



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT
ON THE UNIVERSITY OF PRISHTINA “HASAN PRISHTINA”
FOR THE YEAR ENDED 31 DECEMBER 2018

Prishtina, June 2019

The National Audit Office of the Republic of Kosovo is the highest institution of financial control, which for its work is accountable to the Assembly of Kosovo.

Our Mission is through quality audits to strengthen accountability in public administration for an effective, efficient and economic use of national resources.

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.

This audit is carried out in line with the International Standards of Supreme Audit Institutions and good European practices.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the University of Prishtina "Hasan Prishtina" in consultation with the Assistant Auditor General, Qerkin Morina, who supervised the audit.

The report issued is a result of the audit carried out by Mehmet Muçaj, (Team Leader), Natyra Kasumaj and Muharrem Qyqalla (Team Members) under the management of the Head of Audit Department, Florim Beqiri.

TABLE OF CONTENTS

Executive Summary	4
1 Audit Scope and Methodology	6
2 Annual Financial Statements and other External Reporting Obligations	7
3 Financial Management and Control	10
4 Good Governance	21
5 Progress in implementing recommendations.....	23
Annex I: Explanation of the different types of opinion applied by NAO	31
Annex II: Confirmation letter	34

Executive Summary

This report summarises the key issues arising from our audit of the University of Prishtina (UP) for 2018, which includes the Opinion of the Auditor General on Annual Financial Statements. Examination of 2018 financial statements was undertaken in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). Our approach included tests and procedures that were necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in the External Audit Plan dated 22.11.2018.

Our audit focus has been on:



The level of work undertaken to carry out the audit was determined depending on the quality of internal controls implemented by the Management of the University of Prishtina.

Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

The Annual Financial Statements for 2018 *present a true and fair view* in all material aspects.

Emphasis of Matter

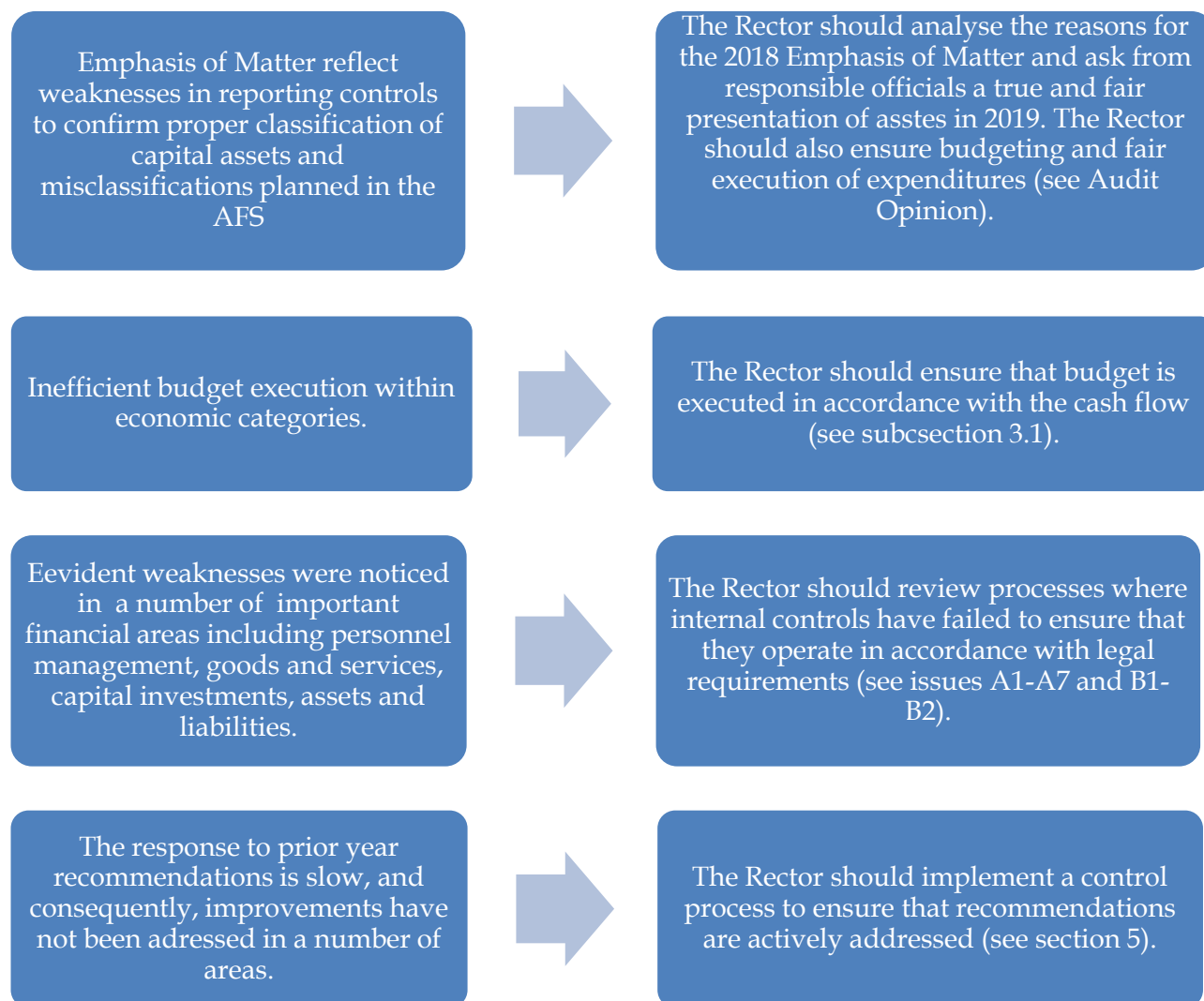
We would like to draw your attention to the fact that the value of capital non-financial assets over €1,000, disclosed in the AFS was incomplete.

