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General in Kosovo

Honors Society Project

Presented to

The Academic Faculty

By

Lule Bahtiri

In Partial Fulfillment

of the Requirements for Membership in the

Honors Society of the American University in Kosovo

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Abbreviations

CBF-Commission for Budget and Finances

COPF- Commission for Oversight of Public Finances

INTOSAI- The International Organization of Supreme Audit Institutions

ISSAIS- International Standards of Supreme Audit Institutions

OAG- Office of the Auditor General

PAC- Public Accounts Committee

PC-Parliamentary Committee

PEFA- Public Expenditure and Financial Accountability

PFM-Public Financial Management

SAI- Supreme Audit Institution

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Executive summary

This project considered the problem of disregard of recommendations from the Auditor General. It included a lack of Parliamentary Oversight to deal with this issue.

From interviews conducted with the former Auditor General, it was revealed that the institution he directed took several reforms which helped reduce the problem. These reforms included proposing realistic recommendations, and including a follow up step in the audit process. The latter informed public institutions how they were progressing with regards to his recommendations throughout the year. Nevertheless, a considerable number of recommendations are still being ignored rather than addressed.

Other interviews which took place with (1) KIPRED representatives who created the Commission for Oversight of Public Finances (COPF), (2) the project leader of GIZ, an organization which plans to support the Commission once it becomes functional, and finally, (3) an interview with the deputy mayor of the Municipality of Prishtina, helped in understanding the prevalence of the issue and how it might be overcome. The main recommendations from the project are:

- Significantly improved Parliamentary Oversight. Of particular importance is that COPF starts completing reports with its own findings and suggestions, based on the Auditor's report and submit it to the Parliament where it should be further discussed.
 - There are no additional costs for COPF. They should work with their current budget of 5,000 euros (not including salaries).
- The Commission for Oversight of Public Finances should also concentrate on developing additional mechanisms to follow up the implementation of the Auditor's recommendations and work closely with the Parliament.
- The Auditor General should provide summaries of annual reports of less than 10 pages, making them more accessible.
 - Annual cost of the project is estimated to be around 18,000 euros, including two workers and the necessary equipment.
- Public institutions must work on their internal audit, as increased numbers of recommendations from the Auditor General reflect failure of each institution's internal audit.

- Annual cost of hiring new employees or training current staff on internal audit is estimated to be around 25,000 euros for one institution.
- Media and the civil society should increase its pressure towards the Government. The civil society should be an active participant in the follow up process of recommendations from the Auditor General. They could attract attention by selecting topics of high public interest and demand for accountability.

Chapter 1 Project Statement/Goals

This project considers the problem of disregard of recommendations from the Auditor General by the Kosovo public institutions. It also includes a lack of Parliamentary Oversight to deal with the aforementioned issue.

The Constitution defines The Auditor General as the highest institution of economic and financial control in Kosovo. The most important goals of the Office of the Auditor General are to promote higher standards of transparency, accountability and honesty in managing public financial matters. The office is obliged to audit all public institutions financed by the State Budget.

Each year in his audit reports, the Auditor General provides recommendations with the purpose of improving issues found during the audit process. However, some recommendations provided years ago remain valid for many public institutions up to this day. In addition, the Auditor General does not have the authority to impose penalties on public institutions that do not address his recommendations; he only reports to the National Assembly and relies on it to follow up with his recommendations. In order to increase pressure to the Assembly and create additional mechanisms to follow up the implementation of the Auditor's recommendations, Commission for Oversight of Public Finances (COPF) was created in 2009. However, due to the unstable political state in Kosovo accompanied by other factors, this Commission has not been able to complete its duty. Hopes are that with the constitution of the new Parliament, things will change for the better.

There are two main goals this project aims to achieve;

- First, through literature review and field study, investigate the reasons why public institutions fail to address recommendations provided by the Auditor General.
- Second, provide feasible ways to strengthen Parliamentary Oversight which in turn, would improve the situation with regards to implementation of the Auditor General's recommendations.

1.1 Short history of Supreme Audit Institutions in the World

The first public audit was introduced in Great Britain as a central part of parliamentary control over national finances with the enactment of Exchequer and Audit Department Act in 1866 (Dnyanesh). The Act demanded from all departments to compile annual reports known as appropriation accounts. Furthermore, the position of Comptroller and Auditor General was established and an audit department responsible for providing staff was created (Dnyanesh).

Today around the world, there are numerous mechanisms that supervise financial reporting and operate as external government auditors; they are known as Supreme Audit Institutions (SAI). In addition, there is a worldwide organization known as the International Organization of Supreme Audit Institutions (INTOSAI), established in 1953 which aims to improve external auditing around the world, increase the impact as well as strengthen the position of member SAIs (INTOSAI). Its current membership involves 192 full members and 5 associative members (INTOSAI). This organization has also issued the International Standards for Supreme Audit Institutions (ISSAI) which serve as general audit guidelines for external government audit worldwide (INTOSAI).

Most SAIs were created to ensure financial transactions performed by public institutions were done in accordance to laws and regulations, and that revenues were correctly presented in financial statements (DFID 2005). Today, this type of audit is known as regularity audit and remains the core function of a Supreme Audit Institution. However, with time their scope has expanded into looking whether public institutions bring value for their money. This type of audit is known as Performance Audit and is done by evaluating 3 elements: efficiency, effectiveness, and economy.

The manner in which SAIs operate has also evolved with time. In the beginning, Supreme Audit Institutions used to check over every single financial transaction (DFID 2005). However, as the number of transactions increased significantly over time, checking each transaction became impossible and sampling approaches were embraced (DFID 2005). Later on, SAIs engaged in what is known as risk based approach in which the audit is focused only in the riskiest areas of the internal control system, in this way shifting importance from regularity audit to internal control systems (DFID 2005). Nevertheless, there are many SAIs that did not adopt

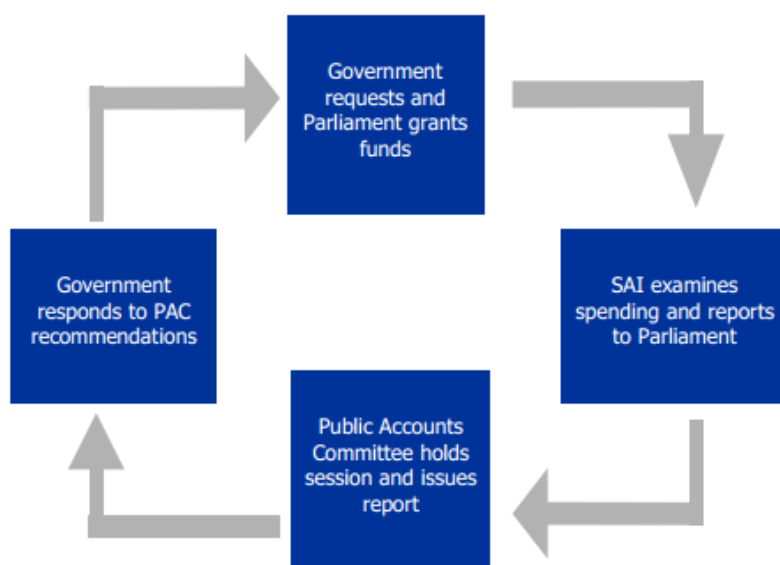
this approach and continued with trying to review all transactions and report any irregularities found.

SAI institutions, also known as external audit consist of three major models:

- The first model is the Westminster Model which is adopted by United Kingdom, most Commonwealth countries, and Kosovo.
- The second model is known as the Judicial or Napoleonic model which is adopted by Turkey, Latin countries in Europe, Brazil, and Colombia, etc.
- The third model is known as the Board or Collegiate model and is adopted by countries such as the Netherlands, Germany, Argentina, Indonesia, Japan etc. (DFID 2005).

According to the Westminster model, the work of SAI is very much linked to Parliamentary accountability (DFID 2005). Figure 1.1.1 shows the way this model operates. In the beginning, the Government receives funds of the approved budget from the National Assembly.

