



**SIGMA**

**Support for Improvement in Governance and Management**

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**KOSOVO (under UNSCR 1244/99)<sup>1</sup>**

**EXTERNAL AUDIT**

**ASSESSMENT MAY 2009**

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<sup>1</sup> In accordance with UN Security Council Resolution 1244, since June 1999 Kosovo has been governed by the UN Interim Administration Mission in Kosovo (UNMIK).

## 1. Summary

### *Main Developments since last year*

Although there have been some developments since last year, the overall situation has not changed.

The adoption of a new Audit Law by the Assembly of Kosovo in June 2008 significantly changed the legal framework within which the Office of the Auditor General (OAG) operates.

- The OAG is now a Kosovan institution reporting directly to the Assembly. The previous links with UNMIK via Pillar IV are no longer in place.
- Final audit reports are now sent exclusively to the Assembly of the Republic of Kosovo.
- The Auditor General (AG) can propose a budget to the Assembly and not to the Ministry of Economy and Finance (MEF), which provides the OAG with a welcome degree of financial independence. However, in practice, in 2008 the MEF intervened in the budget allocation for the OAG for the 2009 budget.
- The AG will continue for an undefined period to be an international expert appointed by the International Civilian Representative. A new AG was appointed at the beginning of 2009 and took up office on 1 March 2009. The post of Deputy Auditor General (DAG) is now filled by a Kosovan national. The first local DAG was appointed in October 2008.
- In accordance with the law, the OAG submitted its first annual performance report to the Kosovan Assembly in April 2009.

In 2008 the OAG took full responsibility for auditing the Kosovo Consolidated Budget (KCB) financial statements and carried out the audit with only own resources.

### *Main Characteristics (strengths and weaknesses)*

The Office of the Auditor General (OAG) has been developed over the last six years with significant support through donor funds, technical assistance and international management, but it is recognised that the OAG is still operational at only a basic level. The fact that the management of the OAG has since the beginning not been Kosovan but international, although perhaps necessary and advantageous in many respects, has led to a lack of ownership and responsibility within the OAG. In the past, due to the high number of international experts, this small and young institution focused too much on its operational responsibilities rather than on supporting the development of local skills and capacities.

However, basic functions have been set up and the OAG has established a professional audit environment, which includes a functional IT infrastructure, PCs and software for auditors and support staff, a basic library and archives, and an audit manual that is aligned with INTOSAI standards. However, the challenge will be to apply these standards in the Kosovan environment.

It will take a considerable amount of time and effort before a professional and “Kosovarised” supreme audit institution is fully established. The overall audit skills, management ability and capacity are still limited. The OAG also suffers from a considerable turnover of staff due to the unfavourable provision in the Civil Service Law of three-year contracts and to the relatively low salaries in the public sector.

Bringing the staff of this young organisation up to the required level will take several years, not only years of training but above all years of intensive practice to improve their understanding of the environment of the Kosovan public administration and to acquire the necessary experience as professional external auditors.

The OAG has many obstacles to overcome before it can be described as organisationally mature. In the past, a systemic lack of cohesiveness and communication was observed at an institutional level between the OAG executive management and the technical and administrative components of the OAG and at a lower level between audit directorates. The Kosovarisation of the OAG management structure is fundamental for the long-term development, reputation and impact of the Office.

The general situation is improving, although the OAG will still need support in order to continue to grow into its role as a key institution for the people, the Assembly, and the Government of Kosovo. The current management is aware of the challenges and has started activities aimed at meeting them.

### ***Recommendations for Reform***

Measures should be taken to ensure the adequate budget of the Office of the Auditor General (OAG).

Further actions to raise awareness among the nearest stakeholders – i.e. the Assembly and the government – regarding the role and function of an audit institution would be useful. This would also pave the way for the full Kosovarisation of the OAG.

In preparation for the forthcoming reform of the Civil Service Law, a review should be carried out to analyse current posts in comparison with job classifications and to determine conditions for attracting and retaining the best staff and ensuring a freer hand in recruitment, together with elaborating a long-term human resources strategy.

