AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF THE MINISTRY OF HEALTH
FOR THE YEAR ENDED 31 DECEMBER 2017

Prishtina, June 2018
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 through quality audits strengthen accountability in public administration for an effective, efficient and economic use of national resources.

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, Emine Fazliu, who supervised the audit.

The report issued is a result of the audit carried out by Fejzullah Fejza (Team Leader) and Neslihane Mati, Albesa Tolaj and Arta Birinxhriku(team members) under the management of the Head of Audit Department Florim Beqiri.
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Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Statements of Ministry of Health, which determines the Opinion given by the Auditor General. The examination of the 2017 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions (ISSAIs). 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 03.10.2017.

Our audit focus has been on:

The Annual Financial Statements → Financial Management and Control → Prior and earlier year Recommendations

The level of work undertaken by the National Audit Office to complete the 2017 audit is determined depending of the quality of internal controls implemented by the Management of the Ministry of Health.

The National Audit Office acknowledges Ministry’s Senior Management and Staff for cooperation during the audit process.

Opinion of the Auditor General

Qualified Opinion with Emphasis of Matter

The Annual Financial Statements for 2017 present a true and fair view in all material aspects, except for the following issues.

In Article 13 - Statement of payments and cash receipts - sources of funds, the Ministry has not presented the amount of €57,025,125 from the government grant;

In Article 14 - Report on Budget Execution- the part of cash inflow to the Treasury account - initial budget (€2,425,015) and the final budget (€2,009,903) for borrowing should not have been presented;

In Article 14 - Report on Budget Execution - the part of the cash inflow to the Treasury account, the final budget from designated donor grants was overstated by €409,940; and

In Article 20 - Report on unjustified advances was understated by €502,486. The category of unjustified advances we were unable to test due to the fact that for our selected samples, the management of the Ministry was unable to provide necessary documentation, such as approved request for official travel, invitation, agenda, request for commitment payment order.
**Emphasis of Matter**

We draw your attention to the fact that capital and non-capital assets disclosed in the AFS do not present a true and fair view.

For more, please refer to Section 1.2 of this report.

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

**Key Conclusions and Recommendations**

- **Qualified Opinion with Emphasis of Matter** reflect weaknesses in controls to confirm the accuracy of items in the AFS.

  - The Minister should analyse the reasons for the 2017 Qualification and Emphasis of Matter and identify actions required to enable a true and fair representation of items in the AFS (sub-chapter 2.1 Audit Opinion).

- The AFS production process was poorly managed. It contains financial errors, lack of disclosures and uncertainties identified during the audit.

  - The Minister should ensure that the 2017 AFS production process incorporates a formal and effective management review with the AFS declaration only signed after all necessary actions have been applied (see chapter 2.2).

- Budget planning and execution, was not done on proper an realistic analysis.

  - The Minister should ensure that upon budget planning are analyzed real needs and requests and conduct ongoing monitoring over budget execution (see Issue 6).

- Internal controls during the year have not operated effectively. Evident weaknesses were noticed in a number of important financial systems such as own source revenues, salaries, medicine management, management of advances for official travel, project management, assets and liabilities.

  - The Minister should conduct a review of processes in which internal controls have not operated, and should strengthen controls where failures have been identified (see issues 7 to 23).
Responses of the Minister of MoH

The Minister agreed with the audit findings and conclusions, and committed himself to address all the recommendations given.
1 Audit Scope and Methodology

Introduction

The National Audit Office (NAO) is responsible for carrying out a Regularity Audit which involves the examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

Audit work undertaken reflected our audit risk assessment for Ministry of Health. We have analysed the Ministry’s business to the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the AG’s opinion.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review.

Our procedures included a review of the internal controls, accounting systems and related substantive tests and related governance arrangements 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.
2 Annual Financial Statements and other External Reporting Obligations

Introduction

Our audit 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.

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 assertions are intended to provide the Government with the assurance that all relevant information has been provided to ensure that an audit process can be undertaken.

2.1 Audit Opinion

Qualified Opinion with Emphasis of Matter

We have audited the AFS of the Ministry of Ministry of Health for the year ended on 31st of December 2017 which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement, disclosures and other accompanying reports.

In our opinion, except for the effects of the issue described in the Basis for Qualified Opinion paragraph, the Annual Financial Statements for the year ended on 31st of December 2017 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 MoF no.01/2017 on Annual Financial Reporting by Budget Organisations.

Basis for Qualified Opinion

• At Article 13 - Statement of payments and cash receipts - sources of funds, the Ministry has not presented the amount of €57,025,125 from the government grant;

• At Article 14 - Report on Budget Execution - the part of cash inflow to the Treasury account - initial budget (€2,425,015) and the final budget (€2,009,903) for borrowing was presented incorrectly. The budget presented from borrowing was a budget planned for spending and not for collection. These values should not have been presented by the MoH because borrowing is presented by the Ministry of Finance in the consolidated AFS;

• At Article 14 - Report on Budget Execution - the part of the cash inflow to the Treasury account, the final budget from designated donor grants were presented incorrectly. Were
presented €501,340, while should have been €91,400, whereby we have an overstatement by €409,940;

- At Article 20 - Report on unjustified advances was presented €19,801, while according to Treasury data should have been €522,287. We have an understatement by €502,486. These unjustified advances were for official travel. We were not able to verify this value due to the fact that for our selected samples, the management of the Ministry was unable to provide necessary documentation, such as approved request for official travel, invitation, agenda, and request for commitment payment order.

Our audit was conducted 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. NAO is independent of the Ministry in accordance with the ethical requirements that are relevant to our audit of the annual financial statements of Budget Organisations in Kosovo and we have fulfilled other ethical responsibilities in accordance with these requirements. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the qualified opinion.