Figure 1.1.1 The Westminster Model of External Audit



Source: Department for International Development (DFID), *Working with Supreme Audit Institutions* (2005)

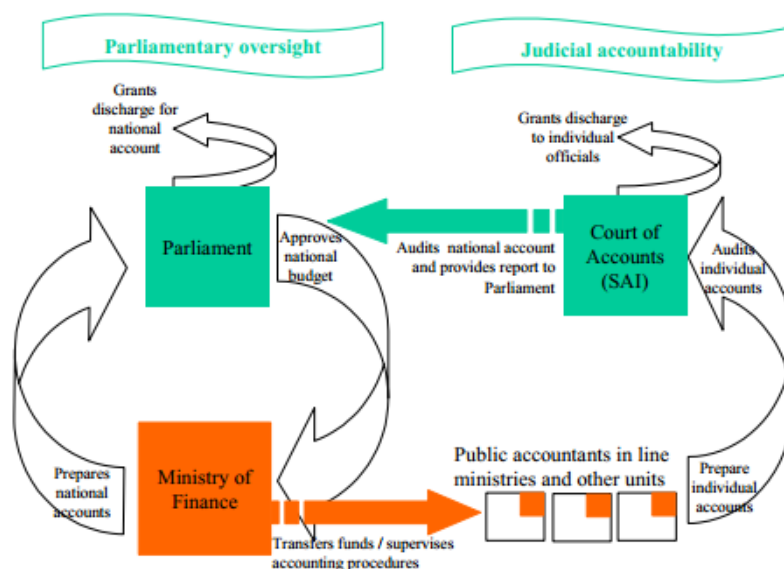
Those funds are audited by the Supreme Audit Institution which prepares the final reports and submits them to the Parliament. Inside the Parliament, there is a specific Committee known as

the Public Accounts Committee (PAC) which reviews the audit reports, holds session and creates a report with its own findings and recommendations. Finally, the Government has to respond to PAC's recommendations (DFID 2005).

On the other hand, figure 1.1.2 illustrates the functioning of an SAI under the judicial model in which the auditing institution is part of the judicial branch that is independent from the legislative and executive branches (DFID 2005). These types of SAIs are known as Court of Accounts, meaning that they operate as separate courts which deal with financial matters. The process begins with the Parliament approving the budget. Following that step, the Ministry of Finance prepares public accountants which are responsible for preparing financial statements for their respective institutions' spending (DFID 2005). The Court of Accounts (SAI) has the power to

- “Discharge” individuals if it considers that a proper job in preparing accounts was done.
- Impose penalties if irregularities are found in reports.

Figure 1.1.2 The Judicial Model of external audit



Source: Department for International Development (DFID), *Working with Supreme Audit Institutions* (2005)

At the end of the budget period the Ministry of Finance reports on public expenditures by preparing the National Account and submitting it to the Parliament. The Parliament uses this

report and the report of SAI along with its findings and grants a “discharge” of responsibility to the Government, in case the latter’s performance on managing funds is considered satisfactory (DFID 2005). Usually, there is no PAC in the judicial model as the Court is considered enough for maintaining accountability among governmental officials.

Finally, the College or Board model consists of SAI members that form a college or board and take joint decisions (DFID 2005). Audit bodies under this model are part of the Parliament’s system of accountability. Reports and recommendations prepared by the college are submitted to the Parliament, where a similar form of a Public Accounts Committee reviews them. This type of model is similar to the Westminster one, only that the internal structure of the audit institution changes (DFID 2005).

Figure 1.1.3 presents a table which summarizes the organizational structures of the three models of external audit.

Figure 1.1.3 Organizational structures of Westminster, Judicial and Collegiate models of external audit

	Westminster	Judicial	Collegiate
Background information			
SAI	National Audit Office	Court of Accounts/Audit	Board of Audit
Head of organisation	Auditor General (one person)	Senior judge (selected by other members of the Court)	President of the Board
Period of appointment	Normally fixed number of years but can be indefinite	Indefinite with a set retirement age	Fixed number of years
Main audit focus	Financial audit	Legality audit	Variable
PAC?	Yes	No	Yes
Judicial function?	No	Yes	No
Background of SAI staff	Financial – accountants, auditors	Legal – lawyers	Variable
Follow up of audit work	Reports to PAC; PAC holds hearings and issues its own reports	Court imposes penalties or grants discharge	Reports to PAC; PAC holds hearings and issues its own reports

Source: Department for International Development (DFID), *Working with Supreme Audit Institutions* (2005)

Although with different names or organizational structures, Supreme Audit Institutions have two essential things in common; they should be independent in their work from the government or any other entity, and be transparent to the public. Through SAIs, the legislative branches have more power to control the executive and enforce public accountability. This is especially important for countries such as Kosovo where the Parliament is the most important body and should have a central role in ensuring that public money is being spent in accordance with governmental purposes and priorities (GAP Institute).

1.2 Relations between SAI, the Parliament and the Government

Supreme Audit Institutions are one element inside a wider system of Public Financial Management. As a consequence, they are affected by political forces and the way public institutions operate in general (DFID 2005).

Governments around the world are held accountable for spending the tax payers' money. They are accountable in executing the budget as approved by the Parliament. Transparency and accountability are two very important elements each Government should aim to possess when dealing with public money. Supreme Audit Institutions offer an enormous contribution in this process by providing reliable information concerning the financial statements presented by the executive of a country.

Both, the SAI and Parliament are the two main components of a Government's system of accountability (SIGMA, 2002). For instance, the Supreme Audit Institution, by auditing all public institutions, provides results to the Parliament. These results are then used to control the execution of the State budget by the Government. Following this process, the Parliament may provide formal or informal opinions regarding the manner the Government has executed the State budget (SIGMA, 2002). Parliament's intervention in the work of an SAI is essential. Without it a Supreme Audit Institution cannot achieve its objective that is, guarantee that taxpayers' money is being spent efficiently and that potential issues are remedied on time. A well-functioning Parliamentary Oversight pressures the Government to follow up on audit findings and recommendations.

Relations between SAIs and Parliaments vary around the world. In some countries, the SAI is part of the Executive, in some part of the Legislative while in others, the SAI is an independent institution from these branches. For example, in Albania, Croatia and Latvia, the SAI is an independent institution (SIGMA, 2002). In Poland and Romania, the Supreme Audit Institution belongs to the legislative, while in Slovenia it is a separate court dealing with financial matters (SIGMA, 2002). Regardless of organizational structures, all SAIs should have independence in their activity and in the same time, enough parliamentary attention in order to ensure follow up on audit findings (SIGMA, 2002).

1.3 Relations between Parliamentary Committees (PCs) and Supreme Audit Institutions in different countries

Creation of Parliamentary Committees which observe audit reports in more detail and present their own findings and recommendations to the Parliament, aim to strengthen the role of the SAI and improve the overall accountability system (SIGMA 2002). In most Commonwealth countries, they are known as Public Accounts Committees (PAC).

What all countries which have Parliamentary Committees have in common is that they perform 3 main activities; review, analyze and evaluate the audit reports. Following that, in countries such as Rumania and Croatia, the PCs submit their own comments and recommendations to the Parliament (SIGMA 2002). In Hungary, Parliamentary Committees make a formal decision by either approving or rejecting the audit reports (SIGMA 2002). In other countries including Albania, Slovenia, Malta, Estonia, and Lithuania PCs review audit reports and take decisions in their hearings rather than make formal decisions like Hungary (SIGMA 2002).

After the PCs have reviewed audit reports, they may pass

- An “opinion”, which contains the PC’s perspective on a certain matter. Reply is not mandatory; however a position paper may be requested within 30 days (SIGMA 2002).
- A “desideratum” which contains postulates of the PC and can be addressed to Ministers, Council of Ministers or any other state bodies. Reply is mandatory and should be submitted within a period of 30 days. In case this does not happen, the PC may resend the

desideratum, consider the reply as unsatisfactory and submit a motion for rejection of reply (SIGMA 2002).

Parliamentary Committees also play a role in the follow up process of audit reports. In countries such as Hungary and Cyprus, if an issue marked in the audit report is not solved, the same issue will be included in the next year's report (SIGMA 2002). In other countries such as Poland, Czech Republic, and the Slovak Republic PCs can request from state bodies to report on different audit findings and recommendations (SIGMA 2002). They can also raise specific demands to the Government by adopting resolutions.

Parliamentary Committees, also known as PAC serve as a mechanism for the Parliament to increase oversight in the follow-up process of the Auditor's recommendations.

1.4 History of the Auditor General in Kosovo

The Supreme Audit Institution in Kosovo is known as the Office of the Auditor General (OAG). This institution is relatively new in Kosovo. Prior to its establishment, the expenditures of UNMIK institutions were supervised by the Court of Audit of Netherland, also known as Rekenkamer (GAP Institute). The Office of the Auditor General was created to deal with two major problems faced by Kosovo public institutions since their creation in 2001; first, the presence of corruption accompanied by poor management and second, the misuse of public money (GAP Institute). The Office of the Auditor General was established in 2003 based on UNMIK regulations. In accordance with legal provisions, the Auditor General was an international who reported directly to the UN General Secretary who was also responsible for appointing her back in November 2003 (KDI 2012).