In addition, the University of Prishtina in 2018 made planned misclassifications of expenditures, while contingent liabilities were not properly disclosed in the AFS.

For more details, refer to Section 2.1 of this report.

Annex I explains different types of Opinions in line with ISSAIs.

Key Conclusions and Recommendations



Management's response to 2018 audit

The management has agreed with audit findings and conclusions and has expressed commitment to address all recommendations given.

The National Audit Office apreciates the cooperation of management and staff of the University of Prishtina during the audit process.

1 Audit Scope and Methodology

The Audit involves examination and evaluation of Financial Statements and other financial records, as follows:

- 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;
- Whether the internal controls and internal audit functions are appropriate and efficient; and
- Whether appropriate actions have been taken for implementation of audit recommendations.

Audit work undertaken is based on risk assessment. We have analysed UP's business, the level of reliance on management controls, in order to determine the level of detailed testing required to provide the necessary evidence and that support the opinion of the AG.

Our procedures have included a review of internal controls, accounting systems and related substantive tests, as well as 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 that may exist, or of all improvements that could be made to the systems and procedures operated.

The following sections provide a detailed summary of our audit findings and recommendations in each area of review. Management's responses on audit results can be found in Annex II.

2 Annual Financial Statements and other External Reporting Obligations

Our audit of the Annual Financial Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information presented in the AFS, including the declaration made by the Chief Administrative Officer and Chief Financial Officer.

The declaration on presentation of AFS includes a number of assertions relating to the compliance with the reporting framework and the quality of information within the AFS. These assertions intend to provide assurance to the Government that all relevant information has been provided to ensure that an audit process can be undertaken.

2.1 Audit Opinion

Unmodified Opinion with Emphasis of Matter

We have audited the AFS of the University of Prishtina (UP) for the year ended on 31st of December 2018, 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 2018 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 by Budget Organisations.

Basis for the opinion

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. 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:

- Article 19.3.1 Capital assets (over €1,000) are not presented in complete and accurate value. Capital assets in the amount of €18,824,263 presented in the AFS were not complete due to the fact that the register of capital assets did not include all properties in use by UP because of unresolved property issues between the UP and the Municipality of Prishtina.

- The UP has misclassified expenditures in the category of Capital Investments in the amount of €151,785, which by nature belong to the category of Goods and Services. Misclassifications have to do with the purchase of air conditions, laboratory equipment and sports equipment.
- In Article 18 - Contingent Liabilities, the UP did not report contingent liabilities for the previous two years. Also, the presentation of these liabilities in the amount of €1,795,439 is not reliable due to the fact that the value of €1.5 million has not been clarified with relevant documents as claims of parties against the UP.

Responsibility of Management for AFS

The Vice Rector for budget and finance of the UP 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 Vice Rector is responsible to ensure the oversight of the UP'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 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

The University of Prishtina 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/ MoF – Public Funds Expenditure and MoF Regulation no. 02/2013 on Management of Non-financial Assets in Budget Organisations.
- Action Plan on implementation of recommendations; and
- Requirements of Financial Management and Control (FMC) procedures.

Draft AFS of the UP were stated with material values into main items, but after our suggestions they were adjusted on 22.02.2019. Other than the issues mentioned in the Audit Opinion, we have no other issues to report.

DECLARATION MADE BY VICE RECTOR FOR BUDGET AND FINANCE (CAO) AND CHIEF FINANCIAL OFFICER (CFO).

Given the above, the declaration made by Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance can be considered to be correct, with the exception of the issues mentioned in the Audit Opinion.

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

2.3 Recommendations related to Annual Financial Statements.

Recommendation C1 The Rector should undertake concrete actions regarding the regulation of ownership between the UP and the Municipality of Prishtina in order that capital assets are presented in full;

The Rector should ensure that projects that by nature belong to Goods and Services are not planned in the category of Capital Investments but in the appropriate category; and

Contingent liabilities should be disclosed accurately and full explanation should be provided for the previous two years.

3 Financial Management and Control

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Budget Organisations. Specifically, we have handled budget management, procurement, human resources as well as assets and liabilities.

Financial Management and Control Conclusion

In the context of financial systems, revenue controls in general are appropriate and are being implemented, but controls in the area of expenditure require further improvement to prevent inefficient management and non-rational expenditures. Essential improvements are also needed in budget planning and execution, supervision of capital investment, capital and non-capital recording, proper expenditure classification, personnel management, and fair reporting of outstanding liabilities.