**Emphasis of Matter**

I would also like to draw your attention to the fact that:

- Article 19.3.1 - Capital assets (over €1,000), does not present the exact value of assets. The audit has revealed that in the accounting register of KFMIS are not recorded all assets purchased by the MoH in 2017. Assets in the value (on-going investments) of €3,323,368 were not recorded, and for this unregistered amount were understated assets of the MoH for 2017.

- In AFS, Article 19.3.2 Non-capital assets were presented at €1,093,708. We have confirmed that assets register of assets under €1,000 had not calculated accumulated depreciation, due to which the final balance presented in the AFS was overstated as depreciation was not applied.

**Responsibility of the Management and Persons Charged with Governance for AFS**

The Secretary General of 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 number 03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

The Minister is responsible to ensure oversight of 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 of the MoH 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 detect any material misstatement that might exist. 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.

2.2 Compliance with AFS and other reporting requirements

Ministry of Health 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);
- Compliance with Financial Rule no.01/2013 and 02/2013;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures; and
- Draft and final procurement plan.
With exception of errors that have had impact on qualification of opinion and emphasis of matter, AFS contain the following errors:

- At Article 16 – Report of receivables presented in the amount of €471,400 was overstated by €40,265, as the presented value of €40,265 from earlier periods was collected during 2017;
- At Article 18 - Report of contingent liabilities presented in the amount of €1,265,804 was understated by €220,533, as the MoH had not included all claims of parties towards the Ministry.

The above findings indicate that the AFS production process was poorly managed.

DECLARATION MADE BY MANAGEMENT

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 incorrect given the material errors identified during the audit.

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

2.3 Recommendations related to Annual Financial Statements

**Recommendation 1** The Minister should ensure that an analysis is undertaken to determine the causes of the qualification and emphasis of matter. The Minister should ensure that upon preparation of the AFS is presented the source of fund from the general government grant, and that revenues budgeted from donors are presented in accurate values.

**Recommendation 2** The Minister should ensure that unjustified advances are presented correctly and accurately in the AFS, and that are undertaken immediate steps to ensure that all necessary documentation and their closing (their justification) as required under the respective rules.

**Recommendation 3** The Minister should ensure that borrowing will not be presented as planned budget for collection in the AFS of the MoF.

**Recommendation 4** The Minister should ensure that all assets over €1,000 will be recorded in assets registers, and assets under €1,000 are depreciated.

**Recommendation 5** The Minister should also ensure that contingent liabilities and accounts receivable are correctly identified and presented as such in the AFS.
3 Financial Management and Control

Introduction

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Budget Organisations. Specifically, the focus of the audit was Budget management, Procurement issues, Human Resources as well as Assets and Liabilities.

Financial Management and Control Conclusion

Due to the consistent non-compliance with regulations, the procurement field continues to be the most concerning area resulting in poor value for money and unjustifiable delays in completion of projects/services.

In the context of financial systems, controls over revenues are generally not appropriate and are not subject to management review. In this context there is no adequate and comprehensive system for Accounts Receivable as a result of revenues.

In addition, controls over a number of expenditure areas require immediate improvement in order to prevent irregularities of expenditures and irrational expenditures.

Main areas where more improvements are needed are: budget performance, respectively, setback in incurring expenditures for capital projects, subsidies and transfers that are related to the program for medical treatment outside public health institutions and continuous specialist education, recording of pharmaceutical stock in the system has not yet been improved, poor management of non-financial assets, the area of outstanding liabilities is not being addressed properly, contingent liabilities are not complete as the Ministry does not yet have a clear view on the claims towards the MoH, administration of petty cash and advances for official travel is a serious and concerning problem that is accompanying by the MoH.
3.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

<table>
<thead>
<tr>
<th>Description</th>
<th>Initial Budget</th>
<th>Final Budget</th>
<th>2017 Outturn</th>
<th>2016 Outturn</th>
<th>2015 Outturn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources of Funds</td>
<td>55,949,060</td>
<td>62,425,514</td>
<td>57,567,776</td>
<td>49,774,144</td>
<td>31,698,423</td>
</tr>
<tr>
<td>Government Grant -Budget</td>
<td>53,524,045</td>
<td>59,435,868</td>
<td>57,025,126</td>
<td>45,671,695</td>
<td>31,390,978</td>
</tr>
<tr>
<td>Carried forward from previous year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>59,151</td>
<td>100</td>
</tr>
<tr>
<td>Own Source Revenues</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>529</td>
<td>10,149</td>
</tr>
<tr>
<td>Borrowings</td>
<td>2,425,015</td>
<td>2,009,903</td>
<td>443,041</td>
<td>3,723,344</td>
<td>56,737</td>
</tr>
<tr>
<td>External Donations</td>
<td>-</td>
<td>979,743</td>
<td>99,609</td>
<td>319,425</td>
<td>240,459</td>
</tr>
</tbody>
</table>

The final budget in relation to the initial budget had increased by €6,476,454 or by 11.5%. This increase was due to the increase of the general grant in the amount of €5,911,823, based on Government decisions, budget from external donations €979,743, while the budget from borrowing was reduced by €415,112 as capital projects foreseen to be funded with loan were not implemented.

Ministry in 2017 has spent over 92% of the final budget or €57,567,776. However, budget execution remains at unsatisfactory level and below is explained the current position.

