2017 bills (of €281,052), and five (5) invoices of 2015 (of €257,775);
- The value of medicines stocks was not presented at all in the AFS due to delays in information from the respective department; and
- The AFS did not have information disclosed on assets that were purchased and constructions for other budget organisations.

Given the above - the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance can be considered to be correct, although there are errors but do not affect the modification of the Audit opinion.

In the context of other external reporting requirements, we have no issues to raise on these matters.

1.3 Recommendations for the first part of the report

The following recommendations are given for the abovementioned issues:

Recommendation 1 The Minister should ensure that a detailed analysis of the issues raised in the Emphasis of Matter was made to determine the reasons for their occurrence. Actions should be undertaken to address the causes systematically to ensure accurate recording and assessment of capital assets. Non-financial assets purchased/constructed for other budget organisations should be recorded in the category of ongoing investments until the completion of the delivery and ownership transfer procedures. Further on, AFS should keep records and make reconciliations with KHUCS, regarding supply with medicines and medical supplies. The value of the final stock balances should be disclosed in the AFS.

Recommendation 2 The Minister should ensure that effective processes are in place to confirm that the 2017 AFS production plan formally addresses all compliance related issues. This should include Management review of the draft AFS with specific focus on high risk areas and/or areas where errors have been identified. The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be submitted unless all necessary checks have been applied to the draft AFS.

2 Governance

Introduction

Effective governance arrangements are fundamental to MoH for successfully managing the challenges it faces and ensuring that service delivery is optimised for the benefit of taxpayers and other service users.

A key tool supporting effective Governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. Similarly, the self-assessment checklist provides a framework for developing enhanced Governance arrangements. It is important that the answers provided by an individual budget organisation are supported by appropriate evidence.

The remainder of our review of governance arrangements reflects a consideration of:

- those areas of Governance Arrangements where significant improvements are required and where we believe that our recommendations can generate positive improvements including consideration of the Internal Audit system; and
- areas of Financial Management and Control identified through our audit work including specific work directed at compliance issues in key income and expenditure systems (these areas are considered in Section 3 of this report)

Overall Governance Conclusion

Although MoH made improvements in governance, there are still a number of areas where important developments are needed, particularly when it comes to accountability, risk management, internal organization and clarification of responsibilities between MoH and KHUCS. The self-assessment questionnaire completed by MoH, only partially reflects this situation, with some positive comments on existing arrangements regarding the areas mentioned above not evidence based. Other arrangements that would support governance development, such as the effective response to audit recommendations and the operation of a high quality internal audit system, are in place and clarifications are provided in the following part of this report.

MoH made efforts to address prior year's recommendations by preparing an action plan for implementation of recommendations, setting out timelines and activity bearers. However, part of the recommendations were only partially implemented because the implementation of this plan was not formally monitored. The full implementation of the recommendations given by the Auditor General (AG) remains a challenge.

Internal Audit provided a clear picture of the level of assurance of internal controls and provided recommendations for their improvement..

2.1 Progress in the Implementation of Prior Year Recommendations

Our Audit Report on the 2015 AFS of MoH resulted in 25 recommendations. MoH prepared an Action Plan stating how all recommendations will be implemented. However, this plan was not supported by a confirmatory process where the implementation of recommendations would be formally monitored.

At the end of our 2016 audit, only one (1) recommendation was fully implemented; 11 are in the process of implementation and 13 are not yet addressed. For a more thorough description of the recommendations and how they are addressed, see Annex III.

Issue 3 - Addressing Prior Year Audit Recommendations - High Priority

Finding Only a proportion of prior year recommendations have been implemented because MoH has not implemented any formal process to manage and monitor the way that the AG's recommendations are implemented.

Risk Failure to implement AG's recommendations repeated the ongoing weaknesses of controls in key financial systems such as asset management, payments for specialist, monitoring of spending on medicines, wages and salaries and revenues. This resulted in many of the AG recommendations to be repeated.

Recommendation 3 The Minister should ensure that a revised action plan is implemented which clearly sets out a timetable for implementing the recommendations made by the AG with accountable staff members identified and with initial focus on those of greatest significance.

2.2 Self-Assessment Checklist of FMC components

The MoF produced a detailed self-assessment checklist for Budget Organisations to support effective governance arrangements. For all audits we undertook we have tested the quality of FMC self-assessment questionnaires submitted to the Ministry by assessing one key question in each component of the checklist. We have summarised our findings for MoH below and the summary of our work across all audits will be consolidated in our Annual Audit Report.

Issue 4 – Self Assessment Checklist – High Priority

Finding As part of our audit we have considered key questions related to the five (5) components of the self-assessment checklist. For the questions considered we found that:

1. The self-assessment questionnaire completed has proved that MoH has established formal and documented procedures for risk assessment and management. However, by the end of our audit risk register was not assessed, monitored and updated;
2. Effective monitoring processes as well as a comprehensive development strategy are considered as in place by MoH;
3. The self-assessment questionnaire highlights that MoH has the internal organization regulation in place. However, this regulation is not appropriate, as in the last two years some changes have taken place and a new regulation and organizational structure has not yet been adopted to adapt to new circumstances; and
4. The link of the procurement plan to the budget was not fully done since the procurement plan was deficient and did not include all procurement activities that were developed during the year.

Risk Poor governance arrangements to internal organisation and poor harmonization of budget procurement with procurement plan weaken strategic and operational processes and reduce the quality of services provided to citizens through inefficient and ineffective activities.

Recommendation 4 The Minister should ensure that a review of the processes for completing the self-assessment checklist and addressing areas of weaknesses is implemented. A revised mechanism to confirm the accuracy of the questionnaire should be applied and ensure supporting documentation.

2.3 Specific Governance Reviews

Our work on specific areas of governance arrangements has been informed by our audit planning which considered the context within which MoH operates and the challenges that it faces.

2.3.1 Management Reporting and Accountability

The MoH has a number of subordinate units, such as the KMA, the National Institute of Public Health (NIPH), HFA and KNCBT, which are obliged to prepare their AFSs, which are then consolidated in MoH's AFS. An effective financial management requires an effective process of information consolidation, as well as quality and timely reporting by all units, is needed.