3.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget	2018 Outturn	2017 Outturn	2016 Outturn
Sources of Funds	33,834,712	32,042,807	29,514,154	27,000,209	27,243,073
Government Grant -Budget	25,684,712	25,448,789	25,001,073	22,782,088	22,318,208
Carried forward from previous year ¹	-	648,630	643,030	1,313	603,117
Own Source Revenues ²	4,150,000	4,150,000	2,571,446	3,587,626	3,875,719
KPA Revenues ³	4,000,000	1,058,394	879,486	0	0
Domestic Donations	-	5,743	-	5,290	817
External Donations	-	731,251	419,119	623,892	445,212

In 2018, the UP spent €29,514,154 or 92% of the final budget. Therefore, budget execution in general remains at an unsatisfactory level and explanations for the current position are detailed below.

¹ Own Source Revenues unspent in previous year carried forward into the current year.

² Receipts used by the entity for financing its own budget.

³ Revenues from Privatisation Agency of Kosovo allocated by budget law.

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

Description	Initial Budget	Final Budget	2018 Outturn	2017 Outturn	2016 Outturn
Spending of funds by economic categories	33,834,712	32,042,807	29,514,154	27,000,209	27,243,073
Wages and Salaries	21,158,067	21,930,423	20,887,326	19,883,961	20,475,674
Goods and Services	3,052,645	4,017,706	3,525,564	3,120,829	2,818,721
Utilities	1,175,000	996,385	987,256	903,331	967,241
Subsidies and Transfers	1,299,000	1,254,280	741,416	959,776	942,214
Capital Investments	7,150,000	3,844,013	3,372,592	2,132,312	2,039,223

Explanations for changes in budget categories are given below:

- The budget for Wages and Salaries was increased by €772,356. The increase was made with the Government decision €123,726, from own source revenues carried forward €648,630, and from donations €48,454.
- The budget for Goods and Services was increased by €965,061, due to donations and with Government decisions,
- The budget for Utilities was decreased by €178,615 with Government decisions;
- The budget for Subsidies was decreased by €44,720, with Government decisions; and
- The budget for capital expenditure was decreased by €3,305,987 with Government decisions on savings, allocations and budget transfers between economic categories and because the UP did not execute a number of capital projects.

Issue A 1⁴ – Inefficient budget execution

Finding Despite the adjustments (budget movements) made with decisions, the UP did not manage to spend the budget according to the cash flow plan. Goods and Services were spent at 88%, Subsidies and Transfers at 59% while Capital Investments at 88%. Moreover, in the last quarter there was a large influx of expenditures for Capital Investments where only during this period there were €2,377,166 or about 62% of the budget spent. In addition, out of 16 budget projects planned by the budget law, the UP executed only five (5) of them, while for 11⁵ other projects no expenditures were made during 2018.

This occurred as a result of insufficient UP controls to ensure that the allocated budget was spent according to initial projections (as planned).

Risk Failure to execute the budget foreseen may make the University's foreseen objectives not to be achieved and the large influx of expenditures in the last quarter will increase the risk that controls will not prevent any irregularities.

Recommendation A1 The Rector should improve controls in the area of budget planning and oversight to ensure that budget deviations between planning and execution are as small as possible.

3.1.1 Revenues

Revenues of UP are collected from students' participation, sale of services (super expertise), sale of goods etc. According to the internal records for 2018, the UP planned to collect revenues in the amount of €4,150,000, while for the reporting period it executed €3,489,382 or 84% of the planned amount. Out of this amount, it returned participations in the amount of €65,562. In 2018, the UP was allowed to spend the entire planned amount of €4,150,000, while from the collected revenues it spent €3,214,476 for Wages and Salaries, Goods and Services, and Subsidies and Transfers. We have no issue to raise.

Recommendations

We have no issues to recommend in this area.

⁴ Issue A and Recommendation A – means issues and new recommendations,
Issue B and Recommendation B – means issues and recommendations repeated,
Issue C and Recommendation C – means issues and recommendations partially repeated.

⁵ Construction of the Faculty of Economics and Law premises in the amount of €1,340,000, Centre for Contemporary Research in the Field of Engineering €550,000, Revitalization of Laboratories at the Faculty of Natural and Mathematical Sciences €700,000.

3.1.2 Wages and Salaries

The final budget for Wages and Salaries was €21,930,423, while expenditures for this category were €20,887,326 or 95%. Salaries are paid through a centralised payment system managed by MPA and MoF. During our audit examination, we have identified the following deficiencies:

Issue A 2 – Engagement in secondary work without approval from the UP Management

Finding Regulation on Personal Revenue of academic staff no. 2/486 dated 11.09.2017, Article 6 stipulates that: Academic staff in regular employment relationship in the UP may engage with fees in other institutions after having previously obtained consent from the Dean and approval by the Rector of UP.

We have identified 8 cases where professors with working relationships with the UP are simultaneously engaged in secondary employment in other public institutions such as the Ministry of Education, Science and Technology. For these engagements, these professors had not obtained prior approvals from the Rector of the UP.