Table 2. Spending of funds by economic categories - (in €)

<table>
<thead>
<tr>
<th>Description</th>
<th>Initial Budget</th>
<th>Final Budget</th>
<th>2017 Outturn</th>
<th>2016 Outturn</th>
<th>2015 Outturn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending of funds by economic categories</td>
<td>55,949,060</td>
<td>62,425,514</td>
<td>57,567,776</td>
<td>49,774,144</td>
<td>31,698,423</td>
</tr>
<tr>
<td>Wages and Salaries</td>
<td>9,589,820</td>
<td>8,333,947</td>
<td>8,313,972</td>
<td>7,940,750</td>
<td>7,652,757</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>27,760,887</td>
<td>32,880,401</td>
<td>29,506,459</td>
<td>24,661,109</td>
<td>9,145,047</td>
</tr>
<tr>
<td>Utilities</td>
<td>230,548</td>
<td>215,318</td>
<td>183,802</td>
<td>183,845</td>
<td>195,858</td>
</tr>
<tr>
<td>Subsidies and Transfers</td>
<td>7,013,805</td>
<td>14,413,805</td>
<td>14,350,049</td>
<td>9,841,960</td>
<td>9,714,570</td>
</tr>
<tr>
<td>Capital Investments</td>
<td>11,354,000</td>
<td>6,582,043</td>
<td>5,213,494</td>
<td>7,146,480</td>
<td>4,990,191</td>
</tr>
</tbody>
</table>

1 Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.
2 Own Source Revenues unspent in previous year carried forward into the current year.
3 Receipts used by the entity for financing its own budget.
Explanations for changes in budget categories are given below:

- The final budget for wages and salaries compared to the initial one was reduced by €1,255,873 or 13%, this was because was not implemented the personnel plan for recruitment and staff movement from the MoH to the KHUCS;
- The final budget for goods and services had increased by €5,119,514. This increase was done based on a Government decision to cover the needs for supplying with medicine from the Essential List;
- The category of utilities has also decreased by €15,230 or 6% as a result of lower spending dynamics compared to budgeting;
- While an increase in the final budget compared to the initial was in the category of subsidies and transfers by 106% or €7,400,000 due to budget adjustments and the direct impact of the grant from the Ministry of Finance. Due to this supplementary amount to the final budget has decreased large debts in the Medical Treatment Program Outside Public Health Institutions; and
- The final budget for capital investments with a Government decision has decreased by €4,771,957 as a result of non-implementation of planned projects.

**Issue 6 - Budget Execution**

**Finding**

Budget planning was not done based on proper and realistic analysis. Due to this has risen the need to make many budget adjustments in 2017 throughout economic categories. Despite the budget increase in the category of goods and services for supply of medicines, Ministry had managed to spend only 89% of this category’s budget. A significant setback in budget execution was also in capital investments that despite the decrease of the final budget compared to the initial one, only 79% of the budget was spent.

**Risk**

Failure to make proper and realistic budget planning could threaten achievement of Ministry’s objectives.

**Recommendation 6**

The Minister should ensure that in the case of budget planning analyse real needs and requests and conduct continuous monitoring over budget execution, and if noticed implementation setbacks, adequate measures should be taken for improvement of budget performance.
3.2 Revenues

According to Treasury records, Minister had collected revenues in the amount of €4,614,915. The Ministry of Health had not planned revenue collection in the last three years. Although the Ministry does not have an agreement on the use of collected revenues, it should have planned revenue collection which would serve as a benchmark to track dynamics of revenue collection. Revenues are collected from various programs and relate to services provided such as licensing, sale of services, fines by the pharmaceutical and health inspectorate, etc.

<table>
<thead>
<tr>
<th>Description</th>
<th>Initial Budget</th>
<th>Final Budget</th>
<th>2017 Receipts</th>
<th>2016 Receipts</th>
<th>2015 Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own source revenues</td>
<td>0</td>
<td>0</td>
<td>4,614,915</td>
<td>4,923,661</td>
<td>3,432,782</td>
</tr>
</tbody>
</table>

Issue 7 - Discrepancies between the requested amount and printing of banderols

Finding

Revenues collected in the Kosovo Agency for Medicinal Products and Medical Devices (KAMPMD) from banners for 2017 in the main book were in the amount of €290,989.

Administrative Instruction (MoH) no. 12/2013 on Affixing Banderols on Medicinal Products that are Imported, Manufactured and Traded in the Republic of Kosovo, stipulates that the printing of banderols should be done after their request has been made by parties.

The KAMPMD during 2017 printed 29,335,497 banderols, out of which 29,098,931 banderols were sold as requested, while the difference of 236,566 banderols printed more than the ones sold was as result of printing mistakes of banderols by the KAMPMD. Excessive banderols have been returned by Operators and are located at Agency’s warehouse, while the cost of these errors are covered by the Agency.

Risk

Poor process of controls over printing of banderols increases the risk of discrepancy between printed and requested banderols and increases costs for the Agency.

Recommendation 7

The Minister should ensure that controls over printing and requesting of banderols are enhanced, so that printed quantities are in line with the quantity requested, in order to minimize Agency’s additional costs.
Issue 8 - Delays in reviewing applications for import license for products and medical devices from KAMPMD

Finding  
KAMPMD during the review of applications for import license for medical products and devices applied Law No. 05/L-031 on the General Administrative Procedure. Article 98 paragraph 2 stipulates that “the overall time-limit applicable to the completion of the administrative procedure shall be eighteen eight (45) days from its initiation”.

In spite of the deadlines set out above, in five cases, KAMPMD during the review of applications for import licenses for medical products and medical devices exceeded the foreseen period of 7 to 25 days.

Risk  
Failure to adhere to procedures when reviewing applications for a license within the deadline increases the risk of favouritism/discrimination of operators.

Recommendation 8  
The Minister should ensure that the applications for import licenses concerning medical products and medical devices are examined in accordance with established legal criteria.

3.3  Wages and Salaries

Salaries and Allowances are paid through a centralised system managed by MPA and MoF. Expenditures were €8,313,972 or about 99.76% of the budget. The number of staff allowed under the budget was 1,158 while their current number was 1,002. Our test results have resulted in:

Issue 9 - Double payment

Finding  
In one case was carried out a payment in the amount of €1,074 for a specialist doctor. This has taken place due to lack of adequate controls upon payment of retroactive payments.

Risk  
Lack of adequate controls increases the risk of damaging Ministry’s budget.

Recommendation 9  
The Minister should ensure adequate controls in order that verifications of payments are done before and after processing of payments, and if more than needed was paid, then funds should be returned.
3.4 Personnel Management

The Ministry of Health has not yet managed to establish an adequate staff management system, furthermore, some issues are being followed from year to year.