Recommendations

We have no recommendation in this area.

2.4 Internal Audit System

The Internal Audit Unit (IAU) operates with three (3) members of staff – the Director of IAU and two (2) auditor. An effective audit requires a comprehensive work programme that reflects financial and other risks to MoH and provides sufficient assurance over the effectiveness of internal control. The impact of Internal Audit output should be judged by the importance that management places on addressing recommendations and the support and provided by an effective Audit Committee.

Issue 8 -Failure to implement IAU Recommendations - High Priority

Finding IAU planned to perform 14 regular and one audits upon request. the plan was executed 100% for 2016. The reports were of good quality and adequately proven where they covered the activities of 2015 and 2016. However, the internal audit recommendations have not been fully implemented by entities that have been the subject to audit.

This results from the Management's lack of attention in recognising and maximising the benefit of internal audit or seek the assurance for the effective functioning of internal controls.

Risk Failure to address the internal audit recommendations affects the identified weaknesses being repeated and loses the opportunity to improve processes and systems within the Ministry.

Recommendation 5 The Minister should provide a review of the actions taken by the management in relation to internal audit recommendations. Additional actions should be undertaken to ensure full implementation of IAU recommendations.

3 Financial Management and Control

Introduction

Our work on Financial Management and Control outside of the areas of Governance referred to section two reflects the detailed work undertaken on Revenue and Expenditure Systems within MoH. As part of this, we consider Budget management, Procurement and Human Resources issues, and Assets and Liabilities.

Financial Management and Control Conclusion

As far as MoH is concerned, the budget execution for Capital Investments remains a major concern, where funds for equipment and constructions for other budget organisations were spent, but lack of evidence related to them in asset registers, misstatement of expenditures since maintenance and servicing costs are treated as capital investments as long as they do not meet the conditions of Treated as capital projects.

Other areas where more improvement is needed are management of subsidies, management of budget for medicines, asset management, Wages and Salaries, and revenue management records.

3.1 Budget Planning and Execution

We have considered the sources of budgetary funds, spending of funds by economic categories. This is highlighted in the following tables:

Table 1. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2016 Receipts	2015 Receipts	2014 Receipts
Own Source Revenues	2,410,000	2,410,000	4,923,661	3,432,782	3,045,358
Total	2,410,000	2,410,000	4,923,661	3,432,782	3,045,358

Own source revenues of €146,783 were allowed to be spent on the needs of MoH. The rest have been transferred to the Kosovo Budget. The total revenues collected reflects a steady increase in revenues compared with previous years.

Table 2. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2016 Outturn	2015 Outturn	2014 Outturn
Sources of Funds	55,404,900	52,921,662	49,774,144	31,698,422	27,420,111
Government Grant -Budget	4,634,239	5,234,239	3,723,345	56,737	0
Carried forward from previous year ³ -	50,770,661	46,190,635	45,671,695	31,390,978	26,752,800
Own Source Revenues ⁴		59,151	59,151	100	387,425
Domestic Donations		146,783	529	10,149	48,878
External Donations		1,290,854	319,425	240,459	231,009

The final budget in relation to the initial budget was reduced by €2,483,238. This is the result of a cut in Government grant of €4,580,026, with a budget review and later government decisions. At the meantime, €600,000 from borrowing, €1,290,854 from external donations and €205,934 from own source revenues and carried forward revenues were added to the budget.

In 2016, MoH used 94% of the final budget or €49,774,144, with an improvement of 10% compared with 2015.

Table 3. Spending of funds by economic categories - (in €)

Description	Initial Budget	Final Budget	2016 Outturn	2015 Outturn	2014 Outturn
Spending of funds by economic categories	55,404,900	52,921,662	49,774,144	31,698,422	27,420,111
Wages and Salaries	8,722,755	8,090,868	7,940,750	7,652,757	6,918,642
Goods and Services	26,475,872	25,898,361	24,661,108	9,145,047	8,913,743
Utilities	230,548	193,366	183,845	195,857	172,515
Subsidies and Transfers	7,503,725	9,947,155	9,841,961	9,714,570	9,683,042
Capital Investments	12,472,000	8,791,912	7,146,481	4,990,190	1,732,169

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries was reduced to €631,887. Reduction occurred with budget review;
- Budget for Goods and Services was reduced by €577,511. Out of these, €82,800 were transferred to the KHUCS budget for capital investments. The rest is reduced as a result of

² Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

³ Own Source Revenues unspent in previous year carried forward into the current year.

⁴ Receipts used by the entity for financing its own budget.

the budget review, due to delays in addressing requests made by KHUCS for the supply of medicines in a timely manner;

- Budget for Utilities was reduced by €37,182 as a result of budget review;
- Budget for Subsidies and Transfers increased by €2,443,430. The budget increase occurred under a budget review and at the end of the year for employing Specialists and Specialist's Education as well as for Medical Treatment Outside the Public Health Institutions (MTOPHI); And
- The budget for capital investment was reduced by €3,680,088 due to delays in project implementation. This can be seen from the spending dynamics where 74% of expenditures were executed in the last three months. Focusing expenditures in last months, increases the risk of spending funds inefficiently, as the focus is more oriented on achieving the desired level of expenditure than on effective outcomes.

Issue 6 – Misclassification of expenditures - High Priority

Finding	In the NIPH and KNCBT, the expenditures for maintenance and servicing of medical devices were executed from the category of capital investments as a result of their wrong budgeting in this category. We have identified such expenditures in the amount of €33,091 at the NIPH and €11,220 in KNCBT. This classification is not in line with the Regulation on the Classification of Expenditures and the Regulation on the Management of Non-Financial Assets.
Risk	Budgeting of expenditures in wrong categories affects the improper presentation of their real situation in the financial statements thus causing overstatement/understatement of the appropriate categories.
Recommendation 6	The Minister and the Directors of MoH Units should ensure that expenditures are budgeted and executed in accordance with the appropriate economic codes provided by the applicable legislation enabling their fair reporting.

3.1.1 Revenues

Revenues generated by MoH in 2016 were in the amount of €4,923,661. They relate to: revenues from licenses for medical products, banners, marketing authorisations, patient participations, specialist examination fees, health booklets, fines issued by the Health Inspectorate etc.