It is important to develop and establish the OAG's organisational values and culture (*esprit de corps*). This task is particularly challenging as the duration of staff contracts has until now been for only three years according to the Civil Service Law, but it should be easier after the upcoming reform.

The development of the supreme audit institution in Kosovo should not be undertaken in isolation. Progress in the development of related areas of public internal financial control and notably internal audit should be monitored and co-ordinated. Common development activities should be identified and encouraged in order to use scarce resources in a rational way.

It is equally important for the Assembly Committee on Budget and Finance to take an active role in constructive debates on the execution of the budget. The Auditor General plays an important role in this debate.

## 1. Introduction

The Office of the Auditor General was established as an independent institution by UNMIK Regulation no. 2002/18. In September 2003 the United Nations Special Representative of the Secretary-General (SRSG) appointed the first Auditor General, who was recruited from an EU Member State and had experience as an auditor general. Pursuant to the legal provisions, the OAG reported directly to the SRSG. The second Auditor General was appointed in January 2006, and her term of office, as well as that of the Deputy Auditor General (DAG), ended on 15 June 2008. The International Civilian Representative appointed the current Auditor General at the beginning of 2009. The new Auditor General took up his duties on 1 March 2009 for a five-year mandate. The first local DAG, who was appointed in October 2008, had previously been the director of one of the five audit departments of the OAG. The appointment of a local DAG may increase the capacity and sustainability of the OAG at senior management level.

The OAG has five audit departments, an administrative department, an IT department and a legal office. The management (AG and DAG) has a secretariat with two assistants. In 2008 the OAG had 85 staff (63 audit staff and 22 support staff). In comparison to 2006, the number of both audit staff (67 in 2006) and support staff (23 in 2006) has slightly decreased, while the number of annual mandatory audits has increased (see 2.2 below).

## 2. Baseline Questions

### 2.1. *Does the SAI have clear authority to satisfactorily audit all public and statutory funds and resources, bodies and entities, including EU resources?*

The Constitution of the Republic of Kosovo contains three articles that define the status and competencies of the Auditor General (AG) as well as his/her relationship with the Assembly:

- a) The Auditor General audits:
  - the economic activity of public institutions and other state legal persons;
  - the use and safeguarding of public funds by central and local authorities;
  - the economic activity of public enterprises and other legal persons in which the State has shares or the loans, credits and liabilities of which are guaranteed by the State.
- b) He/she addresses the Assembly:
  - to report on the execution of the State budget;
  - to give an opinion on the report of the Government on its expenditures of the previous year before it is adopted by the Assembly;
  - to inform the Assembly on conclusions of audits when requested.
- c) He/she has to submit an annual report on the activities of the Office to the Assembly.

The Law on the Establishment of the Office of the Auditor General of Kosovo and the Audit Office of Kosovo (Law No. 03/L-075) of 5 June 2008 determines the organisation, operation and competencies of the Office of the Auditor General (OAG). According to the law the OAG is to annually conduct a regularity audit of the Kosovo Consolidated Budget (KCB), budget organisations, the Assembly of Kosovo, the Office of the President of Kosovo, each ministry and executive agency, municipalities, independent bodies, the Central Bank of Kosovo (CBK), and other entities that are either more than 50% publicly owned or receive funding from, or provide dividends or other non-taxable revenue to, the Kosovo Consolidated Fund.

The OAG also has the power - but not the obligation - to carry out performance audits of any institution or entity referred to above. The OAG is to report on audits to the auditees and to the Assembly, and these reports are to be made public. The reports should contain recommendations to

address the most serious deficiencies that have been identified. The law also provides the OAG with the necessary powers for information-gathering.

The law was developed rather hastily and there is room for improvement, including resolution of the issue of its consistency with other laws that impact on the work of the OAG. It is the intention of the OAG, after implementing the legal framework for one audit season (2009/10), to recommend legal amendments to the Assembly.