**Issue 10 – Occupying key positions with Acting Duty**

**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.

In the MoH are occupied six positions with Acting, which had exceeded the legal deadline to occupy the position in this form.

**Risk**

Covering a position with Acting for a period of more than three (3) months can affect Entity’s operational performance, as staff in these positions may not be at the appropriate level.

**Recommendation 10** The Minister should take immediate measures to ensure that for positions that are occupied by Acting Duty officials is found a sustainable solution with regular positions in accordance with legal requirements.

3.5 Goods and Services and Utilities

The Final budget for goods and services and utilities was €33,095,719, while spending €29,690,261. The largest share in these expenditures is comprised of medicines with 91% or €28,089,401, while the rest was for other operational expenditures. The following tests have resulted from the tests:

**Issue 11 - Medicine supply without delivery note**

**Finding**

Payment in the amount of €238,440 for medicine supply, we have confirmed lack of delivery notes and receipts for two types of medicines in the amount of €11,879. We have not obtained assurance whether for the amount paid by the MoH were actually received these supplies.

**Risk**

Due to lack of adequate controls increases the risk, as payments may be carried out but medicine supplies not received.

**Recommendation 11** The Minister should also increase controls to ensure that receipt of medicines for all payments carried out is confirmed.
**Issue 12 - Contracted quantities exceeded**

**Finding**
For public framework contracts, Article 38 of the LPP foresees that the contracting authority shall specify in the tender dossier the value or the quantity of the contract as a threshold or ceiling and shall allow deviation from it by also stating the percentage of allowed discrepancy. The allowed discrepancy cannot be higher than plus/minus 30%. If purchase orders exceed the total indicative quantity or total indicative value of the public framework contract (including +/- 30%, regardless of the original date of the Public Framework Contract expiration, the contract will be automatically terminated.

In four framework contracts we have identified that indicative quantity was exceeded by more than 30%. Even though framework contracts were exceeded, MoH had not terminated them. This has happened due to lack of contract managers. Expressed in financial value indicative quantities were exceeded in the amounts of €88,254.

**Risk**
The lack of oversight has led to exceeding of certain indicative quantities beyond the allowed ceiling, as a result was done inadequate certification of payments that increase the risk of additional financial implications for the future.

**Recommendation 12**
The Minister should ensure that framework contracts are followed during implementation by project managers, and ensure that certification of payments is not be done over the ceiling established for framework contracts.

**Issue 13 – Entering into framework contracts with different Operators for same items**

**Finding**
The procurement office in 2016 had concluded two contracts, with two different Economic Operators to be supplied with medicine. Within these two contracts were included three types of same medicines with different prices. Both Economic Operators supplied the Ministry with the same medicine.

**Risk**
Entering into framework contracts for the same medicine with different Operators and at different prices creates uncertainty and poses a risk of budget damage.

**Recommendation 13**
The Minister has to ensure that procurement office shall not contract the same medicine at different prices for the same period of time. Furthermore, Minister should initiate a review of the abovementioned cases in order to prevent potential budget damage.

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4 First contract was entered into on 13.10.2016 and the other on 07.12.2016
5 Dextrose sol for inf. 5%, 500ml, Natrium Chloride sol for inf 0.9%, 500ml. and Ringer sol for inf 500ml.
Issue 14 – Failure to record medicine purchased in the Pharmaceutical Stock Management System (PSMS)

Finding
The module of Pharmaceutical Stock Management System (PSMS) is one of the components of the Health Information System (HIS). Therein should be recorded all transactions (inflow, outflow and the stock quantity) of medicines from the Essential List.

We have noticed that purchased medicine for the Essential List (EL) in the amount of €1,431,071 were not recorded in the PSMS software.

Risk
Failure to record purchases in the PSMS makes it difficult to track supplies and manage medicines of the EL, which poses a risk as MoH may obtain more supplies while there is a sufficient amount in the stock, or vice versa whereby would be caused delays in obtaining medicine supplies when needed.

Recommendation 14
The Minister should enhance controls over the management of the PSMS to ensure that all medicine supplies are recorded in the system.

3.6 Subsidies and Transfers

The final budget for subsidies and transfers was €14,413,805, while spending was €14,350,049. They relate to Medical Treatment Outside Public Health Institutions (MTOPHI), subsidizing specialists - specialist training, and subsidies for medical associations/health professionals for Continuous Medical Education (CME). Many deficiencies have been identified in this area as a result of weak controls.

Issue 15 – Failure to make reconciliations with hospitals in which is provided the service for MTOPHI

Finding
The Administrative Instruction (AI) No. 03/2017 on MTOPHI\(^6\) obligates the Division for MTOPHI to maintain regular communication with institutions that treat patients who are subsidized by the MoH and quarterly provide information on their treatment status.

In September 2017, was established a committee for the reconciliation process, which did not have appropriate segregation of duties, as two of its officials were part of the executive board for MTOPHI, and another member was also a Certification Officer of this program. The committee has not taken seriously the reconciliation process as it made reconciliations with only three out of 100 service providers of medical treatment. Moreover, from these reconciliations has resulted that the amount of €111,054 remained free, regarding which the Ministry should take necessary steps to return them to the budget.

\(^6\) MTOPHI - Medical Treatment Outside Public Health Institutions
Risk  Due to lack of accurate information poses a risk, as amounts designated for MTOPHI may not be used in line with goals, and poses a risk as designated amounts may remain blocked outside the budget of the MoH. Furthermore, inadequate segregation of duties increases the risk of financial errors.

Recommendation 15  The Minister should ensure that current reconciliations with service providers are finalized in order to have a clearer view of the position of the MoH with service providers. Moreover, if funds remain free, they should be returned to the Ministry’s budget.