The first Auditor General in Kosovo was Inga Britt Ahlenius, former Auditor General of Sweden. During her mandate, the audit reports were still compiled by the Court of Audit of Netherland, only that now they had the assistance of the OAG in Kosovo (The European Agency for Reconstruction in Kosovo 2004). Nevertheless, this institution was still unknown to the public at the time. In 2006, Ahlenius was followed by Linda Casella who worked hard to publish all the reports from the Auditor General and make the institution familiar to the citizens. During Casella's mandate, the audit reports were prepared by an all- Kosovar staff (OAG 2009). From

2006-2008, Mrs. Casella actively promoted the Office of the Auditor General throughout Kosovo and in EU countries. Thus, thanks to her dedication, relations between the OAG in Kosovo with Supreme Audit Institutions across Europe have been established (OAG 2009). She ended her mandate in 2009 and was replaced by Lage Olofsson, who introduced reforms to the auditing process. Previously, the auditing process began when the Office of the Auditor General received the financial statements from public institutions, which was the latest by March 30. The OAG then picked a number of organizations to audit during spring, another one during summer and the last ones in autumn. The final audit report was submitted to the Assembly, at the latest by November (KIPRED 2009). According to the new system introduced by Olofsson, the auditing process begins in September of the current year. In this way, the Office of the Auditor General prepares an interim audit of budget organizations which ends on the 30th of March. The final audit then begins when the OAG receives the financial statements from public institutions. The final audit report should be submitted to the National Assembly by August of the following year (KIPRED 2009).

The Office of the Auditor General is regulated by the Constitution and from June 5th, 2008, the Law for the Establishment of the Office of General Auditor as well. They are there to ensure independence of the OAG in its work. Transitional provisions of this law determine that this institution will be headed by an international appointed by the International Civilian Representative until the end of the observation period for Kosovo's independence. He will be accountable and submit his reports to the National Assembly (OSCE, 2011). The fact of the General Auditor being an international provides for an argument for independence and transparency of the institution (OSCE, 2011). In addition, in 2013 a new draft law for the Office of the Auditor General was proposed. The law states that, among other things, the name of the institution should be changed to National Audit Office, and the new Auditor General should be appointed by the National Assembly (Republic of Kosovo, 2013).

1.5 Activities of the Office of the Auditor General

The Office of Auditor General is financed by the State Budget which gets approved by the National Assembly. The institution annually conducts an audit of regularity of the Kosovo State Budget, the National Assembly, Office of the President, executive agencies and ministries,

municipalities and other entities that are more than 50% publicly owned by or receive funding from the Kosovo Consolidated Fund, provide dividends or other income to the Kosovo Customs Service, the Ombudsperson and the Privatization Agency (OAG).

The Office of the Auditor General performs two types of audit; the annual regularity audit of the State Budget and budgetary organizations, and the performance audit which examines whether the governmental programs are being managed efficiently, effectively and economically (OAG). In difference from the annual regularity audit, the performance audit is not time bound and is up to the Auditor General to decide upon the matter. The latter type of audit is relatively new in Kosovo; while regularity audits were performed ever since the institution was established in 2003, it was only in the audit season 2008/2009 that the Office of the Auditor General completed the first two performance reports (KIPRED 2010). The auditing processes in Kosovo are conducted in accordance with EU Regulations and Standards of the International Organization of Supreme Audit Institutions (INTOSAI) (KIPRED 2009).

Every year the Office of the Auditor General prepares audit reports for each public institution individually. In these reports, the Auditor General provides recommendations to the respective public institutions on improving their work concerning budget execution (INPO, 2011). Unfortunately, many of these recommendations are not implemented by public institutions. For instance, out of 18 recommendations provided by the Auditor General to the Municipality of Prishtina in 2012, only 3 were fully addressed, while the rest were either partially addressed or not addressed at all (OAG, 2013). A well-functioning Office of the Auditor General benefits taxpayers who develop a trust relationship with public institutions and the State Budget which, when there is complete security in the use of public finances, might be increased through foreign donations (KDI, 2012).

Along with auditing reports, the Office of the Auditor General has compiled valuable documents with the purpose of creating a more professional environment for the auditing process, in accordance with international standards for auditing (INPO 2010). These documents include the Manual for Regularity Audit, Strategy for Common Development, Guide for Performance Audit and Management Guide for Audit Quality (INPO 2010).

1.6 Commission for Oversight of Public Finances (COPF)

In order to preserve the transparency element of the OAG, countries around the world have created Commissions that “watch the watchers”, or oversee the work of the Auditor General and public financial management. These commissions monitor the management of public expenditure with the help of reports from Auditor General, and present their findings to the National Assembly. In this way, Parliaments hope to maintain the Government and the Office of the Auditor General transparent and accountable to the public. In Kosovo, before 2009 it was the Commission for Budget and Finances who had this task. However, according to KIPRED this Commission’s role is more symbolic rather than anything else (2009).

For this reason, KIPRED organization along with the support of the British Embassy in Prishtina, and in close cooperation with the National Assembly, managed to create the Commission for Oversight of Public Finances (COPF) in November 2, 2009 (KIPRED 2010). COPF is the Kosovar version of Public Accounts Committee (PAC) in Commonwealth countries. The Commission’s main job is to monitor the public expenditures based on reports from Auditor General in Kosovo and not only, and then report to the National Assembly. In addition, this Commission also holds sessions where government officials are invited to discuss about financial matters. KIPRED reports that there is a work relationship created with the Office of Auditor General, however real partnership is yet to be established. Although the Commission was created to add value or increase the efficiency in management of public money, KIPRED states that the highly political nature present in Kosovo has caused for intrusion in the Commission’s work from early on (KIPRED 2010). Unfortunately, due to several factors the Commission is not fully functional yet as there has been no completed evaluation report since their creation.

Chapter 2 Overview of recommendations from the Auditor General

2.1 Issue of non-addressed recommendations from the Auditor General

Six years after the declaration of independence, Kosovo continues to face harsh critics regarding the management of public money. The European Commission declared in its Progress Report of 2014 that mismanagement, improper control and misuse of public money are huge issues for which very limited progress has been achieved. Similar critics had come previously from the World Bank, however little to nothing was done to resolve these issues (INPO 2010).

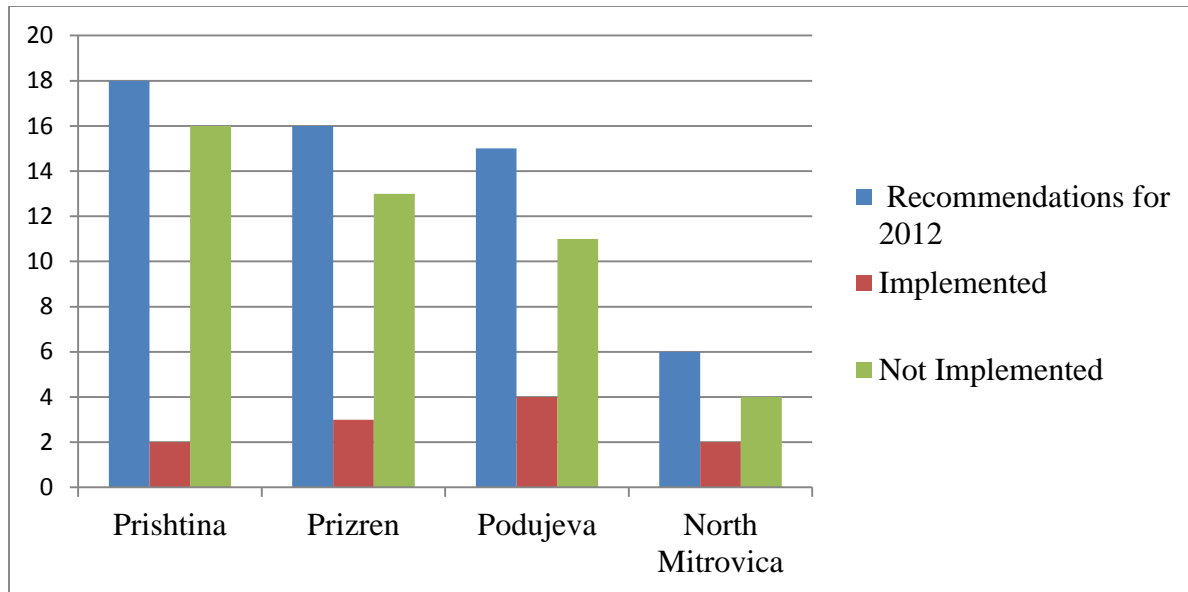
One of the mechanisms used to maintain accountability are the annual audit reports prepared by the OAG. The auditing process includes performing procedures with the purpose of receiving information regarding monetary amounts and their revelation in financial statements. Selected procedures depend in the Auditor's judgment including risk evaluation of material errors that may occur due to mistakes or potential fraud (Thornton 2009). Auditing also includes evaluating accounting policies used and the general presentation of financial statements (OAG 2013). In its reports, the OAG offers what are known as qualified, unqualified and adverse opinions, disclaimers, and emphasis of matter paragraphs (OAG 2013).