**The Constitution and the Law on the Establishment of the Office of the Auditor General provide the OAG with clear authority to satisfactorily audit all public and statutory funds and resources, bodies and entities. The auditing of EU resources is not explicitly mentioned in the law.**

## **2.2. Does the type of audit work carried out cover the full range of regularity and performance audit set out in INTOSAI auditing standards (1.0.38-1.0.44)?**

The Law on the Establishment of the OAG states that “regularity audit” means the attestation of financial accountability involving examination and evaluation of financial statements and other financial records and expression of opinions on:

- whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- whether the financial records, systems and transactions comply with applicable statutes and regulations;
- the appropriateness of internal control and internal audit functions;
- the probity and propriety of administrative decisions taken within the audited institution or entity; and
- all matters arising from or relating to the audit.

“Performance audit” according to the law means an audit of the economical manner, efficiency and effectiveness with which the audited institution or entity uses and manages its resources in carrying out its responsibilities.

The law thus repeats almost word for word the definition of regularity audit as given in the INTOSAI “Basis Principles in Government Auditing”, and fairly summarises the definition of performance audit.

The Auditor General is to annually conduct a regularity audit of the Kosovo Consolidated Budget (KCB). Between 1999 and 2003, this responsibility was contracted to the Court of Audit of the Netherlands. The Office of the Auditor General (OAG) assumed responsibility for the external audit of KCB financial statements as from the fiscal year 2004, supported by a small team of international experts. In 2008 the OAG took full responsibility for auditing the KCB financial statements and carried out the audit using only its own resources.

According to the requirements of the law, the OAG now has to carry out 109 regularity audits every year. The table in the annex to this report shows the development of mandatory audits and the number of audits carried out by the OAG as well as the audits that have been contracted out.

The number of mandatory audits has increased over the years from 94 in 2006 to 109 in 2008, due to an increase in the number of state public authorities and other budget-users. The OAG carried out 35 audits with own resources during 2008, which is a decrease in comparison to previous years, whereas 19 audits were contracted out. In total these 54 audits covered organisations that together represented 71% of the total expenditures and 86% of the total revenues of the KCB.

The audits carried out have been basic, focusing on the compliance of individual transactions. The number of recommendations made was therefore high, on average around 500 per year in the last three years, but with a rather small individual value. By not addressing the systemic causes of the

problems, the OAG does not facilitate the application of preventive measures that would reduce risks in the current systems in an organised way.

As in earlier years, none of the opinions given in 2008 was “unqualified”. Unqualified opinions are only given when the auditors are satisfied that in all material respects:

- the financial statements have been prepared using acceptable accounting bases and policies, which have been consistently applied;
- the statements comply with statutory requirements and relevant regulations;
- the view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- there is adequate disclosure of all material matters relevant to the financial statements.

Qualified opinions indicate severe problems in the financial reporting as well as in the financial management of public budgets.

In 2008 training in performance audit was provided to 25 auditors, and two pilot performance audits were initiated with the support of the ongoing TA project. The subjects of these audits were “Distribution of Medicines from the Essential List” and “Processing and Payment of Handicapped Pensions”. These subjects were chosen after problematic findings in financial audits in the Ministry of Health and the Ministry for Social Welfare and Labour. Draft reports were completed in March 2009.

All staff of the OAG are subject to the civil service legislation, including the salary provisions. Under the current law, civil servants have renewable (but on a totally discretionary basis), three-year contracts. This limited duration of contracts, together with the relatively low salaries in comparison to salaries in the private sector but also in state-owned enterprises and international organisations established in Kosovo, has led to a high turnover of well-trained and experienced staff. Up to the end of 2008, the OAG has lost 22 trained audit staff to other sectors (post and telecommunications, banks, audit firms), where they are paid three times the salary of civil servants. These audit staff represented 30% of all trained OAG staff, which means that one third of all training efforts over the years has been wasted for the OAG.

A considerable amount of budget and time is invested in continuing basic training to help auditors reach a basic professional standard. The main provider of this training is the Society of Certified Accountants and Auditors of Kosovo (SCAAK). The certification scheme targets three groups:

- accounting technicians;
- certified accountants; and
- licensed auditors as the most advanced level.