Issue 16 – Failure to justify funds as subsidies for medical treatment

Finding  Administrative Instruction 03/2016 for MTOPHI foresees that beneficiaries of the program for MTOPHI upon completion of treatment are to provide to the Ministry treatment bills. In addition, the AI stipulates that patients are compensated 70% of the value of the pro-forma invoice.

We have confirmed that none of patients that had undergone medical treatment at private hospitals within and outside the country have not provided their treatment invoices.

On one occasion the Ministry had paid more than 70% of the value of the pro-forma invoice. The price of pro-forma invoice provided by the hospital for medical treatment was €24,500, while the value for payment should have been €17,150. For this case the MoH had paid €28,000 (€10,850 more than the needed).

Risk  Failure to provide coverage when subsidizing the treatment of patients, and paying in higher values than specified under the AI increases the risk of misuse and damage to public funds, and does not provide assurance that the subsidy awarded is used for the purpose intended.

Recommendation 16  The Minister should ensure an adequate mechanism, which ensures that patients fully adhere to obligations stipulated in Ministry decisions, as an adequate measure for justification of expenditures incurred. Furthermore, the amount paid over the allowed value is to be returned to the Ministry’s budget.
Issue 17 - Subsidizing NGOs through co-financing

Finding

Memorandums of Understanding stipulate that after the completion of subsidized projects, should be submitted to the MoH a report on spending of funds and a report on work completed.

Of the 10 tested samples of NGO subsidies, in three of them (€3,000, €2,000 and €30,000), subsidized NGOs had not adhered to agreements entered into with the MoH, as they have not submitted completed reports.

Risk

Failure to adhere to agreements entered into and failure to ensure full accountability on expenditures incurred as subsidies to NGOs poses a risk as subsidies may not be used according to their designation.

Recommendation 17

The Minister should ensure a mechanism for complete implementation of agreements entered into for subsidizing of NGOs. If NGOs fail to fully report, in the future should consider imposing penalties or even suspension of subsidy.
3.7 Capital Investments

The final budget for capital investments was €6,582,043, while expenditure were €5,213,494. These expenditures relate to financing of projects that MoH does at KHUCS and the primary health level - Municipality.

During the audit we have identified the following weaknesses.

Issue 18 - Quantities specified under the contract were exceeded

Finding

Based on Rules and Operational Guidelines for Public Procurement, clause 61.22 states “Where a contract is amended in order to change the original terms and conditions, the amendment to the contract shall be prepared by the Procurement Department upon approval from the CAO”.

In tested payments in the amount of €2,788,513 for the project “Construction of Emergency Clinic” (contract value €8,106,238) and payments of €141,144 for the project of “Construction of Public Health Centre in Ferizaj” (contract value €448,149), we have identified that 31 contracted positions were exceeded. The financial value exceeded for both projects is €297,171 (€270,176 for Construction of Emergency Clinic €26,995 and for construction of Construction of Public Health Centre in Ferizaj). Although there were changes in quantities from the original contracts that reflected the total price of contracts, the procurement office for these exceeding had not amended the contracts as foreseen under the Rules and Operational Guidelines.

Risk

Exceeding positions over the contracted quantities poses a risk, as other positions in the contract may not be fulfilled, and risks implementation of contracts according to the dynamic and incurring of additional costs for their finalization.

Recommendation 18 The Minister should ensure that are established adequate controls that confirm the accuracy and regularity of projects implementation so that each project is implemented under the terms of the contract.
**Issue 19 - Double payment from the MoH to the EO for the dialysis centre in Mitrovica**

**Finding**
For the contract “Renovation, handworks for the facility of the Centre for Chronic haemodialysis - Regional Hospital in Mitrovica” in the amount of €153,964 was done an overpayment of €22,401. This has taken place because works that were completed and paid for in the first stage were billed and paid for even in the second stage.

**Risk**
Due to lack of proper controls was done an overpayment for the same stage, which poses a risk as the Ministry may pay more than the contracted value.

**Recommendation 19**
The Minister should ensure adequate oversight over the implementation of projects so that payments are made in accordance with respective stages. Regarding the said case, overpaid funds should be deducted in future payments.

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**Issue 20 - Adjusting the area in cardiothoracic ward for placement of angiography device**

**Finding**
Law on Public Procurement, Article 28 clause 10 foresees that “Contracting authority is responsible for the design of the Executive Project which should be necessarily attached to the Technical Specifications, which are part of the Tender Dossier. No contracting authority is permitted to issue tender documents without attaching a detailed project description.”

On 21.04.2017, the Ministry had signed a contract for “Adjusting the area for placement of angiography device in UCCK” in the amount of €214,961. During the implementation of the contract due to project deficiencies has emerged the need for additional works which could not have been carried out under the original contract. This situation has resulted in a one-sided termination of the contract by the Ministry. For this contract, the Ministry had spent €48,130.

Furthermore, since the area for placement of angiography device was not adjusted, which device was paid from borrowings on 28.12.2016 in the amount of €2,110,000 is still outside Kosovo.

**Risk**
Due to project deficiencies has failed implementation of the contract. One-sided termination of the contract by the Ministry increases the risk of financial losses due to lawsuits filed by Operators. Failure to make the angiography device operational has a direct impact on patients that await treatment.

**Recommendation 20**
The Minister should address this issue with high priority so that this project is implemented as soon as possible in order to minimize the risks of possible financial losses, and as soon as possible to offer patients the possibility for treatment with this device.

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7 In the waiting list of patients for diagnostics procedures are approximately 1,000 patients
Issue  21 - Delays in implementation of projects as a result of poor designation of technical specifications

Finding
While auditing procurement procedures we have identified that requesting units that request financing from the MoH are drafting their technical specifications inadequately, namely they are generalized, thus leaving the possibility to Operators to provide goods/works or services that do not provide the value for money. Furthermore, the procurement unit does review these specifications if they are appropriate for goods/works or services.