This was because professors did not seek approval for secondary work from the UP Management on one hand, and poor monitoring of the UP Management towards academic staff on the other hand.

Risk The engagement of professors for additional work without the approval of Management is not only in violation with the requirements of the personal income tax regulation of the academic staff, but also increases the risk of quality in the education process due to numerous engagement of academic staff.

Recommendation A2 The Rector should review all identified cases and take appropriate measures against all staff not complying with the regulations.

Issue A 3 – Compensation not in accordance with legal requirements**Finding**

The Decision of the Steering Committee of the UP no. 2/901 dated 13.10.2016, paragraph 10 stipulates: The Rector, Vice Rector, Deans in addition to holding classes over the norm cannot have other engagement in and out of the UP during regular working hours. Law no. 03/L-147 on salaries of civil servants, Article 20 compensation of salaries, stipulates: Civil Servants are entitled to receive compensation of salary in the following cases: 1.1. Compensation for overtime work during working days; 1.2. Compensation for overtime work during weekends; and 1.3. Compensation for overtime work during official holidays. 1.4. Compensation for annual leave; 1.5. Compensation for the period of temporary incapability certified because of disease; 1.6. Compensation during pregnancy and maternity; 1.7. Compensation in case of being in special leave with payment; 1.8. compensation in case of professional perfection specialized for the needs of body or state;

The UP in cooperation with MEST (based on the Memorandum of Understanding signed on 21.11.2016) continued the execution of the Programme "Advancement and Qualification of Teachers" (AQT) and organised the Programme for the Advancement of Pedagogues (PAP). This memorandum assigned the Steering Committee⁶ of AQT composed of seven (7) UP members and three (3) MEST members and a group of administrative⁷ staff to implement this project. The Rector of the UP is appointed as the Chairperson of the Steering Committee (SC) of AQT. The purpose of this programme was to ensure the advancement of pedagogues who are employed in Kosovo schools.

By decision no. 690 dated 18.04.2016, the Chairperson of the AQT Steering⁸ Committee has set monthly compensation rates for the members of the AQT Steering Committee and other administrative staff (8 officials). The amount of compensation was €590 for the Chairperson of the SC, for members €490 per month and for administrative staff ranging from €80 to €300 per month.

We have noticed that the SC of AQT and administrative staff were compensated each month while we were not provided with evidence to confirm that they had performed overtime work beyond regular working hours.

The reason for these decisions was that the UP Management considered that such engagements are additional work and should therefore be compensated.

Risk

Compensation of the SC of AQT and administrative staff in the absence of evidence to confirm that additional work is carried out over regular working hours increases the risk of irregular payments.

Recommendation A3 The Rector should enhance controls to ensure that all payments made for compensation are documented with evidence to confirm the performance of work beyond regular working hours. On the contrary, in cases where there is no evidence that employees have worked overtime, compensations should not be made, but should be immediately terminated.

3.1.3 Personnel Management

Personnel management includes all actions related to recruitment, coverage of positions with acting, contracts, leaves, etc. To ensure that the actions taken in this area are in accordance with the applicable regulations, we have audited the area of personnel management and have identified the following issues:

Issue A 4 – Non-observance of working hours and non-keeping of records on work attendance

Finding The Decision of the Steering Committee of the UP with no. 02/901 dated 13.10.2016 stipulates that full working hours in the UP lasts 40 hours a week, namely from 08:00 to 16:00, unless in cases where by a special decision due to the nature of the teaching it is set differently. In addition, employment contracts have foreseen that employees (academic staff) are obliged to work 40 hours a week according to the working hours set by the employer.

We have noticed that the academic staff in all UP academic units is not complying with the working hours as set out by the SC decision and the employment contracts. Furthermore, there is no evidence of work attendance except for the Faculty of Economics, Faculty of Education, Faculty of Construction and Architecture.

The reason for not complying with the decision of the SC is the negligence of UP Management to monitor the attendance for academic staff

Risk Failure to comply with the working hours of academic staff in academic units increases the risk of staff being paid for work that are is performed and the expected contribution from regular academic staff will not be at the expected level.

Recommendation A4 The Rector should ensure that regular academic staff in all academic units are recorded in the presence list to ensure that working hours are respected.

⁶ The PAK Steering Committee consists of: the Rector, Vice-Rector for Budget and Finance, Secretary General, Dean of Faculty of Education, etc.

⁷ The administrative group consists of 8 UP officials such as: CFO, salary officer, Faculty of Education Secretary, academic affairs officer and others appointed by the SC.

⁸ The Chairperson of the Steering Committee of PAK is the UP rector.

Issue A 5 – Additional compensation for administrative staff for the end of year holidays

Finding Law no. 03 L-147 on salaries of civil servants, Article 20 compensation of salaries, stipulates: Servants are entitled to receive compensation of salary in the following cases: 1.1. Compensation for overtime work during working days; 1.2. Compensation for overtime work during weekends; and 1.3. Compensation for overtime work during official holidays. 1.4. Compensation for annual leave; 1.5. Compensation for the period of temporary incapability certified because of disease; 1.6. Compensation during pregnancy and maternity; 1.7. Compensation in case of being in special leave with payment; 1.8. compensation in case of professional perfection specialized for the needs of body or state;

The Steering Committee of the UP on 06.12.2018 issued a decision to compensate all employees of the UP administration upon the end of year holidays. The compensation amount was €100 per employee. So, based on this decision, in December 2018, the UP compensated all the administration staff. The financial compensation amount for 304 employees was in the amount of €30,400. Such compensation is not provided for by the law on salaries and as such are not permitted payments.