Issue 7 - Managing the process of revenue collection and recording - High Priority

Finding The Health Information System (HIS) module has not yet been put in operation in the MoH, which would evidence revenue generation and reporting. The reconciliations for revenues recorded by units and departments within the Ministry are made on monthly basis with the Revenue Coordinator at the Ministry level, which then performs regular reconciliations with the Treasury. However, the Revenue Coordinator does not maintain an analytical record of revenues for all MoH programs. Analytical data are kept only by the relevant officials in the programs where revenues are generated.

Risk Inappropriate management of revenue collection and recording process may cause differences during reconciliation within the Ministry programs which would consequently reflect in the regular reconciliation with the Treasury. The current processing of revenue information by not using the HIS revenue module may lead to errors and making decisions in absence of accurate information.

Recommendation 7 The Minister should ensure compliance with legal requirements related to the revenue management process by taking all necessary measures for subordinate units to record revenues in KFMIS. The question of the putting the revenue module in operation within HIS should also be discussed. This would support the collection and management of information on revenues.

3.1.2 Wages and Salaries

Wages and Salaries are paid through a centralised system. The key controls applied to the MoH and its subordinate units relate to the confirmation of the accuracy and completeness of the payments. This also includes the calculation and approval of remunerations for nightshifts of specialising doctors and other remunerations.

Issue 8 - Remuneration of doctors in specialisation in contradiction with AI - High Priority

Finding By the decision of the Minister, doctors in regular specialization paid through the payroll were remunerated for nightshifts. The amount remunerated for 2016 for this category of specialists was €68,579. However, we have noticed that this decision is in contradiction with the Administrative Instruction for Specialist and Sub-specialistic Education, according to which at least two (2) nightshifts within the month are required to complete the program for which the specialists are remunerated. Obligations arising from this AI and to be met by specialists are also highlighted in the individual contracts signed by them. Remunerations were made on the basis of the monthly summary list on nightshifts held, sent for payment by KHUCS to MoH. However, the reports provided for documenting nightshifts do not provide sufficient support for at least in five (5) cases, the signature of the specializing doctor holding nightshifts was missing.

Risk Remuneration of specialists in contradiction with applicable regulations and lack of relevant evidence damages the Ministry's budget.

Recommendation 8 The Minister should ensure that the decision on remuneration for nightshifts is reviewed so that it is grounded and consistent with the applicable legal requirements.

Issue 9 - Remuneration of non-MoH staff members - Medium Priority

Finding MoH continues to have 24 specialist doctors in the payroll list who are in employment relation with KHUCS, which since 2015 is a separate Budget Organisation. Remuneration for this category is budgeted within the Specialisation Training program.

Risk Remuneration of non-MoH staff results in unreasonable spending of the budget and negatively impacts on the expenditures plan, thus preventing the allocation of funds for other MoH objectives.

Recommendation 9 The Minister together with the General Director of KHUCS should consider the possibility that salaries of specialist doctors are remunerated from KHUCS budget and not of the Ministry.

Issue 10 – Remuneration in absence of a document confirming employment - Medium Priority

Finding An employee in position of the Head of Supply Unit within the pharmaceutical department at the MoH was identified on the payroll list as being within the MoH Central Administration even though her contract expired in April 2013. The “Law on Civil Service” respectively Articles 96 and 97 clearly defines the terms and conditions of replacing civil service employment contracts with indefinite Acts of Appointments. Such confirmation of employment did not occur on the case identified since the act of appointment was not signed. The employee is compensated by 50% of the salary as a result of the suspension due to court proceedings in April 2014.

Risk Remuneration of staff in absence of a valid contract/act of appointment is in contradiction with the law and regulations of civil servants and may result in irregular payments and budget impairment.

Recommendation 10 The Minister should ensure that any employee who receives a salary within MoH has a valid document confirming the employment relationship and complete the file as foreseen by the legal framework.

Issue 11 - Covering key positions with acting and secondary employment relationships - Medium priority

Finding The Law on Civil Service of the Republic of Kosovo (no. 03/L-149), respectively Article 30.4, stipulates that in order to cover a vacant position in the civil service, the Acting Officer cannot be appointed for more than three (3) months. We have found that in the MoH five (5) managerial positions continue to be held by Acting officers exceeding the legal timeline for holding the position in this form.

In the NIPHK, 14 managerial positions continue to be held with secondary employment contracts because the holders of these positions receive primary wages from another budget organisation.

Risk Covering a position with acting for a period of more than three (3) months is not in line with applicable laws and may affect the entity’s operational performance. managerial positions with secondary salary also cause unsuccessful job results because managing senior positions requires full-time engagement.

Recommendation 11 The Minister and the NIPH Director should ensure that all managerial positions are exercised full time and with regular employment contracts. This should be preceded by a public competition developed in line with the rules in the barrel.

Issue 12 - Engaging staff with special service contracts for regular job positions - Medium Priority

Finding MoH continues to engage staff with specific service contracts, who are engaged without regular recruitment procedures. Referring to the AFS data for 2016, MoH reported a total of 28 cases with such contracts, out of which 12 relate to KMA. They are paid from the goods and services and their duration exceeded the time limits allowed by law.

Risk Engaging staff with specific service contracts, avoiding open recruitment procedures, minimizes competition and increases the risk of engaging inadequate persons in certain positions. Exceeding the duration of these contracts for more than six (6) months is in contradiction with the legal provisions.

Recommendation 12 The Minister should initiate a comprehensive review of the cases where the staff is engaged under specific service agreement to determine the exact needs for staff in order to have all necessary positions covered with regular staff, through open recruitment process.

Issue 13 - Exceeding the number of staff in the Cabinet of the Minister - Medium Priority

Finding According to the revised budget law, the foreseen number of the employees in the Cabinet of the Minister was ten (10). The MoH has significantly exceeded it, i.e. it doubled the number of staff employed in the cabinet to 20 people.

Risk Exceeding the budgeted number of staff represents inefficient staff planning and affects irrational spending of the budget.

Recommendation 13 The Minister should ensure that staff is planned in accordance with real needs and the number of staff planned with the budget is not exceeded.