All in all, it is estimated that on average the core staff is in training for about 30 days per year. This training has been somewhat unstructured and random in the past, and it was not always clearly related to the mandate and tasks of the OAG. The training has not been fully effective and its results cannot be considered sufficient. Measures have already been taken to find more effective and sustainable solutions, but it is also a question of changing the learning culture in the OAG.

Although it is understandable that the OAG, in search of a way of retaining trained staff, would like to obtain a special status and salary system for audit staff, this might not be an ideal solution in the long term. The OAG is part of the Kosovan public administration system, and it is therefore advisable for its employees to also be subject to civil service legislation so as to establish and maintain a unitary and coherent salary and career system for the civil service. A possible (and perhaps necessary) solution would be to explore eventual flexibilities within the general framework provided by the law on civil service and the law on salaries. This also means that – within the framework of the civil service legislation – a special regime for the OAG should be taken into consideration, with the objective of giving more liberty of decision and action to the AG concerning the management of the OAG’s human resources. New laws on civil servants and on salaries are currently in the parliamentary procedure and, if adopted, will bring significant improvements. In addition, the OAG will have to find

ways of increasing its attractiveness as an employer by improving the working conditions and the work environment of its employees.

The development of a supreme audit institution takes time, and it will be some years before the OAG will be in a position to undertake the full range of audits envisaged and to contribute to discussions on the execution of the state budget through its findings and recommendations, as published in audit reports and in its annual report. For the future, with a view to developing the necessary capacities, the OAG envisages spending less time on theoretical training and more time on practical activities, including those that provide first-hand knowledge of the context of operations. Building on the platform of existing capacities, the OAG wishes to take a mentoring approach to future support: while the responsibility for activities would remain with the OAG itself, individual auditors would have at their disposal a mentor for new audit tasks and activities to ensure that new skills and new requirements are well implemented in practice. This approach seems to be promising in terms of increasing the ownership and sustainability of development efforts.

**The type of audit work of the OAG, as defined by law, covers the full range of regularity audit and performance audit set out in INTOSAI auditing standards. To date the audits carried out have been basic, focusing on the compliance of individual transactions. Gradually, the OAG needs to address systemic causes of problems in order to facilitate the application of preventive measures that would reduce risks in the current system. Performance audit is in a pilot stage and should be developed prudently, employing a step-by-step approach.**

**The training of auditors has not been fully effective, and its results cannot be considered as sufficient. In addition, there is a high turnover of staff as trained accountants and auditors are rare in Kosovo and auditors from the OAG can therefore easily find much better paid jobs in the private sector or elsewhere in the public sector. As a result, over the years one third of all training efforts have been wasted for the OAG. The OAG is aware of the necessity to find more effective training and sustainable human resources management, and it has started to take measures in this regard.**

**2.3. *Does the SAI have the necessary operational and functional independence required to fulfil its tasks?***

According to the new Constitution, the Auditor General of the Republic of Kosovo is the highest institution of economic and financial control. He/she is elected and dismissed by the Assembly by a majority vote of all of its deputies on the proposal of the President of the Republic. The AG is elected for a mandate of five years, with the possibility of re-election for one additional mandate. The Assembly decides on the dismissal of the Auditor General by a two-thirds (2/3) majority of all of its deputies on the proposal of the President or on the proposal of one third (1/3) of all of its deputies.

More details on the reasons for the Assembly to remove the AG from office and on payment arrangements following removal are defined in the Law on the Establishment of the OAG.

According to the law, the AG is to carry out his/her functions independently and is not to be subject to the direction or control of any other person or institution. According to the provisions of the law, the Auditor General is to have complete discretion in the exercise of his/her functions or powers. In particular, the Auditor General is not to be subject to any direction in relation to:

- whether or not a particular audit is to be conducted;
- the way in which a particular audit is to be conducted; or
- the priority to be given to any particular matter.

The legal basis thus sufficiently protects the functional and operational independence of the OAG and in particular the AG. The existence of the OAG, the method of election, and the procedure for removal from office of the AG are regulated in the Constitution.

Until the end of international supervision of the implementation of the Comprehensive Proposal for the Kosovo Status Settlement, dated 26 March 2007, the Auditor General is to be an international expert, appointed by the International Civilian Representative.