In two projects due to deficient drafting of technical specifications by requesting units, the implementation of projects was accompanied by various problems;

- The one-year delay in receiving the Ambulance for new-borns by other health institutions in UCCK with contracted value of €76,760. This has happened because the technical acceptance was not done due to poor technical specifications; and

- In the project relocation of the Paediatric Clinic, with the contract annex were made changes in quantity to two items in the original contract, distribution capacity and price. This was done because the total of additional unforeseen works could not be covered by 10% of the contract.

Risk
Drafting technical specifications in disagreement with realistic needs risks the progress and implementation of projects, increases the risk of additional costs and does not ensure value for money.

Recommendation 21
The Minister should ensure controls over the drafting of technical specifications, and to ensure that has been carried out a review by the Procurement Department prior to initiation of procedures.

3.8 Capital and Non-Capital Assets

Assets management is an important part of financial management and control in the public sector. This requires control and management procedures that prove existence of assets and provide accurate and updated information on assets of the organization. The value of assets over €1,000 presented in the AFS was €3,863,275, while under €1,000 was €1,093,708. In addition to issues highlighted in the audit opinion chapter, we have no other issues to report.
3.9 Handling of Cash and Cash Equivalents

Ministry in the AFS of 2017 had presented the value of €19,801. Issues related to this area have been presented in the chapter of Audit Opinion.

3.10 Outstanding Liabilities

The statement of outstanding liabilities owed to suppliers at the end of 2017 was €4,266,793. While in the AFS of 2016 were declared €2,501,286, out of which in 2017 were paid €1,994,990.

The structure of liabilities of 2017, per category is goods and services €437,345, subsidies and transfers €3,795,480 and capital expenditures €33,968.

Issue 22 - High value of Outstanding Liabilities

Finding

The largest part of liabilities belongs to the category of Subsidies and Transfers (€3,795,480). These liabilities are as a result of the approval of requests for medical treatment of patients outside public health institutions by the executive board of this institution without having an approved budget.

Risk

Reported amounts of outstanding liabilities are significant amounts for the Ministry’s budget and as such may affect budget balances in the coming year.

Recommendation 22

The Minister has to ensure that the executive board of the MTOPHI is more cautious upon approval of treatment requests by patients, by taking into account Ministry’s budget. In addition, priority should be given to the repayment of liabilities as the Ministry may be subject to lawsuits filed by Economic Operators as a result of which costs will increase even more.

Issue 23 - Payment under court order

Finding

In 2017, payments carried out by the Treasury under the Article 39.2 and based on court decisions were €475,636. This was because the Ministry had not paid liabilities on time, whereby the Operators had exercised their rights through treasury or judicial decisions.

Risk

Delays in meeting liabilities can disrupt the budget balance and pose a risk as projects planned based on initial projections may not be implemented at all.

Recommendation 23

The Minister has to ensure that all invoices received are paid within the legal deadline.
4 Progress in implementing recommendations

Our audit report on AFS of 2016 of MoH resulted with 26 recommendations. MoH had prepared an Action Plan showing how it will implement recommendations given.

By the end of our 2017 audit, seven recommendations were implemented, two were in the process of implementation and 17 remain unimplemented.

In addition, from 2015 were carried forward 15 recommendations (11 were not implemented and four were under implementation). Almost the same situation of these recommendations is in 2017. For a more complete description of recommendations and how they are handled, see Annex II.

Issue 24 - Implement recommendations from the previous year and the previous year

Finding Due to poor management of the process and the lack of a formal monitoring on the manner of implementation of recommendations of AG, only a part of last year’s recommendations and those earlier that were carried forward have been implemented. Although the action plan was drafted, the Ministry had not established any committees to monitor their implementation.

Risk Continued weaknesses of management controls and of other controls in key financial systems have resulted in:

- Poor quality of reporting related to the AFS;
- Poor management of advances for official travel;
- Inadequate management of human resources;
- Poor administration of expenditures, lack of value of money, poor efficiency in planning and implementation, insufficient controls over payments certification; and
- Poor administration of non-financial assets and outstanding liabilities.

Recommendation 24 The Minister should ensure that an adequate and consequent action plan is implemented, which defines timeframes for implementation of recommendations given by the AG, with responsible staff identified, focusing initially on most important areas.
5 Good Governance

Introduction

Good Governance implies basic principles of accountability, effectiveness of controls, risk management, independence of internal audit, coordination of NAO with internal audit and good governance with public assets.

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. The level of compliance with FMC requirements by Budget Organizations is monitored by the self-assessment checklists completed by all BOs, which are submitted at the end of the year to the Ministry of Finance.

Specific areas of our governance-related reviews have been the accountability and risk management process, while the other components are handled within the chapters or subchapters above.

Overall Governance Conclusion

There are a number of governance weaknesses within the MoH, particularly related to accountability, risk management and quality of managerial reporting. Key indicator in support of effective governance is implementation of audit recommendations as this indicates to what extent the management is undertaking actions to improve existing processes and controls. The level of implementation of recommendations by the MoH is very low, as a result of which almost the same problems are accompanying the Ministry year after year. The Audit Committee was not at the right level to address audit findings to the management. Poor management in area of personnel where based on the decision of Acting Secretary General had transferred the senior legal officer to the internal auditor in disagreement with the Regulation 06/2010 on Transfer of Civil Servants.

The KAMPMD is not adhering to the criteria and guidelines for import of products which have no equivalents in Kosovo. This process was accompanied by many complaints from parties, whereby the KAMPMD addressed the State Advocacy Office to obtain an opinion. As a second instance for complaints, the KAMPMD had the complaints board at the KAMPMD, member of which was the State Attorney.

The KAMPMD had not defined sub-legal acts that would regulate recording procedures, format and the recording file per class of medical device, as a precautionary measure towards safety and protection of patients’ health. This is not in accordance with the Law No 04/L-190 on Medicinal Products and Medical Devices.