Issue 14 - Payment of Boards and Committees - High Priority

Finding MoH continues to remunerate its officials for their engagement in boards and Committees, in violation of Article 80 of the LPFMA. Payments for boards and committees to the MoH for 2016 (including December 2015) amounted to €390,385., the same officers continue to participate in more than one committee or board.

Risk Payments to boards and committees for specific officers are in contradiction with the applicable legislation as participating in more than one board or committee is not allowed. This may cause irregular payments and eventual damage to the budget. In addition, engagement in boards/committees during working hours increases the risk that officials do not perform their daily duties as a result of engaging in other duties.

Recommendation 14 The Minister should initiate the development of a new policy on the functioning of boards and committees by clearly specifying instructions on engagement, work and remuneration of board members and different committees.

3.1.3 Goods and Services and Utilities

The Final Budget for Goods and Services in 2016 was €26,091,727 (including Utilities). Out of them, €24,844,953 was spent. Around 85% of the budget for Goods and Services was spent on supplying medicines and supplies from the essential list. The rest is related to travel expenses, utilities, contractual services, continuous medical education etc.

Issue 15 - Financial support from the category of Goods and Services - Medium Priority

Finding According to the Law on Health, Health Institutions are obliged to: enable continuous professional development of their health workers. We have noticed that the Ministry, through the Board for Continuous Medical Education, financially supported some KHUCS health workers to participate in continuous education activities. The assets for these activities were provided by the category of goods and services. This is because these funds were poorly budgeted. In addition, the beneficiaries have not always closed the advances in time, creating a high value of unclosed advances.

Risk Financial support from the category of goods and services affects the overspending of this category and underspending of the category of subsidies. Delays in reasoning of advances increase the risk of not returning unused funds.

Recommendation 15 The Minister should ensure that the financial support is done according to the Treasury Rules and that measures for waiving the right for re-application are taken against the beneficiaries who do not justify the expenses. It should also be requested from KHUCS that all persons who did not justify the spending of funds in line with the rules, the withdraw on salaries should be applied for the value of the funds that are not justified.

Issue 16 - Delay in addressing requests for supply with medicines - High Priority

Finding The supply of medicines has been accompanied with shortcomings as follows:

- HFA manages the budget for supply with medicines, while the supply requests are made by KHUCS at HFA. However, it should be noted that in almost all tested samples, we have noticed that there were delays in addressing the requests by the HFA to economic operators. In five (5) cases for the supply of medicines, the requests from HFA and the purchase order were made after the invoice is received; and
- In seven (7) cases, there have been delays by economic operators, but no penalties have been calculated for all cases as orders for the supply of medicines were made without a purchase order.

Risk Failure to address the requests in time and delays by the economic operator to supply with medicines creates difficulties in the work of KHUCS and reduces the performance of health institutions. When the penalties for delays are not applied, this may result in higher costs for the Ministry.

Recommendation 16 The Minister should ensure that a review of the process is undertaken to determine the causes of delays in addressing requests on medicines and take the measures required in order to better manage the process of supplying with medicines and material from the essential list.

3.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers in 2016 was €9,947,155. Out of them, €9,841,961 were spent. They relate to: MTOPHI, subsidising specialists - Specialist training and subsidising health care associations/professionals for Continuous Medical Education (CME). Current controls related to the management of this area of expenditure are not satisfactory. The test results have resulted in non-compliance with the Financial Rules and non-compliance with the regulatory requirements of the MTOPHI, poor monitoring of specialist training and non-reporting by healthcare associations/health professionals when it comes to spending of funds received by the Ministry.

Issue 17 - Inappropriate handling of MTOPHI applications - Medium Priority**Finding**

Our sampling of MTOPHI highlighted shortcomings such as:

- **Failure to review applications according to the order of arrival** - According to Administrative Instruction 10/2013 supplemented and amended with AI 3/2016, for MTOPHI, patients' applications should be reviewed according to the date of their arrival. However, we have identified that they are not always handled by order. Having cases not yet reviewed, the Executive Board received and approved new cases. For some cases the duration of their review and execution was less than one month, for some others it was up to one (1) year. Delays were mainly attributable to the Executive Board because there were no significant delays in receiving and reviewing them by the MTOPHI office and the Medical Evaluation Commission.
- **Applications received in violation of the requirements arising from AI 10/2013, supplemented and amended by AI 3/2016** - In eight (8) cases, the Office for MTOPHI proceeded the applications for review, in absence of pro-invoices. This is in contradiction with the requirements of the instruction. Further on, in two (2) subsidised cases in the amount of €60,000, the report of the counselling commission was signed by only two (2) doctors, whereas according to AI 10/2013 the report should be signed by three (3) doctors. There was no explanation why this disregard of legal requirements have occurred; and
- **Regulatory requirements were not considered in other cases as well:** a patient was compensated at 100% of the value of pro-invoice of €7,850, whereas according to the Administrative Instruction, only 70% of the pro-invoice or €5,495 had to be subsidised; In another case, it was not compensated at 100% of the pro-invoice value, although allowed; In eight (8) cases the medical treatment was compensated without completing the administrative procedures of application, which is contradiction to the requirements of the Administrative Instruction.

Risk

The above mentioned weaknesses affect the effectiveness of subsidy management. Receiving and reviewing of applications, in violation of legal requirements, increases the risk that patients who do not deserve may obtain and may lose the effect of providing services timely.

Recommendation 17 The Minister should ensure that the relevant administrative instruction requirements are considered during the Application and review process for MTO PHI, in order for persons deserving it to benefit and in time to achieve the purpose of treatment.

Issue 18 - Failure to justify the funds provided for MTO PHI - High Priority

Finding Lack of reconciliation with private health institutions and failure to bring evidence by patients after receiving medical treatment have resulted in not having complete justification for the funds paid for MTO PHI.

Financial charges have been made with only six (6) out of around 100 private health institutions. Approximately €245,760 resulted from financial reconciliation as not used for treatment of patients, and which were then redistributed to other patients. MoH does not have an adequate mechanism for executing financial reconciliations with private health institutions. Despite the actions taken in this regard, the mechanisms set up to execute the reconciliation are not sufficient due to the large number of private health institutions.