The 2008 law has changed the procedure for allocating the annual budget for the OAG. According to the law, the Audit Office, to the extent that it is not funded from other sources, is to be funded from the Kosovo Consolidated Budget (KCB). The Auditor General is to annually prepare and submit to the Assembly the proposed budget of the Audit Office in accordance with requirements, guidelines and arrangements established by the Assembly. The Assembly is to then review this proposed budget within 30 days of the date on which it received the proposal. While reviewing and deciding on the proposed budget, the Assembly is to ensure that sufficient funds from the KCB are allocated to the Audit Office to allow it to carry out its functions and responsibilities fully and independently.

Thus formally the OAG does not negotiate its budget with the Ministry of Finance and Economy (MFE) but with the Assembly. However, due to the fact that the OAG is seen as a budget-spender, in practice the situation is different. In all previous years, the MFE had intervened regarding budget allocations for the OAG. In 2008, following the new procedure of the 2008 law, the OAG agreed on its 2009 budget with the Committee for Budget and Finance in the Assembly and transmitted the resulting agreed budget to the MFE. Since the OAG is regarded as a budget-user, its budget has to be integrated into the draft annual budget of the Republic of Kosovo that is submitted by the government to the Assembly for adoption. The MFE does not seem to have respected the new legal procedure, since the budget line for the OAG that the MFE included in the draft 2009 budget of Kosovo was lower than the budget that had been agreed upon between the OAG and the Assembly's Budget Committee. This was partly due to a miscalculation by the budget department of the MFE. The Assembly subsequently adopted the lower budget. In consequence, the OAG did not have enough funds to pay all of the salaries of its employees during the first month of 2009. This issue is to be corrected with the budget review, planned for June 2009.

The existing legal provisions concerning the OAG's financial independence are not sufficient to protect the OAG from interference by the MFE. With respect to its independent status, the OAG should benefit from special arrangements – within the legal framework – concerning the management of its own budget and its human resources. The Office should be exempt from administrative instructions affecting its independence. The situation whereby the AG needs to obtain permission for management decisions from auditees, such as the Ministry of Finance and Economy or the Ministry of Public Administration, has to be avoided. The OAG will have to seek support from the Assembly to secure the MFE's acceptance of the legal procedure for the annual budget allocation to the OAG.

In 2008, as in previous years, the OAG's financial resources were provided by three different sources: the KCB budget, the UNMIK Pillar IV (replaced by ICO funding in mid-2008) and IPAR (through a TA project). The KCB partly covered the outsourced audits up until 31 December 2007; it fully covered the salaries of the audit and support staff as well as the operational costs of the OAG in 2007. For 2008, the funds in the OAG's budget received from the KCB amounted to 1,204,239 EUR. Of this amount, the OAG used 862,630 EUR or 71.6%. This degree of budget implementation is notably low, especially given the fact that the OAG did not cover its mandate satisfactorily. Moreover, 260,000 EUR was designated for external audits (audits that were contracted out), of which only 60,000 EUR was spent. As a result of this poor budget outcome, this budget post has been drastically reduced for the financial year 2009, and the total budget of the OAG has been reduced to 1,106,963 EUR.

In comparison with 2007, the wages and salaries budget line for 2008 increased by over 21%. The average monthly salary in 2007 was 341 EUR, increasing in 2008 to 423 EUR (i.e. an increase of 24%). The salary increase applied only to audit staff and not to administrative staff.

In 2008 the remuneration of five OAG staff [the AG, the DAG (until end September 2008), one senior audit advisor, one project officer and one audit assistant] was financed by UNMIK Pillar IV for the first part of 2008 and by ICO (ad interim) for the last part. In 2009 only the AG and a personal assistant are financed from this source.

There is a gap between the mandate and the expectations on the one hand and the available human and financial resources on the other. The OAG will have to improve its productivity and introduce better risk-programming in order to fill the gap. Changes in the budget allocation process for the OAG would improve the financial situation, and strategic capacity development as foreseen in the Strategic Development Plan would enhance the OAG's human resources. In the short run it will be crucial for the OAG to contract out a higher proportion of audits, which will require an enhanced management capacity.