This occurred because the SC of the UP has assessed that UP staff had a large workload during the year.

Risk Such compensation is not in accordance with the law. This increases the risk that public money is spent unreasonably or is mismanaged, and damages the University's budget.

Recommendation A5 The Steering Committee should ensure that before any decision is made, the sustainability of the legal basis of all payments is clarified, and such compensation is not repeated in the future.

3.1.4 Goods and Services and Utilities

The final budget of Goods and Services, and Utilities in 2018 was €5,014,091, out of which €4,512,820 or 90% were spent. Those relate to spending for supply with official material, fuel, contracting services, utilities, official travels, maintenance services, etc.

Issue A 6 – Compensation of staff from the category of Goods and Services is not in accordance with Law

Finding Budget Law no. 06/L-020 for 2018, Article 12 paragraph 4 stipulates that spending of public money from the category of expenditures "Goods and Services" is not allowed for the payment of employees, whether in the form of a daily allowance or as in kind contribution, including meals or gifts.

During the audit of Goods and Services, namely projects funded through donations, we noticed that the Rector of the UP, with a special decision, had assigned a group of UP staff to implement the project.

The project "Erasmus - Modernisation of Libraries"⁹ and the project "Changing the Story", we noticed in four samples that the administrative staff at the Finance Office (CFO, certification officer, spending officer, fee salary officer) were compensated on behalf of these projects.

The reason for such compensation is that the Project Co-ordinator engaged UP staff with special service agreements as support staff, where the co-ordinator had made a request for payment to the Pro Rector of Finance who also approved payments for these engagements.

Risk Compensation of administrative staff from the category of Goods and Services increases the risk of irregular payments being made.

Recommendation A6 The Rector of the UP should terminate such compensation and such payments should not be made in the future.

⁹ Modernisation of libraries of the Western Balkans through staff development and reform of library services.

Issue B1 – Deficiencies in payment processing

Finding Financial Rule no. 01/2013/MoF on Public Funds Expenditure foresees that the commitment of funds should be initially processed, a purchase order is issued, and upon acceptance of the purchases the acceptance report is made and the invoice is accepted.

In 11 payments for Goods and Services, we identified that the commitment and purchase order were made after receipt of the invoice. This occurred due to weaknesses in internal controls to prevent this practice being repeated year after year.

Risk Failure to apply proper control procedures during the payment process may make the University not to perform its timely invoiced obligations.

Recommendation B1 The Rector should strengthen internal controls and should seek the implementation of procedures from responsible officials, ranging from initiating expenditures to making the final payments.

3.1.5 Subsidies and Transfers

The final budget of Subsidies and Transfers was 1,254,280, out of which €741,416 or 59% were spent in 2018. Those mainly relate to awarding of scholarships for University Studies, and participation of academic staff in the scientific research projects, international scientific conferences, etc.

Recommendations

We have no recommendations in this area.

3.1.6 Capital Investments

The final budget of Capital Investments was €3,844,013, out of which €3,372,592 or 88% were spent in 2018. Those expenditures relate to: supply with laboratory equipment, renovation of University facilities, etc. During 2018, the area of Capital Investments was followed by a number of deficiencies, which are described in detail.

Issue A 7-Poor supervision of capital projects

Finding

Based on the Rules and the Operational Guidelines for Public Procurement, paragraph 61.20 it is stipulated that "Project managers should ensure that the economic operator meets all performance or shipment obligations in accordance with the terms and conditions of the contract."

In the project "**Construction of the Sports Field at the Faculty of Physical Education and Sports**" in Prishtina, in the amount of €24,955, we have identified that certain positions were not executed under the terms of the contract. We tested the payment of €23,975 related to this project and on 08.05.2019, together with the chair of the commission for technical acceptance of the project, we examined the project, and we noticed that the following positions were not executed under the terms of the contract:

III. 1 Supply and installation of the fence with dimensions (8x20x100) cm, for limiting the entire field and separating it from onlookers, fence with 78m length, while 149m were paid. When turned into the financial value an amount of € 355 ($71m * 5 = €355$) was paid.

V. 5 Supplying with a jury moving table that should be with the dimensions (0.7x 3.2) m, was not accepted. The value of the moving table was (1 piece * €500).

V.6 The supply with chairs for jury (wood and metal materials) five (5) pieces which each cost €300 were contracted, whereas during the examination we noticed that only two chairs were accepted in the chamber, while three other chairs were not accepted (3 pieces * €300 = €900).

V. 9 Material supply and construction of a spring for players (dim 2.0 x 0.60) and construction was contracted at €500, while a spring was placed with dimensions that does not match the contracted dimensions.