In addition to this, the Ministry continues to make payments for treatment of patients outside public health institutions based on Pro-invoices that patients bring at the time of application. However, after treatment, patients do not provide evidence of receiving services and relevant invoices to justify expenditures although this is required in decisions issued by the Ministry.

Risk Failure to fully justify expenditures for MTO PHI and the lack of financial reconciliations increases the risk of making irregular payments and may result in large sums of funds that have not been used in accordance with the intended purpose.

Recommendation 18 The Minister should ensure that subsidies are paid on the basis of formal agreement between the MoH and the beneficiaries, clarifying the obligations of both parties. financial reconciliations with private health institutions should be made if there are unused financial means, and if such financial means are re-allocated.

Issue 19 - Payments for education of self-financing specialists - High Priority

Finding Based on Administrative Instruction no. 09/2013, the MoH subsidised specialists who were in self-financing specialist training. In addition to the contracts for specialisation at the University Clinical Centre of Kosovo (UCCCK) with 40 hours of work per week as a primary engagement, the MoH through annex contracts allowed the specialists to engage with eight (8) hours of work per week as secondary engagement at the primary health care level. At the request of the Ministry, specialists have signed declarations through which they admit that they will not have any other engagements. However, we found that 55 specialists during 2016 also worked in other health institutions (10 of them in the public sector). As a result, the Ministry's budget for 2016 was damaged in the amount of €281,652. In addition, we have evidenced that the ministry (with the decision of the Minister) had compensated by two nightshifts who according to the requirements of the Instruction for specialty education 10/2014, specialists are obliged to hold them. The value of remunerated nightshifts for this category of specialists for 2016 was €86,630.

Risk Lack of mechanisms for monitoring and verifying the income of specialists who are subsidised by MoH risks to make payments in contradiction with legal requirements and consequently to the detriment of the ministry's budget.

Recommendation 19 The Minister should ensure that the financial support of specialists who have been identified as working in other institutions is terminated and look into the legal possibilities to request the return of the proceeds benefited in contradiction of the contracts. Further on, in cooperation with TAK and Pension Trust fund, take the necessary measures to verify on a monthly basis whether specialists subsidised by MoH generate income from other institutions as well.

Issue 20 - Subsidising unemployed specialists and specialists to be based on the requirements of the Assembly of Kosovo - High Priority

Finding Based on the transcript of the RKS Assembly plenary session held on 14.07.2016, MoH started subsidising unemployed specialists in the public health sector and specialists who were in specialist education with self-financing in public and private health institutions. Specialists were engaged through contracts for a specified period of time, while specialists were engaged through annex contracts based on AI 09-2013 - for the incentive scheme of health professionals. At the request of the Ministry, specialists have signed declarations through which they admit that they will not have any other engagements. However, the Ministry failed to verify whether specialists benefited from any other institution. We have identified (by

comparing the payroll for December with the TAK and Payroll system) that 51 specialists during the 2016 quarter have also worked in other private/public institutions (26 of them in the public sector). As a result, from the benefit of specialists and specialists to be in contradiction with the signed agreements, the Ministry's budget was damaged by around €70,000.

Further on, the employment of specialists in the public health sector was accompanied by irregularities. The aim was that specialists are employed in the public health system, and the priority was the employment of specialists who were not employed at all. We have evidenced that 34 specialists who were engaged by MoH worked during 2016 in public institutions⁵ (15 of them continued to work in public institutions even after engaging in MoH - in public institutions they got primary salary while in MoH they had contracts for a specified time. Two others were working in the Public Health Sector.)

Risk

Lack of mechanisms for monitoring and verifying the income of specialists to be/specialists who are subsidised by the MoH risks to make payments in violation of legal requirements and resulting in damage to the Ministry's budget. The engagement of specialists in contradiction of defined priorities increases the risk that certain specialists will benefit from the two jobs while others remain unengaged at all.

Recommendation 20 The Minister should ensure that the financial support of specialists who have been identified as working in other institutions is terminated and look into the legal possibilities to request the return of the proceeds benefited in contradiction of the contracts. Further on, in cooperation with TAK and Pension Trust fund, take the necessary measures to verify on a monthly basis whether specialists subsidised by MoH generate income from other institutions as well.

When it comes to the employment of specialists, it should be ensured that priority is given to specialists who are not employed at all, whilst specialists working in other public institutions should decide which of the salary they want to declare as primary and secondary in accordance with legal requirements. Termination of agreements with specialists who have been identified as working in primary health services should be considered as well.

⁵ Not in public health institutions, but other institutions such as schools and other institutions.

3.1.5 Capital Investments

The final budget for Capital Investments was €8,791,912. Out of them, €7,146,481 was spent in 2016. They relate mainly to the purchase of medical equipment, purchases and constructions for other Budget Organisations, servicing and maintenance etc.

Issue 21 - Support to Roma, Ashkali and Egyptian (RAE) Community - High Priority

Finding The budgeted MoH capital projects include the project "Support to RAE Community in Promoting and Access to Health Services". During 2016, MoH purchased an equipment in the amount of €14,400 for the Endocrinology Clinic in UCCK, a biochemical appliance in the amount of €14,900, as well as two (2) stomatological chairs in the amount of €17,400 for the MFMC in Obiliq as a more populated area with RAE community. Based on the Strategy for Integration of the RAE Community and the Action Plan, these expenditures are not in line with the objectives and activities foreseen for supporting this project by MoH. In the Action Plan for the integration of the RAE community, activities related to capital investments are not foreseen, therefore the funds designated to this project are poorly budgeted and spent from the category of capital investments.

Risk Budgeting and spending of funds in contradiction to the strategy and activities foreseen in the action plan leads to failure to meet the objectives and purpose of the project.

Recommendation 21 The Minister should ensure that funds designated to specific projects are budgeted and spent in line with the project strategy and activities foreseen in the action plan, in order to meet the objectives and purpose of the project.