**While the legal basis for the operational and functional independence of the OAG is satisfactory, the Office de facto lacks financial independence, as the Ministry of Finance and Economy interferes in the annual budget allocation to the OAG, which leads to under-financing of the Office's activities.**

#### **2.4. *Are the SAI's annual and other reports prepared in a fair, factual and timely manner?***

The OAG law sets clear deadlines for the submission of audit reports: no later than 31 August of the year following the audit period, the Auditor-General is to provide the Assembly with a report on the regularity audit of the Kosovo Consolidated Budget (KCB) and each institution or entity that has to be audited annually. However, this time frame is not consistent with the requirements of the Law on Public Financial Management and Accountability, which states that the Auditor General is to submit the annual report (...) by 31 July following the end of the fiscal year to which the report relates. The OAG has not yet been able to meet either of these deadlines. The annual report of the audits carried out during the budget year 2006 was submitted in January 2008, and the annual report for 2007 in December 2008.

This means that, so far, the report on the regularity audit of the KCB has neither been available to the Assembly for its approval of the previous year's budget execution nor for the Assembly's discussions on the budget of the following fiscal year.

The completion of statutory audits and report publication was apparently the key institutional priority in 2008. The achievement of this priority posed the risk that sacrifices would be made in terms of quality. Since the establishment of the OAG in early 2003, this risk has to a large degree been minimised through the engagement of international expertise tasked to ensure that final audit reports were of an acceptable quality and were prepared in accordance with international standards. However, this arrangement is clearly neither sustainable nor desirable, especially now that the OAG has been fully integrated into the institutional arrangements of the state. Therefore, to reduce its dependence on external resources, the OAG needs to begin to provide evidence that it is starting to take local ownership and responsibility for the management of the audit cycle, which culminates in the production of audit reports to international standards. To achieve this objective, any medium-term technical assistance needs to be targeted at raising developmental and institutional capacities and not at simply providing the current levels of direct operational support. The OAG has understood these shortcomings of the past and will now take a platform-approach by defining the current stage of development as the basis for the next support project.

Concerning fair and factual reporting, the OAG law stipulates that the Auditor General is to provide his/her report to the audited institution or entity; the management of the institution or entity is to have 14 days from the date of receipt of the AG's report to provide the AG with its responses, if any, which are to be attached to the audit report and form a part thereof. Copies of the final version of the Auditor General's report are to be made available to the public.

This regulated contradictory procedure thus gives the audited entity a right to express its opinion on the audit report. These regulations are applied in practice.

A concern is that the auditees only implement a small proportion (around 35%) of the recommendations made in the audit reports. This means that the impact of audit reports is not good enough and suggests that the same problems are repeated over the years. Further analysis is needed, and has been started, to assess the reasons for this situation and to find practical approaches to

meeting this challenge. It has already been recognised by the OAG that one of the reasons for this lack of follow-up is the insufficient readability of the reports.

**The OAG has not yet been able to prepare its annual report on time. The law requires the preparation of audit reports in a fair and factual manner, with findings based on evidence and subject to a contradictory procedure. However, the reports have little impact, as only 35% of the recommendations are implemented. Since the recommendations concern corrective measures for individual transactions, their impact on the public financial management system and on financial management practice is small.**

**2.5. *Is the work of the SAI effectively considered by the Assembly, e.g. by a designated committee that also reports on its own findings?***

According to the Rules of Procedure of the Assembly of Kosovo, the Budget and Finance Committee is responsible for examining the annual reports of the OAG, the audited financial statements of the Kosovo Consolidated Budget (KCB), and other audit reports. The Committee is to submit reports to the Assembly on its findings from time to time, and the Assembly is to find opportunities to debate such reports.