- An unqualified opinion is provided when the Auditor General is pleased with all aspects of the report. The report is considered accurate in presenting financial statements which are in accordance with international standards of accounting (OAG 2013).
- A qualified opinion is provided when, after obtaining all relevant information, the auditor decides that misstatements in the report are only material and do not include financial statements (OAG 2013).
- An adverse opinion is provided when, after receiving all relevant information, the auditor arrives at the conclusion that misstatements are material and include the financial statements (OAG 2013).
- The auditor may disclaim an opinion if, having obtained insufficient information, he/she concludes that misstatements can be both material and have effects on the financial statements as well (OAG 2013).

- Emphasis of matter paragraph refers only to information that is presented in the financial statements. If the auditor considers a matter presented in financial statements as of high importance, although there is enough information which clearly defines that the report does not contain misstatements, he/she may use an emphasis of matter paragraph (OAG 2013).
- Furthermore, if there is a matter not included in the financial statements but whom the auditor considers of high relevance, a paragraph with the heading “Other matter” should be included (OAG 2013).

Along with opinions, the Auditor General also offers alternatives to improve issues noted in the audit report in the form of recommendations. In a study performed to see how municipalities address recommendations from the Auditor General, Initiative for Progress (INPO) organization found that they are handled improperly or even worse, not handled at all (2010). For instance, Prishtina is the municipality with the largest budget in comparison with the other municipalities. In the audit reports of 2010 the municipality of Prishtina was criticized for not managing the budget expenditures in an efficient way and yet the same critics were valid for 2013 because nothing was done to address the issues. According to statistics taken from OAG reports of 2013, out of 18 recommendations provided by the Auditor General to the Municipality of Prishtina in 2012, only 3 were implemented, while the rest were either partially addressed or not addressed at all by the municipality. A similar situation can be seen with the other municipalities as well. Figure 2.1.1 shows the situation in some Kosovo municipalities with regards to the 2012 Auditor’s recommendations analyzed in the 2013 Audit Report. In all of these institutions, implemented recommendations are significantly less than the non-implemented ones.

Figure 2.1.1 OAG 2013 Report: Recommendations for Municipalities



Source: Initiative for Progress, *Analysis: Reports of Auditor General and the Municipalities; Between Ignoring and Implementing Recommendations (2010)*

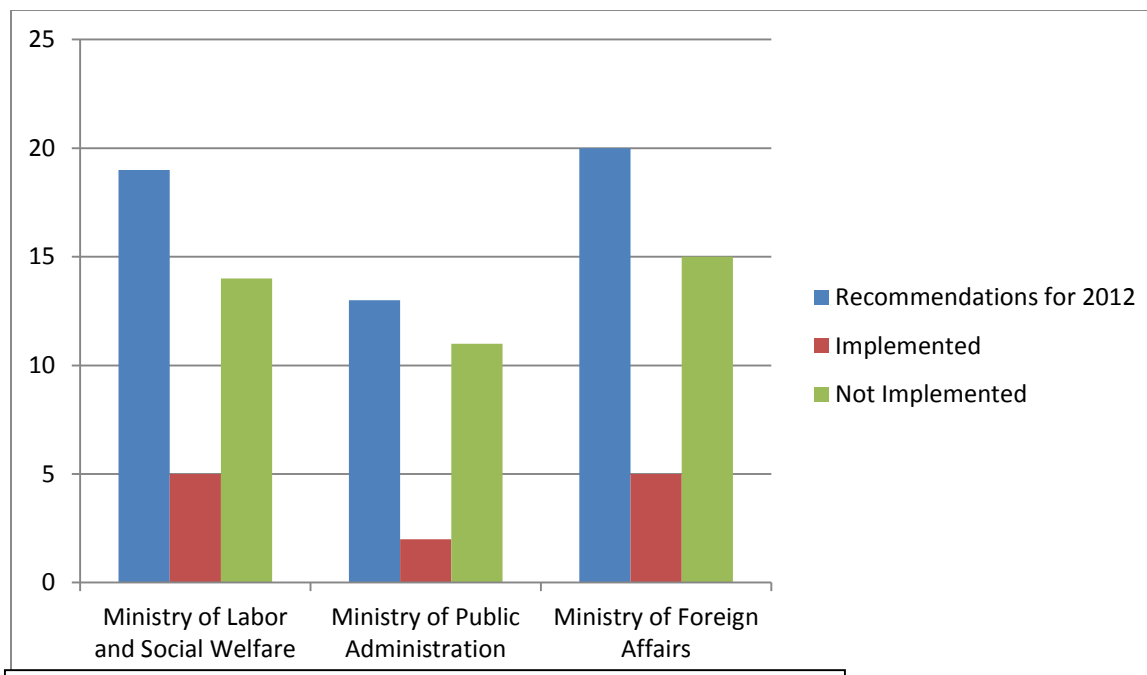
Main issues raised by the OAG for municipalities included

- Non-efficient management of public money,
- Internal audit reports which are not in accordance with the international standards of management and audit,
- Lack of transparency from the Public Procurement Offices.

Figure 2.1.1 illustrates the negligence of municipalities in addressing recommendations provided by the Auditor General, and in the meantime demonstrates the inability of the Auditor General to take any steps in this direction. For instance, out of 16 recommendations provided to the Municipality of Prizren, only 3 were implemented while 13 were not. Story is repeated with all other municipalities where the number of implemented recommendations of the Auditor General is lower than the non- implemented ones.

Similar situation occurs with the ministries, where the trend of not addressing recommendations from the Auditor General is continued. Figure 2.1.2 shows results of the Auditor General's report of 2013 for three ministries and their progress with regards to 2012 recommendations.

Figure 2.1.2 OAG 2013 Report: Recommendations for Ministries



Source: Office of the Auditor General (2013)

Given the situation, the establishment of a Commission that would help in creating additional follow up mechanisms regarding recommendations of the Auditor General was seen as crucial by the international community who pressured the Kosovar Government until the Commission was finally created in 2009 (KIPRED 2010). In an analysis from KIPRED regarding the Commission for Oversight of Public Finances, former Auditor General, Lage Olofsson was considered as independent and supportive towards the work of the Commission (KIPRED 2010). However, until now the Commission has only been able to hold sessions with government officials regarding financial statements of respective central bodies, while no official report has been published.

2.2 PEFA Assessment

Public Expenditure and Financial Accountability Framework was developed in 2005 covering the full cycle of financial management (PEFA). It has been used in more than 60 countries around the world, including Kosovo. These assessment reports serve as indicators to whether a country has the ability to achieve 3 main purposes including:

- Proper allocation of resources
- Aggregate fiscal discipline

- Efficient use of resources

PEFA Framework contains 31 indicators along with a Performance Report of Public Financial Management (PFM) which together provide for a thorough analysis of a country's overall performance of PFM system (PEFA). The goals of PEFA reports include to:

- Provide information concerning performance of Public Financial Management systems, processes and institutions.
- Serve as a tool to help the Government by showing the extent to which Government's reforms have improved Public Financial Management performance.
- Contribute in reducing transaction costs for governments by harmonizing relations and dialogue regarding PFM performance, needed reforms and support of donors (PEFA).

In Kosovo, PEFA Framework was embraced in 2007. Until now, 3 PEFA Assessments in the central level and 12 PEFA Assessments in the local level have been completed (Republic of Kosovo, 2013). In the Assessment report of October 2013, follow up of Auditor General's recommendations by public institutions has been treated as an important issue. The report explains how, out of 11 recommendations provided by the Auditor General in the annual audit report, 4 were partially addressed while 4 others were not addressed at all (Republic of Kosovo, 2013). The partially addressed recommendations included:

- Problems with improper addressing of revenues which have led to less revenues collected and revenue reconciliation not performed through bank accounts as it should.
- Problems regarding improper implementation of the budget and elimination of budget deviations.
- Problems with Government dividends in which there is no specific explanation of the purpose of dividends and inadequate disclosures of dividends in the financial statements prepared by the Ministry of Finance (Republic of Kosovo, 2013).

On the other hand, recommendations which were not addressed at all by public institutions include the fields of:

- Public Procurement, where the processes are considered to be conducted not according to laws. Main issues in this field include supervision of capital investment, increased accountability and certification of payments.
- Privatization process, in which the supervision and management are considered poor and not in accordance with the law.
- Subsidies provided by the Government, which are considered to be lacking of transparency, control, monitoring, and proper analysis.
- Financial reports from municipalities, which are considered of very low quality accompanied by lack of internal control (Republic of Kosovo, 2013).

The Kosovo PEFA Assessment Report of 2013 states there has been progress with regards to Public Financial Management in Kosovo compared to the 2009 report (Republic of Kosovo). Nevertheless, there is still a lot of room for improvement especially in efficiency and transparency, which are considered weak and resulting in significantly lower than optimal results in the implementation of state policies (Republic of Kosovo, 2013). In conclusion, the report ends with recommendations for continuous reforms in the public financial system of Kosovo (2013).