The value of these paid and unpaid positions is €2,255.

In addition to the abovementioned issues, it is worth mentioning that the project failed to be implemented according to the bill of quantity contracted as the position V.10 that relates to supplying and mounting of stands for 196 spectators (metal construction, seats from plastic) was not delivered at all, but neither was paid.

This occurred because the project manager signed reports that works were completed under the terms of the contract, while they were not completed.

Risk

Signing of the acceptance reports by the contact manager for works which were not executed according to the contract increases the risk of not executing the project according to the bill of quantities and bill of accounts, and budget damage of the UP.

Recommendation A7 The Rector should strengthen responsibility measures for project supervisory personnel to ensure that the execution of works is carried out in accordance with the terms of the contract. Payments made more than the performance of works should be returned to the UP budget.

3.2 Capital and non-capital assets

The value of assets over €1,000 presented in the 2018 AFS is €18,824,263, while in 2017, were €14,614,110. The value of assets under €1,000 in the 2018 AFS was €1,416,655. We have disclosed the deficiencies identified regarding the presentation and the value of assets in the AFS section. In addition to the issues mentioned in the AFS section, we have not identified other reporting issues.

Recommendations

We have no recommendations in this area.

3.3 Receivables

The statement of accounts receivable at the end of 2018 was €81,650 and compared to the previous year (€64,850) the amount of these accounts was increased by €16,800. Accounts receivable relate to uncollected amounts from super expertise made by the Faculty of Mechanical Engineering.

Recommendations

We have no recommendations in this area or

3.4 Outstanding liabilities

The statement of liabilities not paid to suppliers at the end of 2018 was €976,340, and compared to the previous year (€1,973,210) there is a decrease of balance by €996,870. The outstanding liabilities relate to the category of: (a) Wages and Salaries (€663,690), (b) Goods and Services (€218,874); (c) Subsidies and Transfers (€1,060) and (d) Capital Investments (€92,710).

The reason for failing to pay these liabilities is: receipt of some invoices with delay, failure to complete payment documentation, etc. While there were no highlighted reasons for the wages and salary liabilities, although with the budget it had approved to spend from own source revenues €2,811,223 for Wages and Salaries, while UP spent only €2,417,006 from own source revenues. These liabilities were carried forward to be paid in 2019.

Issue B- Incomplete reporting of outstanding liabilities

Finding Financial Rule no. 02/2013 for reporting of outstanding liabilities stipulates that the Chief Financial Officer of the Budget Organisation is responsible for recording all invoices or other liabilities in the KFMIS in accordance with the FMC rules within three (3) business days after receiving the invoice.

During the audit of outstanding liabilities we noticed that UP did not properly keep records for unpaid obligations. We have identified that obligations for wages and salaries are not fully reported, because if are referring to academic units and compare them with the reports that are made in the AFS, there is a difference in the disclosure of unpaid obligations. Through the samples we have identified that the reporting of obligations for the category of wages and salaries is not done completely. Thus, the Finance Office has not consolidated the evidence for unpaid obligations with the academic units.

The reason for incomplete reporting is the lack of internal control for reporting unpaid liabilities.

Risk Failure to keep complete records of all unpaid obligations has impacted that the value of liabilities will not be complete in the AFS. This also increases the risk of making unjustified payments to the University.

Recommendation B2 The Rector should ensure that responsible officials register and update all records for unpaid liabilities so that they are paid in a timely manner and are reported correctly in the AFS.

4 Good Governance

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.

There are a number of governance weaknesses within the UP especially with regard to capital project monitoring and personnel area. Significant weaknesses are also noted in asset management. The monitoring process for full implementation of the recommendations, whether from external or internal audit, shows that Management has not seriously addressed the issues raised and the lack of Management attention to these issues creates room that the internal control system will not to be improved.

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

In the 2017 audit report, we provided recommendations for different areas in order to improve them. We have noticed that in 2018, almost half of the recommendations were implemented by improving management and controls, while for the rest of the recommendations in some areas, the problems continue to repeat.

For the academic year 2017/18, namely the winter semester, the UP did not manage to sign contracts in a timely manner for all academic units. Therefore, on 07.10.2017, the UP announced a competition for engagement of external associates, while the recruitment process lasted until December, where external associates were provided with contracts. Therefore, on 06.12.2018, the Steering Committee of UP decided to compensate all external associates engaged for the hours held during December 2017 and January 2018 as a substitute for hours lost during October and November 2017.

It is worth pointing out that on 11.03.2019 the Rector of UP issued a decision that the academic staff exercising management mandate at the level of academic units are obliged to organise all teaching activities (lectures and exercises) after 16:00. We have raised the issue of holding the hours within regular working time by the academic staff with management mandate in the interim audit stage.

Although the UP in 2017 was equipped with an electronic system for supervising the progress of the teaching process, this system is not yet fully functional. This project was originally planned as a pilot project for the first academic year and was designed to be implemented in several stages. According to the IT office of the University, this system can be functionalised the following year if financial resources are provided by the UP Management. To make this project functional, ID cards should be provided for all levels of academic studies. Functionalising of this system would positively influence on the monitoring of the teaching process of UP professors and students.