In practice, however, the Assembly in general and the Committee for Budget and Finance in particular do not show much interest in the audit reports or in following-up the OAG's recommendations. This might partly be due to the fact that to date the annual report has been submitted to the Assembly at a moment when the debate on the budget has already finished. The information given in the reports therefore cannot be of immediate use to the Assembly. On the other hand, the OAG suggests that there is a lack of understanding by the members of the Assembly of the role of the OAG in relation to the responsibility of the Assembly itself in the financial oversight of the government.

Further analysis of the reasons for the lack of interest of the Assembly in audit work is needed, and has been started, so as to define measures to overcome this problem. The OAG must become proactive in raising awareness in the Assembly and in supporting especially the Committee for Budget and Finance in developing its capacity to assume its financial oversight responsibilities.

**The work of the OAG in Kosovo is not yet sufficiently taken into consideration by the Assembly. The Assembly's designated Committee for Budget and Finance does not report on its findings. The relationship between the OAG and the Assembly needs to be considerably enhanced, and the OAG is invited to proactively support awareness-raising in the Assembly and capacity-development in the Committee for Budget and Finance. Consideration should be given to improving the timeliness and readability of reports, and both need to be adapted to the needs of the Assembly. The OAG is aware of this challenge and has started to address the problem.**

**2.6. *Has the SAI adopted internationally and generally recognised auditing standards compatible with EU requirements, and how far have they been implemented?***

On 19 December 2005, the professional Code of Ethics for the OAG was endorsed. In 2008 a Code of Professional Conduct was finalised, and key documents, such as the INTOSAI Code of Ethics and Guidance on Internal Control, were translated.

In 2006 the OAG had started – with external help – to draft its own audit manual, suitable for Kosovan circumstances and reflecting the reality of the working environment, including its first experiences with audit work. The OAG is now working in accordance with a draft audit manual covering each of the main stages of the audit process. The manual will be supported by prescribed forms as well as guidelines on internal quality control assurance mechanisms. An OAG Audit Manual Review and Working Group has been established to update the audit manual and to ensure its completeness. These support materials are being developed in the framework of the IPA project, "Further Support to the OAG".

In 2008 the OAG adopted a reporting format that meets the expectations of international standards and good practice. There is continuing evidence that the OAG's corporate style is becoming

institutionalised. It is the OAG's intention to proceed in this direction and to ensure that those standards will be used in future audits.

An important gap in the current OAG structure is that, contrary to INTOSAI standards, it has no dedicated institutional mechanism for the systematic review and quality assurance of all OAG audit outputs. This shortcoming extends to all components of the audit cycle – audit planning, audit execution, and assurance that final reports contain an audit opinion based on factual evidence. The development and implementation of a quality assurance strategy might help to overcome this problem and ensure that measures to improve the quality of audit work are built into the work itself. The OAG has started to prepare such a strategy.

**The OAG has started to adopt internationally and generally recognised auditing standards compatible with EU requirements. Together with the current support project, the OAG is working further on this issue, and some progress has been made with the adoption of a standard reporting format, which is used more and more for audit reports. It will take time to adopt internationally recognised standards and to adapt them to the Kosovan reality.**

### *2.7. Is the SAI appropriately aware of the requirements of the EU accession process?*

The fact that the Auditor General (AG) has so far been an international expert, most of the time from an EU Member State, ensures that the management of the OAG is appropriately aware of the requirements of the EU accession process. One of the three components of the ongoing TA project is the further approximation to the EU *acquis communautaire* and to INTOSAI standards, with a sub-component to ensure that the current activities of the OAG reflect, or are developed to meet, both the requirements of chapter 32 of the *acquis* and best practice in other European supreme audit institutions. In this context, OAG staff are becoming acquainted with the requirements of the EU accession process.

Due to the status of Kosovo, the OAG is not yet entitled to become a member of international organisations, such as INTOSAI or EUROSAI, and it thus does not have the possibility to benefit from any training or networking activities carried out in the framework of these international networks. However, the OAG is a member of the European organisation for regional audit institutions (EURORAI) and participated in some of their events in 2008.

**The OAG seems appropriately aware of the requirements of the EU accession process.**

## **3. Capacity to Further Develop the System**

The establishment of the Office of the Auditor General has been a project with many challenges.