Chapter 3 Research process

3.1 Problem Statement and Goals reviewed

The problem this project addressed was the failure of public institutions to implement recommendations of the Auditor General and lack of Parliamentary Oversight to deal with the issue. There are two main goals this project aims to achieve:

- First, through literature review and field study, investigate the reasons behind non-implementation of Auditor's General recommendations from public institutions,
- Second, provide feasible ways to increase parliamentary oversight and thus, improve the situation with regards to implementation of the Auditor General's recommendations.

To begin with, a lot of literature review regarding public financial management and policies worldwide was reviewed. Particular attention was paid to relations of Supreme Audit Institutions with Parliaments and its relevance to recommendations provided by the Auditor General. Furthermore national audit reports, including annual, regularity and performance audits, PEFA assessment report, and other relevant reports were reviewed.

In complement to background, the issue of non-addressed recommendations provided by the Auditor General to public institutions was explored through several meetings and four official interviews. The interviews contained mostly different questions depending on the institution represented by the interviewees. However, there were also several identical questions in every interview, with the purpose of receiving information for an issue from viewpoints of all institutions involved with the Auditor General and its recommendations. All interviews were conducted in face-to-face meetings. The research followed four steps:

- Interview with Lage Olofsson, former Auditor General and Artan Venhari, deputy Auditor General
- Interview with Dardan Sejdiu, Deputy Mayor of the Municipality of Prishtina
- Interview with Alexandra Fehlinger, GIZ Project Leader
- Interview with Albert Krasniqi, KIPRED member and one of the founders of the Commission for Oversight of Public Finances (COPF)

In order to get all points of view, interviews were conducted with representatives from institutions related to or affected by the work of the Auditor General. First, interviews with former Auditor General and deputy Auditor General were conducted with the purpose of understanding the difficulties attached to the issue of recommendations. Second, provided that the Commission for Oversight of Public Finances plays an important role with regards to the Auditor's reports in general and recommendations in particular, an interview with one of the founders of this Commission was conducted. In addition, GIZ is a German organization operating in Prishtina which plans to support the Commission for Oversight of Public Finances once it becomes functional. Therefore, with the purpose of obtaining information from donors involved with the issue, an interview was conducted with the GIZ project leader. Lastly, the perspective of public institutions which are accused of not addressing recommendations was essential for this research. To represent this side of the story, the interview was conducted with the deputy mayor of the Municipality of Prishtina, which is the largest Municipality in the country with the largest budget allocated to it.

3.2 Strengths and limitations of the research and project

The four interviews conducted included all actors which are directly or indirectly involved with or affected by the work Auditor General. In addition, the interviewees were individuals with leading positions in their respective institutions. Obtaining all angles concerning the issue from professionals of the field is a major strength of the research project as it makes it more accurate, precise and unbiased. In addition, majority of responses provided in interviews were supported by secondary data making information reliable. The rest were first-hand information which is not available online, but useful for this project and others to come in the future.

The abundance of available literature review concerning the Office of the Auditor General both, for Kosovo and worldwide further improved the quality and credibility of this report. Starting from public audit reports from the Auditor General to research conducted by NGOs operating in Kosovo, and reports about activities of the Auditor General and Public Account Committees around the world, a deeper understanding towards the issue was gained. Also, information obtained from the interviews served to achieve both goals of this study. The first goal that is, investigating reasons behind non-addressing of recommendations of the Auditor

General from public institutions was explored through the interviews. In addition, the interviews, covering all angles of the issue provided with new recommendations for solving the matter in hand.

With regards to limitations, there were no issues with the conducted interviews. All interviewees were available for providing the necessary information and also offered help by providing additional readings. Nevertheless, since Parliamentary oversight makes up an important part of this project, an interview with a representative from the National Assembly would serve for further enrichment of the research. However, given that during the interviewing process, there was no Parliament constituted yet, conducting the interview turned out to be an impossible task. Furthermore, current political situation also made things difficult with the Commission for Oversight of Public Finances which also remained to become functional with the constitution of the Parliament and public institutions. Reports which would have been created by this Commission had it been functional, would serve as important secondary data; however due to unfortunate circumstances, no report from the Commission for Oversight of Public Finances was made available.

Another significant limitation of this project is the time constraint. Had this limitation not existed, the project would wait for the Parliament and its committees, including the Commission for Oversight of Public Finances (COPF), to be constituted. In this way, it would have been possible to conduct interviews with representatives of the Parliament. In addition, potential interviews would have been conducted with members of COPF who would be specifically working with the Auditor's recommendations follow up, and find out about their difficulties or successes. Furthermore, the Commission would be able to prepare and publish its first reports which would then be discussed in this project.

Finally, given that this report belongs to qualitative rather than quantitative nature, conducting surveys was not considered necessary or useful. Lack of surveys and usage of interviews as the only source of primary data might be considered as another limitation to the research; however, no other option was available.

Chapter 4 Perspectives of the Office of the Auditor General (OAG) and Commission for Oversight of Public Finances (COPF)

4.1 Auditor General Perspective

Relations of the Office of the Auditor General with the Commission for Oversight of Public Finances and public institutions

- Former Auditor General stated that relations with Commission for Oversight of Public Finances are stable and have improved significantly in the past year through increased communication
- With regards to public institutions, the relations have also improved significantly in the past few years. According to the former Auditor General, public institutions had a wrong perception towards his institution. They believed that the auditors were after individual cases rather than strengthening accountability of the whole system. Fortunately, with time they have been able to create a trust relationship between the two institutions.

The Auditor's independence

- The only factor that preserves the independence of the Auditor is the law. Through the law, the Office of the Auditor General is able to practice its financial, organizational and operative independence.
- However, the Auditor stated that there is no real, absolute independence; there is a balance of interrelations between the state, municipalities, judiciary system etc. The important thing is to create a trust relationship and add value with their work.

Reasons behind institutions' failure to address the Auditor's recommendations

The main purpose of the recommendations is to improve things. However, from the interview it was found that public institutions do not agree and for that decide not to address or implement most of the Auditor's recommendations.

Table 4.1.1 *Reasons public institutions do not address recommendations according to former Auditor General*

Reasons public institutions do not address recommendations	Recommendations used to be hard to understand
	Not related to institution's priorities
	Sometimes public institutions just did not address them on purpose for no specific reason

Given that the Office of the Auditor General does not have any powers to impose penalties on those public institutions which do not address recommendations for whichever reason, the office created reforms to incentivize them to address and implement the Auditor's recommendations. The purpose of the reforms was to improve communication between the Office of the Auditor General and public institutions. The reform of communication is illustrated in the table below.

Table 4.1.2 Reforms of the Office of Auditor General

Reforms the Office of the Auditor General took in solving the issue of non-addressed recommendations	The Office of the Auditor General has been working on clarifying the recommendations.
	Introduced the interim audit which includes the process of following up of recommendations.
	Increased the number of audit reports. The OAG is now auditing almost all public institutions.

Role of COPF regarding the Auditor's recommendations

The Auditor General considers that the Commission for Oversight of Public Finances has two main purposes in relation with the OAG:

1. Relying on reports from the Auditor General, hold the government to account. The Commission calls the executive in meetings and holds them into account. Currently,

accountability can be demanded only for financial issues which refer to the way institutions handled the public money. In the future, the Commission will also demand accountability for operative issues which refer to the way institutions have handled their mandate, what is the output from usage of public money, did they create value with it etc.

2. Hold the Auditor General to account. The ways in which the Commission does this is by appointing auditors to audit the financial accounts of the Office of the Auditor General and demand accountability from them.