Issue 22 - Weakness in procurement planning and reporting of contracts - Medium Priority

Finding The planning of procurement activities and the report on contract signed were incomplete because:

- The contract “Continuation with Construction of Family Medicine Centre (FMC) in Bair Mitrovica - Phase II” in the amount of €68,664 signed in June 2016 did not include in the procurement plan for 2016 and was not included in the annual report of the signed contracts;
- Contract “Construction of emergency clinic at UCCK” in the amount of €8,106,239 signed in May 2016, was not reported in the annual report of signed contracts. Furthermore, the estimated value of this contract in the procurement plan was €1,543,895; and
- For the contract “Supply with Medical Devices” at KNCBT, the value foreseen in the procurement plan was €50,000, while the value of the contract was €71,960. In absence of budget funds, funds used for payment from other project codes.

Risk Inefficiency in planning procurement activities is an indication of ineffective controls in the area of procurement expenditure management. Failure to report public contracts is avoiding of legal procedures and increases the risk of inadequate and non-transparent management of public money.

Recommendation 22 The Minister and the Director of the KNCBT provide mechanisms to strengthen controls in the field of public procurement Including increasing efficiency in planning procurement activities in relation to the needs and budget available. Further on, to ensure that any public contract awarded is reported in line with legally prescribed requirements and procedures.

3.1.6 Common Issues on Goods and Services and Capital Investments

The following common issues relate to Goods and Services and Capital Investments:

Issue 23 - Shortcomings in contract management - High Priority

Finding

Our sample review has highlighted shortcomings such as:

- In five (5) cases (MoH, KMA and KNCBT), we concluded that managers of the projects are formally appointed but do not report on the management and execution of contracts, which is their legal responsibility from the moment of appointment;
- In KNCBT we have noticed one (1) case where medical equipment servicing is compensated by hour of work. Service received is not monitored/reported by the contract manager, while payment is made on the basis of the service report prepared by the Economic Operator (EO), where the operator declares the hours worked for servicing. one-hour compensation includes a value of €40-50;
- Further on, NIPH for servicing of laboratory equipment, framework contract was signed with EO for three (3) years in the amount of €24,905, while one month after signing the contract 55% of its value was consumed. Furthermore, EO reports on serviced equipment and evidence on monitoring and confirmation of work performed by the Contracting Authority were missing. One-hour compensation includes €469,64; and
- For signed contracts for supply with medicines, we have noticed that contract managers have not been appointed those who are responsible for drafting the plan and follow the progress of the contracts.

Risk

Shortcomings in contract management, respectively lack of monitoring and reporting on their execution reduces the assurance that the contracts are executed in line with the foreseen conditions and specifications. Failure to plan expenditure dynamics may result in ineffectiveness in contract performance in relation to funds spent.

Recommendation 23 The Minister and the Directors of MoH Units should ensure consistent and effective compliance with procurement rules/procedures and adequate contract management to ensure that the value for money spent on procurement is achieved. A systematic monitoring of contract execution would increase management's confidence that contracts are being implemented in line with contractual terms.

3.2 Assets

3.2.1 Capital and Non Capital Assets

Asset management is an important part of financial management and control in the public sector. This requires control and management procedures proving the existence of the assets and provide accurate and up-to-date information on the assets of the institution.

The net value of MoH assets, disclosed in the AFS was €3,288,219. Out of which €2,903,635 were assets above €1,000 and €384,584 assets under €1,000.

We tested the initial balance, purchases of the year including capital investments and purchases for equipment and furniture under €1,000 from Goods and Services, and regularity in recording and inventory of available assets. We have also carried out physical examination to verify the existence of the assets.

Issue 24 - Incorrect classification of assets in the asset register - High Priority

Finding According to the AI for the management of non-financial assets, capital assets that are in the construction phase and not finalisation should be recorded in the ongoing investment category and should not be depreciated. In the NIPH, the payments made for the capital projects “Construction of IPH in Ferizaj” in the amount of €52,196 and “Construction of the IPH in Gjilan” in the amount of €182,800 were recorded in the category of Administrative Buildings and were depreciated even though the construction was not finalised and there was no technical acceptance made.

Risk The incorrect classification of assets recorded in the accounting register affects the non-presentation of their fair value in the statement, taking into account the impact of the depreciation and different rates for different classes of assets.

Recommendation 24 The Minister and the NIPH Director should ensure that all assets of the institution are recorded in the appropriate asset classes in accordance with the regulations and legislation in force so that their value is fairly presented in the financial statements.

Issue 25 - Poor management of assets under €1,000 - High Priority**Finding**

Shortcomings in managing of non-financial assets under €1,000 and the presentation of its real situation in the AFS. These assets were not depreciated as required by the applicable regulation and therefore the values presented in the AFS do not represent their fair value.

At the NIP, non-capital assets and stocks are not recorded in the system of assets as foreseen by the regulation on the management of non-financial assets. Data on these assets are maintained in individual NIPs records and do not match with the presented values of these assets in the AFS. We have identified unregistered assets that include: IT equipment of €1,970; Ramp for NIPH parking in the amount of €991; Digital laboratory scales in the amount of €680; Laboratory equipment in the amount of €7,800 as well as a centrifuge in the amount of €990.

Also at KNCBT we have identified unrecorded assets in the e-assets system that is applicable in this unit. These assets include: Washing machines in the amount of €285; Videophone in the amount of €90 and supply with inventory in the amount of €1,690.

KMA did not present the state of assets under €1,000 of the institution in the AFS of 2016. We have identified unrecorded assets that include the purchase of 30 computers in the amount of €22,400, out of which ten (10) were received in the earlier year.

Further on, in other MoH programs, including the Central Administration and the Cabinet of the Minister, we have identified unregistered assets in the e-assets system such as: Mobile phone in the amount of €800; Furniture in the amount of €950; two (2) lap-tops in the amount of €1,940; One (1) computer in the amount of €895 and one (1) printer in the amount of €300.

Risk

Lack of accurate and complete records, not using the e-assets system and not applying depreciation hinders the effective management of non-capital assets and stocks and influences the unfair presentation of their balance in the financial statements.