4.1 Internal Audit System

The Internal Audit Unit (IAU) operates with one auditor of staff – (the Head of IAU). 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 provided by an effective Audit Committee.

During annual audit plan for 2018, IAU planned to carry out five (5) regular audits which had been completed. IAU has carried out three reviews which were made at the request of the Management. Therefore, IAU carried out the work plan as planned.

Audit reports relate to expenditures for wages and salaries for academic staff: in the Faculty of Economics, Faculty of Law, Faculty of Agriculture and Veterinary, Faculty of Education and asset management and inventory. The focus of the scope of the reports carried out was on the activities of 2017 and 2018.

The Audit Committee has held four meetings during 2018, where in the meetings held were discussed the IAU audit reports.

Audit reports were of the highest level compared to last year.

Recommendations

We have no recommendations in this area.

4.2 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 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 Organisation.

Management has designed internal controls system and financial management, including the organisational structure and accountability lines. Further Management has drafted a self-assessment questionnaire and drafted a list of risks in a documentary format which may be exposed to University.

Recommendation

We have no recommendations in this area.

5 Progress in implementing recommendations

Our Audit Report on the 2017 AFS of the UP resulted in 19 key recommendations. The UP prepared an Action Plan stating how all recommendations will be implemented.

At the end of our 2018 audit, eight (8) recommendations have been implemented; two (2) were in process (partially), seven (7) others have not been addressed yet and two (2) recommendations were closed unimplemented. For a more thorough description of the recommendations and how they are addressed, see Table 4 (Table of recommendations).

Table 4 Summary of prior year recommendations and of 2018

No	Audit area	Recommendations of 2017	Actions taken	Status
1	Annual Financial Statements – Audit opinion (rec. 1)	The Rector of UP should ensure that an analysis of issues that have impacted the Emphasis of Matter is undertaken. He should further ensure that when AFS are prepared, within Article 14, Donor Designated Grants, the part of the cash inflow into the Treasury account is fairly presented in order not to double the amounts from previous years.	UP has disclosed donor grants accurately.	Recommendation implemented,
2	Annual Financial Statements (rec. 2)	The Rector of UP should increase controls to ensure that the presentation of contingent liabilities in AFS is done following proper analysis and only the documented claims of the parties against the UP are presented. Further on, he should ensure that comparison amounts for two previous years is presented as required.	UP did not present contingent liabilities properly this year either and did not present contingent liabilities for the previous two years.	Recommendation unimplemented
3	Annual Financial Statements (rec. 3)	The Rector of UP should ensure the recording of all capital assets in accounting registers as well as take actions to solve the disputable status of immovable properties that it has with the Municipality of Prishtina.	There is a problem this year as well with recording of assets over €1,000.	Recommendation unimplemented
4	Annual Financial Statements (rec. 4)	The Rector of UP should ensure that planning and expenditures are recorded in proper categories.	Specific weaknesses characterised also 2018.	Recommendation unimplemented
5	Annual Financial Statements (rec. 5)	The Rector of UP should ensure that all non-capital assets are recorded in the e-Asset system, and also ensure that non-capital assets and stocks for all academic units are fairly presented in 2018 AFS.	Measures have been taken and weaknesses were eliminated from the	Recommendation implemented

			previous year.	
6	Budget planning and execution	The Rector of UP should ensure that budget is analysed to ensure that the spending through categories is made as planned.	Management has not taken any concrete action to address this issue	Recommendation unimplemented
7	Recording of revenues not in inadequate codes	The Rector of UP should ensure that the revenues are planned in a comprehensive manner, including all sources of the own source revenues, as well as controls are enhanced to ensure that own source revenues are recorded in adequate codes as foreseen under the chart of accounts.	During 2018, UP recorded revenues in adequate codes	Recommendation implemented
8	Wages and salaries	The Rector of UP through the Steering Committee of UP should review the possibility of arranging this organisation of PISU under a written procedure.	On 27.12.2017, UP took a decision to terminate all additional payments for this activity	Recommendation implemented
9	Wages and salaries	Since the necessary actions have been taken, the Rector of UP should ensure that such cases are not repeated in the future.	On 14.03.2018, UP took a decision to terminate all payments for the Rector's Office and central administration staff, from the funds generated from the work of the institutes of the academic	Recommendation implemented

			units of the UP.	
10	Personnel management	The Rector of UP should take immediate measures to find a sustainable solution under regular positions for positions covered with Acting in compliance with the legal requirements	UP has not taken any concrete action, the situation is the same like last year.	Recommendation unimplemented
11	Goods and Services	The Rector of UP should ensure that the responsible staff is following the required instructions while preparing the tender dossier and developing procurement procedures fully in compliance with LPP.	During procurement process we have not identified any deficiency of this kind.	Recommendation closed unimplemented
12	Goods and Services	The Rector of UP should initiate an internal review and take proper measures not to enter into liabilities without cover.	UP has not taken any concrete action, the situation is the same like last year.	Recommendation unimplemented
13	Capital Investments	The UP Rector's Office should ensure that the responsible staff follows the required instruction for drafting of the tender dossier in line with the legal requirements. As this contract is under implementation, the Rector should ensure that the payments made more than the real value of the completed works are deducted in other stages.	UP deducted the payment of €3,851, it was deducted in the following situations. While in procurement testing we have not noticed any deficiencies in the tender dossier.	Recommendation implemented