From the interview, it results that the Auditor General is pleased with the work of Commission for Oversight of Public Finances for the short period of time they existed. However there are plenty of issues the Commission should work on:

Figure 4.1.1 Issues Commission for Oversight of Public Finances should work on according to Auditor General

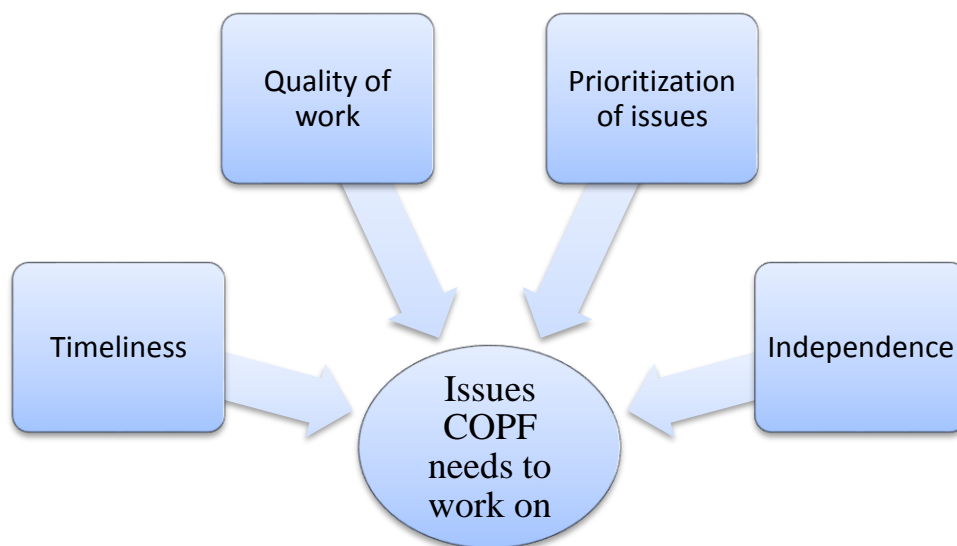


Figure 4.1.1 presents some of the main issues the Commission for Oversight of Public Finances is faced with, according to the former Auditor General. In particular, he considers the independence issue as the most important one, which then affects the other three. The Commission for Oversight of Public Finances should consist of members of the opposition which are considered to be more appropriate in demanding accountability from the Government. However, in reality majority of COPF members are from the party in power and for that, the Auditor considers them to be highly political which in turn affects prioritization of several issues

and quality of work. For instance, during their short period of existence the Commission for Oversight of Public Finances never tackled issues that were sensitive to the Government.

Role of civil society in increasing accountability

Deputy Auditor General stated that, in the last five years, civil society has increased its contribution in increasing accountability of public institutions through:

- Requesting more information for public financial management.
- Using information from the Auditor's reports in different researches. In this way, the number of Auditor's reports increased as well as their quality

4.2 Commission for Oversight of Public Finances (COPF) Perspective

Relations of COPF with OAG and other Parliamentary Committees

From the interview, it was found that current relations of the Commission with the Office of the Auditor General are stable now, however they were not that way from the beginning. After the COPF was created in 2009, the members of the Commission misunderstood the position of the Office of the Auditor General by trying to influence and direct the Auditor in his work. This created conflicts in the beginning since the financial and working independence of the Auditor is guaranteed by law. With time, through continuous negotiations and work, relations have improved significantly.

With regards to other Parliamentary commissions, one of the founders of COPF stated that despite Parliamentary regulations and will of the Commission for Oversight of Public Finances, these relations were not established.

Actual status

Table 4.2.1 *Factors affecting the actual status of the Commission for Oversight of Public Finances*

Actual status	Not functional
Reason	Current political state in Kosovo
Other difficulties faced by the Commission for Oversight of Public Finances	Attempts to merge it within the Commission for Budget and Finances (CBF); not allowed by internationals since CBF dedicates only 4% of its work to oversight and 96% in budget planning
When will it become functional?	Mr. Krasnqi hopes that the Commission will become functional soon after the Parliament is constituted.
Independence issues	Should consist in majority of opposition members while in reality, it consists of members from the leading party.
Other issues	Members do not possess the necessary qualifications or knowledge regarding Public Finances.
COPF being used as model	Recently, Montenegro is one country which is taking COPF in Kosovo as a model to create a Parliamentary Commission that oversees the Government. Slovenia is another country which has used the same model.

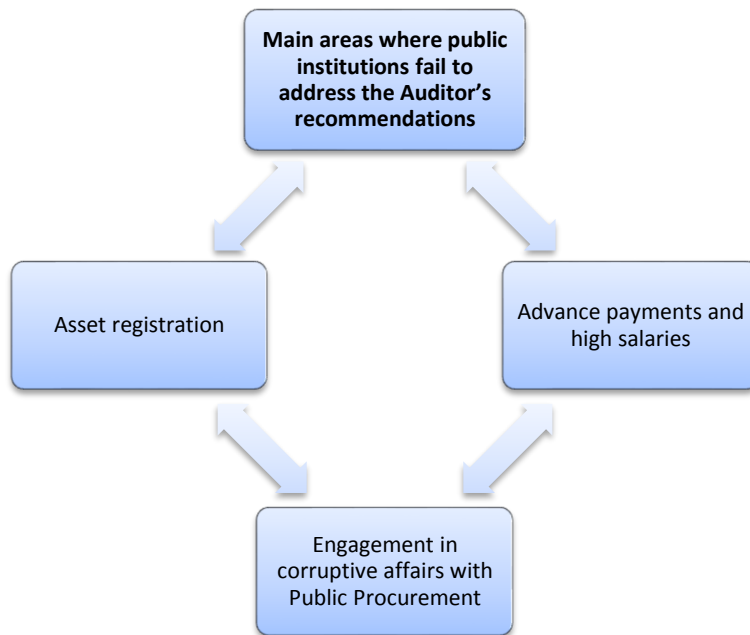
The Commission for Oversight of Public Finances will be supported by:

- British Embassy in Kosovo, which is also the main financial donor. The British Government has also supported the Commission when it was first established.

- GIZ is the new donor. They are planning to become the main donor and support the Commission after it becomes functional.
- KIPRED (contracted by GIZ). Since KIPRED already conducted research and proposed creation of the Commission, GIZ is using it as a contractor to work with COPF.

Areas where public institutions' fail to address most of the Auditor's recommendations

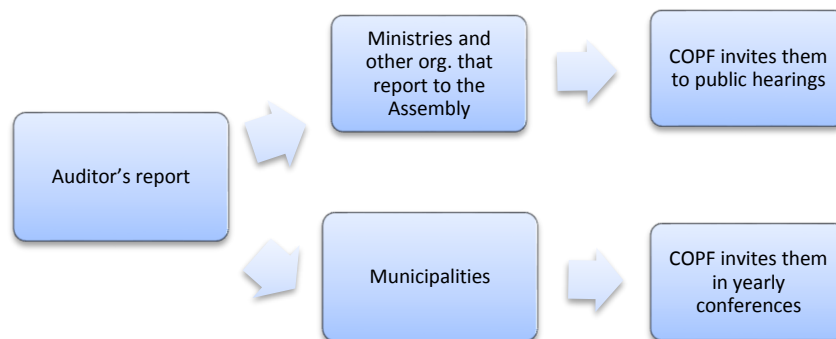
Figure 4-2-1 Main areas where public institutions failed to address recommendations as according to COPF



With regards to clarity of recommendations, Mr. Krasniqi considered them as very clear and standardized especially in the past couple of years.

Role of COPF regarding the Auditor's recommendations

Figure 4-2-2 Relation of COPF with the Office of the Auditor General



Krasniqi stated that the main role of COPF is to increase the relevance and impact of the Auditor General's reports through increased Parliamentary Oversight. However, the Parliamentary Oversight remains low, and since the Commission does not possess any executive powers, it cannot oblige the Parliament to practice its oversight competencies. Main recommendation from the interview was to take Turkey as a model where the Office of the Auditor General has the power to impose penalties on those institutions which do not address the Auditor's recommendations. According to Mr. Krasniqi, considering the situation in Kosovo the Turkey model would work better than the Commonwealth one.

Role of civil society in increasing accountability

Founder of the Commission for Oversight of Public Finances stated that the contribution of the civil society has been relatively high especially during the review period of law on Audit, in which they supported the idea of preserving competencies and have the Auditor General's independence guaranteed by law.

Krasniqi's recommendations in improving accountability include:

- Increase in the number of performance audits produced by OAG
- Increase the number of reports prepared by COPF
- Civil society and media to demand for all these documents to be made public and discussed

Chapter 5 Perspectives of donors and public institutions

5.1 Donor's Perspective

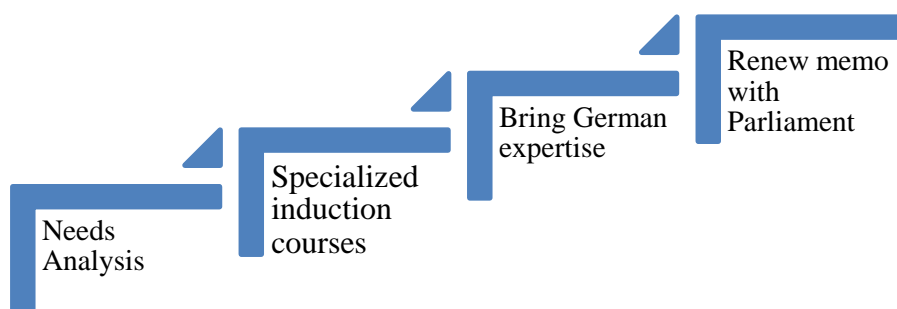
GIZ support to the Commission for Oversight of Public Finances (COPF)

Findings from the interview with GIZ Project Leader include:

- GIZ will continue to support the Commission for Oversight of Public Finances
- The extent of their support depends on the Commission's will to cooperate

The latter finding suggests that how much GIZ will support the Commission for Oversight of Public Finances depends on the others partners, will of people to cooperate, roles and procedures, quality of work, and how well the commission is accepted by other committees. GIZ plans to start with needs analysis from which they want to understand where and how much help is needed. Furthermore, in addition to general induction courses offered by the Assembly for parliamentarians and committees, GIZ plans to offer specialized induction courses with expertise from Germany to help explain the concept of oversight and the work of the Commission for Oversight on Public Finances. The framework of this arrangement is until the end of 2015 when the project will end; however, there is a high possibility for the project to be extended for two additional years.