The EU-funded project, "Support to the Creation and Establishment of a Supreme Audit Institution in Kosovo" (CARDS 2001), managed by the EAR started in May 2003 and was originally set for 44 months – this period expired at the end of October 2006. The project assisted in setting up the Office and in its further development. An audit support unit, comprised of three long-term audit advisors, was also established.

A follow-up EU-funded project, "Office of the Auditor General Audits" (CARDS 2006), started in February 2007 and closed at the end of May 2007. The aim of this project was to support the OAG in carrying out its annual audit plan.

The EAR project, "Further Support to the OAG", commenced in October 2007. The duration of the project was originally 18 months, with a scheduled completion date of 29 April 2009. However, this project has now been extended as a no-cost extension to 3 July 2009.

This project aims to position the OAG for its anticipated future role, in particular by providing it with a strategic policy direction. The objective is to make the OAG "fit for purpose" in the sense that it is ready to take on a fuller role as an institution, with attributes that are expected in time to be fully in line with those of a supreme audit institution. By means of a capacity-building programme, the project aims to further strengthen the operational and functional capacity of the OAG to perform its mandate.

This project is intended to assist the OAG in taking ownership of the documents produced in the previous project and in the further implementation of the Strategic Development Plan. The project has three basic objectives:

- To achieve effective operation of the OAG, including the full mainstreaming of gender and minority issues;
- To improve OAG compliance with the EU *acquis communautaire* and with international standards as defined by the International Organisation of Supreme Audit Institutions (INTOSAI);
- To continue to consolidate the implementation of high quality external audits of the Kosovo Consolidated Budget (KCB), with a view to ensuring the sustainability of the external audit function.

One of the support activities of the project was to develop a Strategic Development Plan (SDP) for the OAG, the objectives of which have generally been welcomed. Since the arrival of the current AG, the SDP has been considerably updated, but it is still in a draft version. The plan consists of four pillars:

- New legal framework;
- Accountability and professional standards;
- Institutional capacity-building;
- Model public organisation.

A twinning project is foreseen to start in 2009. The new Auditor General is currently taking stock of the achievements of the support project as a platform on which the twinning project could be built.

The OAG's first Annual Performance Report, covering 2008, was issued and sent to the Assembly in April 2009; the report indicates the OAG's achievements in 2008 in terms of the following indicators:

- Number of reports produced;
- Audit coverage (own and/or contracted out);
- Timeliness of reports;
- Quality;
- Impact.

The Annual Performance Report gives feedback to the Assembly, thereby holding the Auditor General accountable for the execution of his responsibilities in 2008. At the same time, the report is intended to serve as input to the budget dialogue between the Assembly and the Auditor General for the budget year 2010. In this report the OAG draws a rather self-critical picture and names the main challenges that the Office has to face in order to reach its aim of becoming a public external audit institution that is fully in conformity with internationally recognised auditing standards and with good European practice.

**With its first Annual Performance Report, the OAG has shown its ability to critically analyse its performance and to identify areas where there is room for improvement.**

**For the planned twinning project, it will be crucial to build on the achievements of previous projects and to provide coherent support by ensuring that the path that has already been paved is followed and that time and energy are not wasted on completely new approaches.**

## ANNEX

Auditees	2008			2007			2006		
	Mandatory Audits	Audited		Mandatory Audits	Audited		Mandatory Audits	Audited	
		OAG	Contracted		OAG	Contracted		OAG	Contracted
KCB	1	1		1	1		1	1	
State Public Authorities	23	16		19	17		19	13	1
Municipalities	33	10	19	31	27		30		30
CBK	1			1			1		
Others <sup>2</sup>	51	8		50	8	1	43	7	
<b>Total</b>	<b>109</b>	<b>35</b>	<b>19</b>	<b>102</b>	<b>53</b>	<b>1</b>	<b>94</b>	<b>21</b>	<b>31</b>

Source: OAG, Annual Performance Report 2008

<sup>2</sup> The category “others” includes the Prime Minister, KTA, Customs, Police Service of Kosovo, Co-ordinator’s Office of KPC, and public companies and some other agencies with a smaller budget.