14	Capital Investments	The Rector of UP should ensure that procurement procedures are applied in such cases according the foreseen requirements arising from the rules and operational guidelines for procurement.	UP has developed a procurement procedure and has contracted a company for overseeing renovations at the University of Prishtina facilities and not for all projects.	Recommendation partially implemented
15	Unclosed advances	The Rector of UP together with the Treasury should ensure that open advances are closed within a reasonable time.	Management has taken concrete measures closing advances.	Recommendation implemented
16	Outstanding Liabilities	The Rector of UP should be engaged in improving the management of liabilities and give priority to the settlement of liabilities in order that invoices are paid in time. Further on, he should ensure regular monthly reporting and that contracts are signed in time and enter all academic staff into payroll system.	Although reporting of liabilities was done, they were incorrect	Recommendation unimplemented
17	Progress in implementing recommendations	The Rector of UP should ensure that the action plan has been implemented, which clearly sets out a timetable for addressing the recommendations given by the AG with accountable staff members identified, and with initial focus on those of greatest significance.	UP has prepared the action plan by setting deadlines for the implementation of the recommendations. There are recommendations to be	Recommendation closed unimplemented

			implemented.	
18	Internal Audit System	The Rector of UP should ensure that IAU manages to fulfil the audit plan and the main focus of annual plan covers the current year activities.	IAU reports focus mainly on the current year and action plans have been prepared by the audited entities.	Recommendation implemented
19	Management Reporting, Accountability and Risk Management	The Rector of UP should ensure that a review has been carried through to determine the form of financial and operational reporting to Senior Management, as well as to draft the register of risks with which the UP may face.	Management of UP has compiled the risk register while other issues are not addressed such as inaccurate reporting of liabilities, incomplete reporting of assets over €1,000.	Recommendation partially implemented
No	Audit area	Recommendations of 2018		
C1	Annual Financial Statements	<p>The Rector should undertake concrete actions regarding the regulation of ownership between the UP and the Municipality of Prishtina in order that capital assets are presented in full;</p> <p>The Rector should ensure that projects that by nature belong to Goods and Services are not planned in the category of Capital Investments but in the appropriate category; and</p>		

		Contingent liabilities should be disclosed accurately and full explanation should be provided for the previous two years.
A1	Inefficient budget execution	The Rector should improve controls in the area of budget planning and oversight to ensure that budget deviations between planning and execution are as small as possible.
A2	Engagement in secondary work without approval from the UP Management	The Rector should review all identified cases and take appropriate measures against all staff not complying with the regulations.
A3	Compensation not in accordance with legal requirements	The Rector should enhance controls to ensure that all payments made for compensation are documented with evidence to confirm the performance of work beyond regular working hours. On the contrary, in cases where there is no evidence that employees have worked overtime, compensations should not be made, but should be immediately terminated.
A4	Non-observance of working hours and non-keeping of records on work attendance	The Rector should ensure that regular academic staff in all academic units are recorded in the presence list to ensure that working hours are respected.
A5	Additional compensation for administrative staff for the end of year holidays	The Steering Committee should ensure that before any decision is made, the sustainability of the legal basis of all payments is clarified, and such compensation is not repeated in the future.
A6	Compensation of staff from the category of Goods and Services is not in accordance with Law	The Rector of the UP should terminate such compensation and such payments should not be made in the future.

B1	Deficiencies in payment processing	The Rector should strengthen internal controls and should seek the implementation of procedures from responsible officials, ranging from initiating expenditures to making the final payments.
A7	Poor supervision of capital projects	The Rector should strengthen responsibility measures for project supervisory personnel to ensure that the execution of works is carried out in accordance with the terms of the contract. Payments made more than the performance of works should be returned to the UP budget.
B2	Incomplete reporting of outstanding liabilities	The Rector should ensure that responsible officials register and update all records for unpaid liabilities so that they are paid in a timely manner and are reported correctly in the AFS.

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 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 II: Confirmation letter

UNIVERSITETI I PRISHTINËS
"HASAN PRISHTINA"
REKTORATI

Pranuar me dt.	18.6.2019		
Nj. org.	Numer	Nr. sh.EMPL.	Vlera
01	1/743		



REKORDI I KANCELARISË
ZYRA KOMBËTARE E AUDITIMIT
NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE

Klasifikimi	Shprehja	Nr. Prot.	Nr. Protokol
03	47	1099	1

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2018 dhe për zbatimin 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 Raportit/Pasqyrave Financiare Vjetore të Universitetit të Prishtinës "Hasan Prishtina", për vitin e përfunduar më 31 dhjetor 2018 (në tekstin e mëtejme "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 zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

z. Marjan Dema

Rektor, Universiteti i Prishtinës

Data: 18.06.2019, Prishtinë,