Figure 5-1-1 GIZ's outline of support for the Commission for Oversight of Public Finances



In addition of supporting the Commission for Oversight of Public Finances in capacity development, GIZ is in negotiations with the Parliament to renew their memorandum of

understanding. The new memorandum will contain a different structure where GIZ and the Parliament would form steering groups of different levels. The levels will include:

- A high level steering group (General Secretary, head of COPF and Budget and Finances Committee)
- Other levels which include quarterly meetings with each of the three organizations separately
- GIZ will participate as a monitor in the committees' meetings

Role of civil society in increasing accountability

According to the GIZ project leader, the civil society should

- Demand information and follow up of Auditor's recommendations
- Media should report cases of institutions which do not address recommendations. This will result in increased pressure to the Parliament to improve its oversight competencies, and increased pressure to public institutions to implement the Auditor's recommendations.

5.2 Municipality of Prishtina Perspective

Relations with the Office of the Auditor General (OAG) and Commission for Oversight of Public Finances (COPF)

First topic discussed with the deputy mayor of Prishtina concerned the relations between the new governance of Prishtina and the Office of the Auditor General. Main findings include:

- Relations are stable now, and have improved significantly in the past year with the change in leadership of the Municipality.
- The Municipality has reviewed all recommendations from the Auditor and it is working towards implementing them.
- Municipality is working towards strengthening internal audit since Auditor's notes are considered as shortcomings of internal audit.

Deputy Mayor stated that the Municipality of Prishtina with the new governance has been reviewing each recommendation with seriousness. Given the limited resources, they have

prioritized recommendations depending on the time, resources and other rules and procedures necessary for them to be fulfilled. Main issues being worked on include:

1. Property
2. Usage of public money
3. Public Procurement
4. Education (Misuses of positions and money)

Another crucial finding from this topic was that the Municipality is working more intensively in increasing capacities for internal audit. The Municipality does not want to use the Office of the Auditor General as an excuse for not strengthening the internal audit and will not allow for every topic in the report to have issues noted by the Auditor General. For that reason, they are working towards creating 10-12 audits in addition to the general audit which is reviewed by the Auditor General.

It results that the relations of the Municipality with the Commission for Oversight of Public Finances (COPF) are stable. However, provided that the new governance came to power only last year, this is considered more as a transitional period in which the Municipality is testing the Commission's knowledge regarding oversight of public finances and the Commission is testing the Municipality regarding management of public finances.

Reasons behind Municipality's failure to address the Auditor's recommendations

Main reasons why the Municipality has failed to address recommendations from the Auditor General include:

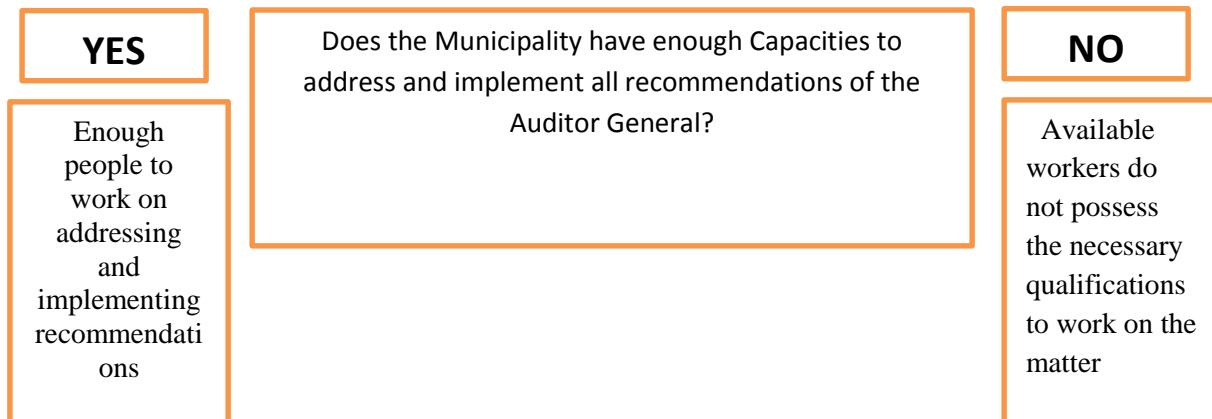
- Municipality of Prishtina has needs beyond the established regulations
- Previous governance considered the findings as inappropriate

According to the deputy mayor, the main reason why the Municipality did not address recommendations from the Auditor is that Prishtina shares the same regulations with all other municipalities. However, being the largest municipality with the largest allocated budget, Prishtina differs from other municipalities in that its needs go beyond regulations. Second reason

is that the Municipality considered the findings as inappropriate and not worthy of being addressed.

Capacity of the Municipality in addressing and implementing recommendations

Figure 5-0-2-1 Capacity of the Municipality to address and implement the Auditor's recommendations



Role of civil society in increasing accountability

Main issues with civil society:

- Lack of proper research
- Current research is superficial
- Media takes the wrong approach by not raising important issues and working with unreliable information. This in turn, creates the perception that there is no need for accountability.

Chapter 6 Discussion and analysis

6.1 Importance of the Auditor's recommendations

The institution of the Auditor General aims to use transparency, good governance and accountability as means of prospering a democratic society. The main purpose of recommendations from the Auditor General is to remedy irregularities found in audit reports or as the former Auditor General stated during the interview, recommendations are done with the attempt of making things better. Addressing and implementing recommendations from the Auditor General is an obligation of every public institution, as doing otherwise leads to financial losses and continuous inaccurate reporting (OAG 2013).

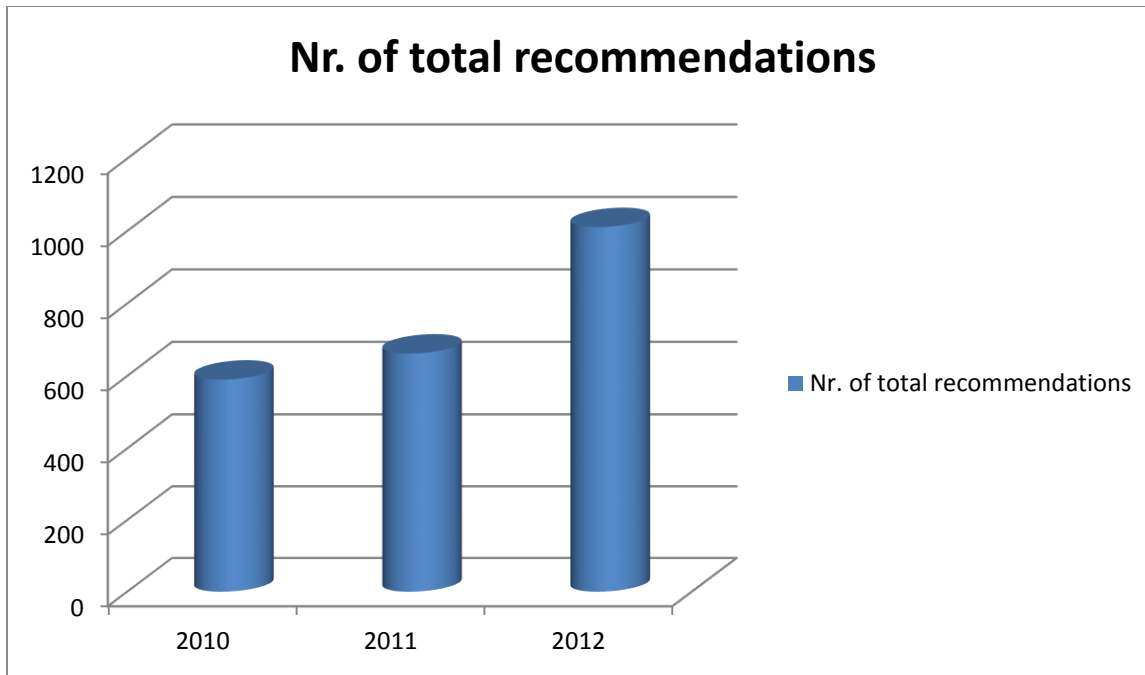
When reviewing audit reports from 2012 and 2013, a pattern can be seen in areas which recommendations from the Auditor General are not addressed, in both local and central level. For instance in the annual audit reports of 2012 and 2013, the Auditor General mentioned some of the most problematic areas concerning unaddressed recommendations. They include

- Public Procurement procedures
- Accuracy of disclosing Annual Financial Report
- Revenue Management,
- Human Resources
- Subsidies and assets
- Governmental debt management (central level only)

These options are somewhat similar to what Albert Krasniqi, one of the founders of COPF stated when listing asset registration, public procurement and advance payments and salaries as areas where public institutions usually fail to implement the Auditor's recommendations. According to Mr. Krasniqi, the media should play a bigger role in disclosing major violations from public institutions which would put more pressure in the Parliament to act upon them.