Recommendation 25

The Minister and the Directors of the Units should ensure that the non-financial assets of the organization are managed in line with the legal guidelines and to take measures in terms of staff training and putting the e-asset system in place where it does not apply. Asset registers must be complete, contain all the elements as defined in the relevant guideline and updated continuously in order to present the real balance in the financial statements

3.2.2 Receivables

The Ministry failed to collect all the receivables for which it provided services. The structure of receivable consists mainly of: fines from inspections carried out, costs for blood-related services, hygienic sanitary inspection etc.

Issue 26 - Management of receivables at KNCBT - High Priority

Finding The KNCBT has an agreement with private clinics for blood services. The largest part of receivables or about 70% comes from a debtor who has obligations not settled since 2013. While at the same time he continues to receive the necessary services from the KNCBT. It is worth mentioning that when analysing the agreements we have noticed that the conditions of payments that private clinics should make to the KNCBT have not been clearly defined, nor were they penalised in case of delays in settling the obligations. Our testing resulted that KNCBT does not issue an invoice at the time it performs service to the parties but does so at any end of the month for the services provided during the respective month.

Risk Lack of concrete measures to collect receivables may result in the increase of these accounts. Further on, this reduces the flexibility of the Ministry against the planned expenditures financed from own source revenues.

Recommendation 26 The Minister should analyse the reasons for the increasing trend of these accounts and not reporting them correctly and strengthen controls to prevent their further growth. Adequate mechanisms should be in place and all available means and legal actions should be taken to allow the collection of accumulated debts.

3.3 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2016 was €2,501,287. These liabilities are carried forward to be paid in 2016. However this only reflects part of the budgetary challenge faced by MoH and this is considered in more detail in the sub-chapter 1.3.

Recommendations

We have no recommendations in this area

This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.

Annex I: Audit Approach and Methodology

The responsibilities placed on the Auditor and Those Charged with Governance are detailed in the Opinion set out in Section 1.2 of this report.

While a key output of our work is the audit opinion this report reflects the totality of our work with specific focus also on Governance Issues including Financial Management and Control. The latter is informed by our extensive, risk based, compliance audit programme.

The Executive Summary is intended to highlight the key finding of the audit and the key action that the Minister should ensure are taken to address identified management/control weaknesses.

The detailed report provides an extensive summary of our audit finding with emphasis on determining the cause audit findings and providing appropriate recommendations to address these. For completeness we have included issues identified at the interim audit where they remain relevant. Our findings are defined as:

High Priority - issues which if not addressed may result in a material weakness in internal control and where action will offer the potential for improvements to the efficiency and effectiveness of internal controls; and

Medium Priority - issues which may not result in a material weakness but where action will also offer the potential for significant improvements to the efficiency and effectiveness of internal controls.

Findings considered low priority were reported separately to finance staff.

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

Annex II: Explanation of the different types of opinion applied by NAO

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

on the financial statements of any undetected misstatements could be material but not pervasive.

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

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

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705¹⁹ provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

Emphasis of Matter paragraphs and Other Matters paragraphs in the auditor's report

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

158. An Emphasis of Matter paragraph should:

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

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

Annex III: Prior Year Recommendations

Audit Component	Recommendation given	Implemented	Under implementation	Not implemented
1.2 Emphasis of matter	The Minister should ensure that an analysis is undertaken to determine the causes of the Emphasis of matter. Action should be taken to address the underlying causes in a systematic and pragmatic manner to remove errors in the classification of expenditure and to ensure the correct valuation of capital assets, stocks, liabilities and receivables.			No measures taken
1.4. Financial statements	The Minister should ensure that effective processes are in place to confirm that the 2016 AFS production plan formally addresses all compliance issues. This also includes management review of the draft AFS, with specific focus on areas where errors have been identified. The Declaration made by the CEO and CFO should not be submitted unless all necessary checks have been applied to the draft AFS.			No measures taken
2.3. Prior year recommendations	The Minister should ensure that a revised action plan is implemented which clearly sets out a timetable for addressing the recommendations made by the AG with accountable staff members identified and with initial focus on those of greatest significance.		The Ministry prepared an Action Plan for implementing the recommendations of the NAO, but failure to fully address the recommendations resulted in the same weaknesses being repeated.	

2.4. Self-Assessment Checklist	The Minister should ensure that a review of the processes for completing the self-assessment checklist and proactively addressing areas of weaknesses is implemented. A revised mechanism to confirm the accuracy of the checklist and to ensure supporting documentation should be applied.		The sectoral health strategy has been adopted, a risk register has been prepared, however we encountered other shortcomings.	
2.5.1 Accountability arrangements	The Minister should ensure a review of existing accountability arrangements and reporting requirements placed on Executive Agencies, including the efficiency of consolidation process and ensure enhanced arrangements to achieve specified objectives put in place by 1 October 2016.		In the second half of 2016 reporting by units started on a weekly basis, as well as improved financial reporting on expenditures and revenues in the main financial system.	
2.5.2 Risk Management	The Minister should ensure that a new management approach has been developed which would address potential risks for non-achievement of MoH objectives and ensure monthly reporting for implementation of requirements in this area.		The risk register has been drafted but has not been approved by the management.	
2.6 Internal Audit System	The Minister should ensure that achievement of IAU planned activities is monitored quarterly and actions are taken proactively in order that deviations from the plan are addressed on timely basis. To gain maximum benefit from Internal Audit activity the Minister should ensure the effective functioning of an Audit Committee. It should also review actions taken by management on Internal Audit recommendations.	Yes		
3.3 Budget Planning and Execution	The Minister should initially ensure correct classification of expenditures in budget requests in a manner that expenditures are executed and registered in adequate budget categories. This enables a clearer representation relating to the nature of expenditures presented in AFS.			No measures taken