The Pharmaceutical Stock Management System has not been properly managed to ensure full recording of medicine in this system.
5.1 Internal Audit System

The Internal Audit Unit (IAU) operates with the IAU Director and three staff members.

An effective audit requires a comprehensive work programme that reflects financial and other risks to Auditee 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 challenge provided by an effective Audit Committee.

The IAU had drafted the strategic plan 2016-2018, as well as the annual plan that was approved by the Minister and the AC.

For 2017 were planned 17 regular and one per request audits. Were carried out 17 audits, 14 were based on the plan, and three were carried out at the request of the management. In addition, at the end of the year the IAU had prepared a report on implementation of recommendations. During our testing we have identified the following issues;

**Issue 25 – Deficiencies in management of the IAU**

**Finding** Despite the fact that IAU has made a significant number of reports, it did not focus on carrying out key and high risk audits during 2017, such as spending for EL, unjustified advances for official travel, and assets management. Moreover, audits carried out do not provide sufficient assurance that they contribute to improvement of internal controls, as only parts of the systems have been audited, and had not provided advices to the management on elimination of errors associated with items in the AFS.

None of audited units had prepared an action plan for implementation of recommendations and as a result, recommendations of this unit had not been implemented.

In addition, the Audit Committee had held three meetings, while in the last three months the AC was not operational as two of the members had left.

**Risk** Lack of IAU focus in key and high-risk areas poses a risk, as IAU may not provide sufficient assurance to the management on the functioning of internal controls. In addition, due to the failure of addressing IAU recommendations and their improper handling the same problems are repeated. This is also affected by the impaired Audit Committee, which risks the progress in improving the functioning of the IAU.

**Recommendation 25** The Minister should ensure that the IAU is focused on auditing key areas in order to provide sufficient assurance to the management. In addition, a closer cooperation and a more effective communication between this unit and the management would have impact on prevention/elimination of many weaknesses that are accompanying this Ministry. Furthermore, the Minister should ensure complete functioning of the Audit Committee.
Issue 26 - Transfer of the legal officer as an internal auditor

Finding
Regulation 06/2010 on Transfer of Civil Servants, Article 8 foresees that “Civil Servant may be permanently transferred to another position to exercise the same or different functions in the same functional category, grade and salary step within the institution in civil service “.

Acting Secretary General with a transfer decision dated 09.11.2017 had transferred the legal officer to the position of the internal auditor in disagreement with the Regulation, as the grade and salary step\(^8\) were not the same. Furthermore, the official transferred until November 2017 has exercised the position of Acting Secretary General.

Risk
Transferring civil servants that are not in same grade and step of the same salary, increases the risk of budget damage.

Recommendation 26
The Minister should ensure that upon transferring civil servants to take into account the equivalence grade and the salary step.

5.2 Management Reporting, Accountability and Risk Management

In order to have a proper planning, supervise the activities on a regular basis and allow effective decision-making, the Management of MoH needs to have regular reports. Accountability as a process is the acceptance of responsibilities, holding persons into account for their actions and disclosing results in a transparent way. Whereas, risk management is a process related to identification, analysis, evaluation and actions/measures taken by the Management to control and respond to risks threatening the Organization.

Although, a range of internal controls are applied by Management to ensure that systems and operate as intended, we have noticed that the measures applied are weak and ineffective and therefore do not provide an effective and timely response to the identified operational problems.

\(^8\) The salary as a legal officer was €582.73, while now in the position of the internal auditor the basic salary is €872.
Issue 27 - Weaknesses in management controls, accountability and risk management by subsidiary units of MoH

Finding
Management reporting and accountability in the Health Insurance Fund (HIS) in administration of the medicines Essential List (LE) is not providing assurance that transactions are in compliance with contract terms and other operational aspects. Furthermore, the information from the Pharmaceutical Stock Management System (PSMS) is not complete, as plenty of supplies are not recorded therein. Due to lack of credible data, even the certification of payments was done without providing assurance on the possibility of exceeding contracted quantities of supplies.

Values presented in the AFS are not verified in advance to ensure their accuracy and completeness.

In the program for Medical Treatment Outside Public Health Institutions (MTOPHI), there was no adequate reporting as board decisions on treatment of patients were not based on budget possibilities. Due to lack of proper reporting, we have enormous increase of liabilities.

Due to poor bill of quantities and poor oversight of projects during 2017, there were many changes to projects based on original contracts, and many projects were delayed during implementation.

Risk
Poor accountability requirements and low quality of financial reporting reduce the effectiveness of financial management. This results in weaknesses in the budgetary process and reduces management’s ability to respond to financial challenges on time. It also increases the risk of improper expenditures and may result in provision of poor quality services.

Recommendation 27 The Minister should ensure management reporting and effective oversight to ensure increase of value for money. To achieve this, the minister should ensure involvement of all key actors within the Ministry.

This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.
Annex I: 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 1705 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 II: Progress in implementing Prior and Earlier Year Recommendations

<table>
<thead>
<tr>
<th>Audit Component</th>
<th>Recommendation carried forward from 2015</th>
<th>Implemented during 2017</th>
<th>Under implementation during 2017</th>
<th>Not implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Emphasis of matter</td>
<td>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.</td>
<td></td>
<td>AFS have been corrected related to errors in classification of expenditures on assets, but no proper actions have been taken related to accurate evaluation of assets, liabilities and receivables.</td>
<td></td>
</tr>
<tr>
<td>2. Financial statements</td>
<td>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.</td>
<td></td>
<td></td>
<td>Not implemented</td>
</tr>
<tr>
<td>2.3 Prior Year Recommendations</td>
<td>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.</td>
<td></td>
<td>The Ministry had prepared an action plan for implementation of recommendations of NAO, but due to the failure to fully address recommendations has resulted in continuation of the same weaknesses.</td>
<td></td>
</tr>
<tr>
<td>Section</td>
<td>Description</td>
<td>Implementation Status</td>
<td></td>
<td></td>
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<tr>
<td>---------</td>
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<tr>
<td>3.4 Procurement</td>
<td>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.</td>
<td>Not implemented</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.5 Expenditure not related to Procurement</td>
<td>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.</td>
<td>Not implemented</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.5 Expenditure not related to Procurement</td>
<td>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.</td>
<td>Not implemented</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.5.2 Remunerations (Wages and Salaries)</td>
<td>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.</td>
<td>Not implemented</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.5.2 Remunerations (Wages and Salaries)</td>
<td>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.</td>
<td>Not implemented</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.5.2 Remunerations (Wages and Salaries)</td>
<td>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.</td>
<td>Implemented</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 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.