3.4 Procurement	The Minister should ensure that an internal review is implemented for identified issues of Procurement, which has not effectively applied rules and guidelines. Based on this review, measures necessary should be taken to enable avoidance of such weaknesses in the future.		Despite our recommendations we have not noticed that concrete measures have been undertaken for contract management and reporting by contract managers.	
3.5 Non-Procurement Expenditures	The Minister should ensure that policies and procedures required on official trips are precisely implemented, thereby accurately proving and justifying the expenditures occurred and closing advances on time.			No measures taken
3.5 Non-Procurement Expenditures	The Minister and the CEO of KMA should ensure that all payments and expenditures are done in accordance with previous planning and are recorded in conformity with the approved chart of accounts.			No measures taken
3.5.2 Remunerations (wages and salaries)	The Minister and the director of NIPH should ensure that all managing positions are exercised full time and under regular work contracts. This should be preceded by a public advertisement developed in compliance with applicable rules.			No measures taken
3.5.2 Remunerations (wages and salaries)	The Minister should initiate a comprehensive review of the staff engaged under an agreement for special services to determine clearly the needs for staff in KMA, and all necessary positions should be manned with regular staff through open recruitment process.			No measures taken
3.5.2 Remunerations (wages and salaries)	The Minister should initiate production of a new policy on the functioning of boards and commissions specifying clearly guidance about engagement, work and compensation of members of boards and different commissions.			No measures taken

3.5.2 Remunerations (wages and salaries)	The Minister along with the General Director of KUHC should review the potential that compensation for salaries and duty shifts of these specialist doctors is done from the budget of KUHC, rather than from Ministry.		It is partially addressed. The nightshifts are not compensated the MoH but these doctors continue to be on the payroll list of MoH.	
3.5.2 Remunerations (wages and salaries)	The Minister through Director of NCBT should ensure that monitoring controls are applied over the planning processes, approval; identification and compensation of duty shifts in order for compensations are based on duty shift logbooks. Eventual changes of plan should be preliminary approved.		This recommendation is in the process of being implemented.	
3.5.3 Subsidies and Transfers	The Minister should ensure to discontinue the financial support for specialists identified who benefited in conflict with the agreements and consider legal remedies to force them to return the funds benefited in conflict with the agreements signed. In addition, cooperation should be established with relevant institutions (TAK and Trust) to verify if there are other specialists working/ earning incomes in private institutions, who have benefited subsidies from MoH.		The Ministry took steps in this direction, but they were not sufficient because during this phase we have noticed specialists who work in other public institutions.	
3.5.3 Subsidies and Transfers	The Minister should ensure that subsidies are paid after signing a formal agreement between MoH and the beneficiary, where the obligations of both parties are clarified. During the conduct of application procedures and after their review, legal requirements should be respected. In addition, the Minister should initiate creating a regulation / instruction to set out MoH responsibilities and the relations with private health institutions specifying clearly requests for financial reporting and on the services provided.			No measures taken

3.5.3 Subsidies and Transfers	The Minister should review the possibility to create an adequate mechanism to ensure that subsidised medicines have reached the intended patients. The Minister together with HFA should enhance controls to ensure that contracts for supply with EL medicines are managed effectively and there is regular supply with medicines from EL.		The Ministry has taken steps to address this recommendation, but it is not complete because we have seen cases where the ministry has subsidized medicines part of the essential list.	
3.5.3 Subsidies and Transfers	The Minister should ensure that subsidised programmes are subject to regular monitoring by Ministry's officials to ensure the respect of requirements for reporting on the manner how funds are used. In addition, the Minister should ensure that subsidising professional associations for CME is stopped, until the expenditures of financial funds benefited from MoH are justified.			No measures taken
3.6 Revenues	The Minister should ensure to functionalise the revenues module within the Health Informative System (HIS) which would support collection and management of revenues. In addition, the CEO of KMA should ensure that internal registers on revenues are accurate and are harmonised with KFMIS. This would enable disclosure of accurate information in AFS.			No measures taken
3.7 Assets and liabilities	The Minister should initiate a review to determine why rules and procedures necessary for assets management are not applied and determine measures necessary for their better management. Assets registers should be updated continuously to ensure their correct disclosure in AFS.		The Ministry has taken measures to fully address this recommendation, the Receiving Officer is in place, fixed assets are registered, but it is difficult to determine if the Registry is complete.	

3.7.2 Management of medicines	The Minister should seek a review of quality of information about the pharmaceutical stock and the way how SMPS was used, to determine necessary measures for the improvement of its management. Ensuring accurate information on pharmaceutical stocks easier management and avoids the potential of the emphasis of matter on the issue or modification of the AFS opinion.			No measures taken
3.7.3 Handling of receivables	The Minister should ensure that a comprehensive review is undertaken relating to the approach over accounts receivable, identifying obstacles in the improvement of the revenues collection rate. Accurate evidence should be kept related to accounts receivables and information from these evidences should be disclosed in AFS.		The Ministry has taken measures through private enforcement agents to execute uncollected revenues and improvements have been noted. But in some units it is not fully addressed.	
3.7.4 Handling of debts	The Minister should initiate a review of the balance of liabilities to determine causes of delays and measures necessary for addressing this issue. Assessment of liabilities should be done on monthly basis and payments should be done according to timetable determined by financial regulations.			No measures taken

Annex IV: Letter of confirmation

LETTER OF CONFIRMATION

For having agreed on the Auditor General's findings of 2016 and implementation of recommendations:

To: National Audit Office

Venue and date: 29.06.2017

Honoured,

We hereby confirm that:

- We have received the draft audit report of the National Audit Office on the 2016 Annual Financial Statements of the Ministry of Health, hereinafter referred to as the Report;
- Agree on the findings and recommendations and I have no comment on the content of the Report; and
- Within 30 days from receiving the final report, I will submit the action plan on implementation of recommendations including the deadlines and responsible staff for their implementation.

Acting Secretary General of the Ministrz of Health:

Ardian Mehmetaj

29.06.2017			
21	21.01	811	1



Num. i dërgimit	02	Num. i Protokollit	65-4317
Num. i kërkesës		Num. i dërgimit	29.06.2017
Num. i kërkesës	-1-	Num. i dërgimit	
Num. i kërkesës		Num. i dërgimit	

Republika e Kosovës

Republika Kosova - Republic of Kosovo

Qeveria - Vlada - Government

Ministria e Shëndetësisë – Ministarstvo Zdravstva – Ministry of Health

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm për vitin 2016 dhe për implementimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Ministrisë së Shëndetësisë (MSH), për vitin 2016 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Z. Ardian Mehmetaj,

Sekretar i Përgjithshëm i MSH-së

Data: 29 qershor 2017, Prishtinë