**Status:** Not implemented

### 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.

**Status:** Not implemented

### 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 Minister had taken measures to address this recommendation, was placed the receipt officer, were recorded fixed assets registration was made, but cannot be determined whether the register is complete and accurate.
<p>| 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. | Not implemented |
| 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 Minister has taken measures through private bailiffs to collect uncollected revenues, but in some units has not been addressed in full. |
| 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. | Not implemented |</p>
<table>
<thead>
<tr>
<th>Audit Component</th>
<th>Recommendation given in 2016</th>
</tr>
</thead>
</table>
| 1-2. Financial statements | 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.  

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. |
| Implemented | Under implementation | Not implemented |
### 2.1 Progress in the Implementation of Prior Year Recommendations

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.

The Ministry had prepared an action plan for implementation of recommendations of NAO, but due to the failure to fully address recommendations has resulted in continuation of the same weaknesses.

| 2.2 Self-Assessment Checklist of FMC components | 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. | Implemented |
| 2.4 Internal Audit System | 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. | Not implemented |
| 3.1 Budget Planning and Execution | 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. | Implemented |
| 3.1.1 Revenues | 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. | Not implemented |
3.1.2 Wages and Salaries

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.

Implemented

3.1.2 Wages and Salaries

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.

Implemented

3.1.2 Wages and Salaries

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.

Implemented

3.1.2 Wages and Salaries

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 applicable rules.

Not implemented

3.1.2 Wages and Salaries

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.

Not implemented

3.1.2 Wages and Salaries

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.

Not implemented
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1.2 Wages and Salaries</td>
<td>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.</td>
<td>Not implemented</td>
</tr>
<tr>
<td>3.1.3 Goods and Services and Utilities</td>
<td>The Minister should ensure that the financial support is done according to the Treasury Rules and that measures for waiving the right for reapplication 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.</td>
<td>Not implemented</td>
</tr>
<tr>
<td>3.1.3 Goods and Services and Utilities</td>
<td>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.</td>
<td>Not implemented</td>
</tr>
<tr>
<td>3.1.4 Subsidies and Transfers</td>
<td>The Minister should ensure that the relevant administrative instruction requirements are considered during the Application and review process for MTOPHI, in order for persons deserving it to benefit and in time to achieve the purpose of treatment.</td>
<td>Not implemented</td>
</tr>
<tr>
<td>3.1.4 Subsidies and Transfers</td>
<td>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.</td>
<td>Subsidies have been paid according to the agreement but no reconciliations have been made.</td>
</tr>
<tr>
<td>3.1.4 Subsidies and Transfers</td>
<td>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.</td>
<td>Implemented</td>
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<tr>
<td>3.1.4 Subsidies and Transfers</td>
<td>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.</td>
<td>Implemented</td>
</tr>
<tr>
<td>3.1.5 Capital Investments</td>
<td>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.</td>
<td>Not implemented</td>
</tr>
<tr>
<td>3.1.5 Capital Investments</td>
<td>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.</td>
<td>Not implemented</td>
</tr>
<tr>
<td>3.1.6 Common Issues on Goods and Services and Capital Investments</td>
<td>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.</td>
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<tr>
<td>3.2.1 Capital and Non Capital Assets</td>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>3.2.1 Capital and Non Capital Assets</td>
<td>The Minister and the Directors of the Units should ensure that the nonfinancial 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.</td>
<td></td>
</tr>
<tr>
<td>3.2.2 Receivables</td>
<td>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.</td>
<td></td>
</tr>
</tbody>
</table>
Annex III: Letter of Confirmation

Republika e Kosovës
Republika Kosova-Republic of Kosovo
Qendar - Vlasi-Government
Ministria e Shëndetësisë-Ministarstvo Zdравства-Ministry of Health
Zyra e Ministrit/UredMinistra/Office of the Minister

DATA: 22.06.2018

PËR/ZA/TO: zot. Emine Fazliu, Ndihmës Auditor i Përgjithshëm
z. Florim Beqiri, Udhëheqës i Departamentit të
Auditimit/Zyra Kombëtare e Auditimit

CC: z. Uran Ismaili, Ministër i Shëndetësisë

NGA/OD/FROM: z. Naïm Bardiqi, UD Sekretar i Përgjithshëm/Ministria
e Shëndetësisë

TEMA/SUBJEKAT/SUBJECT: Draft raporti i auditimit dhe Letra e Konfirmimit

Tënderuar,

Bashkëngjitur mund të gjeni draft raportin e Zyrës Kombëtare të Auditimit si dhe Letrën e Konfirmimit të Ministrin të Shëndetësisë, z. Uran Ismaili.

Me respekt,
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 në Raportin e auditimit për vitin 2017 dhe për zbatimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit
Të ndërur,
Përmes kësaj shkrese, konfirmoj se:

• kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit/Pasqyrave Financiare të Ministri në Shëndetësi, për vitin e përfunduar më 31 dhjetor 2017 (në tekstin e mëtejë "Raporti");

• pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbytjen e Raportit; si dhe

• brenda 30 ditëve nga pranimi i Raportit final, do t’ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Uran Ismaili
Ministër
Prishtinë, 22.06.2018