Figure 6.1.1 shows the number of total recommendations provided by the Auditor General in yearly basis. As shown in the graph, they have been increased in number for every following year with the most significant increase being in 2012 with 1011 recommendations in total.

Figure 6.1.1 Number of total recommendations provided by the Auditor General for the years 2010, 2011, and 2012

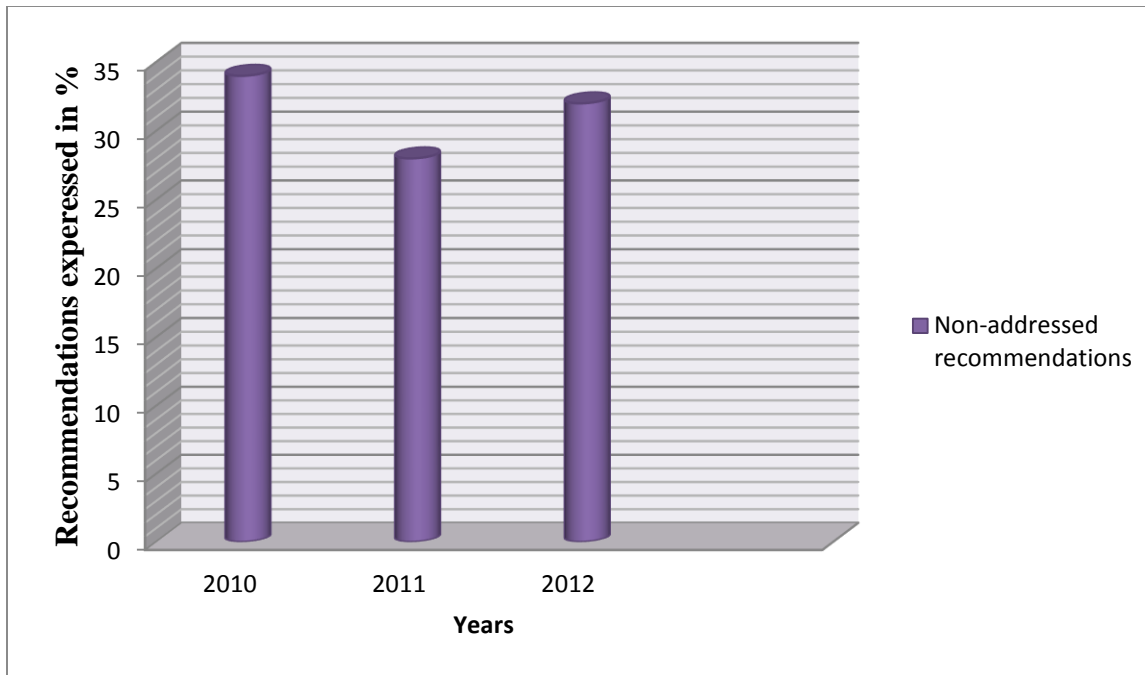


Source: Office of the Auditor General

The increase in the number of recommendations can have several explanations. For example, it might be that the Auditor General got into more details in its reports as years went by. In addition, the increase could also be related to the fact that more institutions are being audited now than in previous years. For instance, from 87 institutions audited in 2010 and 2011, this number increased to 90 in 2012 (OAG, 2012). Furthermore, the number of recommendations could be increased because more irregularities were found. Nevertheless, this issue demands for a more thorough analysis which goes beyond the scope of this project.

Let us take a closer look at the progress of recommendations by exploring the non-addressed ones. Figure 6.1.2 shows the development of non-addressed recommendations of the Auditor General from 2010 to 2012.

Figure 6.1.2 Non-addressed recommendations of the Auditor General for years 2010, 2011, and 2012

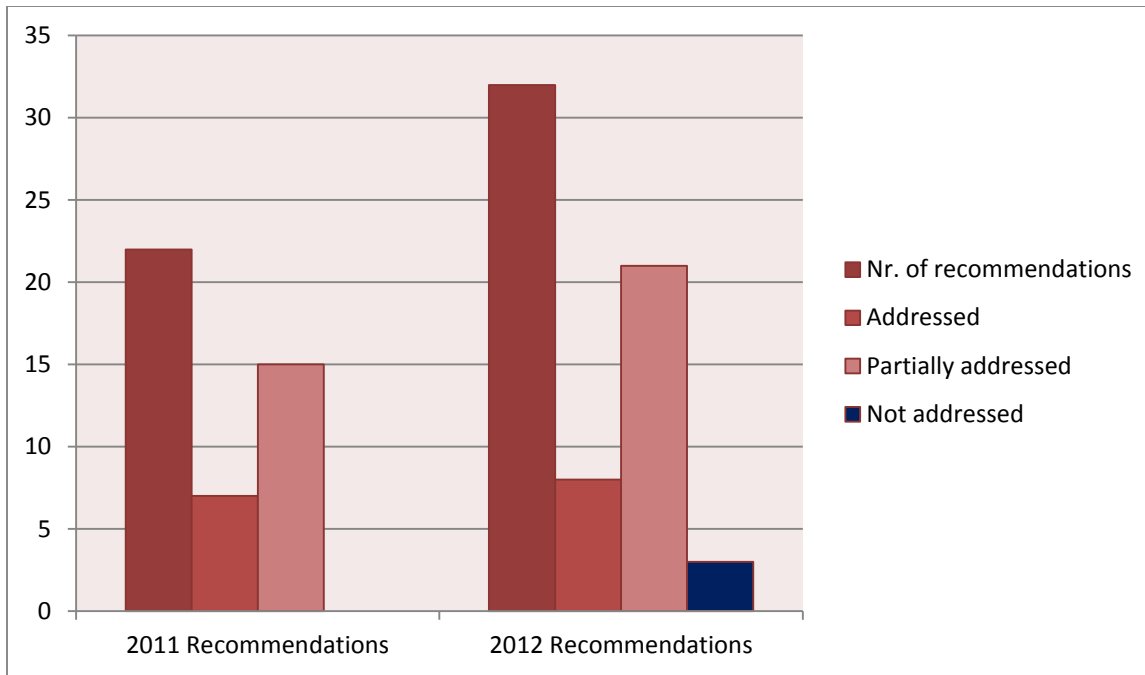


Source: Office of the Auditor General

As illustrated in the graph, the situation improved from 2010 to 2011. In 2010, 34% of recommendations from the Auditor General were not addressed at all by public institutions. That percentage decreased to 28% in 2011, only to increase slightly to 32% in 2012.

When looking at recommendations in total, the situation has improved; that is, public institutions are more responsible in addressing recommendations from the Auditor General compared to previous years. However, if we zoom in and look at certain individual cases the situation changes. For instance, figure 6.1.3 shows a comparative analysis of results for the Privatization Fund and Privatization Agency in Kosovo.

Figure 6.1.3 A comparative analysis of recommendations for the Privatization Fund and Privatization Agency



Source: Office of the Auditor General

Figure 6.1.3 illustrates how the number of recommendations has increased for 45%, from 22 in 2011 to 32 in 2012. In addition, fully addressed recommendations in 2011 were 31.8%, while in 2012 they decreased to 25% with only 8 fully addressed recommendations. It is also worth mentioning that in the audit report of 2013 for this agency, 5 recommendations addressed irregularities regarding advance payments and high salaries with none of them being fully addressed. Furthermore, in the same report, 6 recommendations concerned irregularities in Public Procurement processes, out of which only 2 were fully addressed. In the conclusions of both respective years, the Auditor General had expressed his concern regarding non-implementation of previous year's recommendations.

Implementation of recommendations from the Auditor General can lead to significant savings in public money. For instance, in the United Kingdom, in the period 2010/2011 the National Audit Office found many issues in the quality of Social Payment records and compliance with regulations. The finding was followed by several recommendations, thanks to which 133.3 million pounds have been saved (UK NAO, 2014). In addition, thanks to the Auditor General's recommendations 1.1 billion pounds have been saved in total (UK NAO, 2014).

There are several potential explanations for the failure of public institutions to implement recommendations provided by the Auditor General. These reasons, as obtained from the four interviews include:

- At times, recommendations seemed unclear and public institutions had problems to understand them.
- Recommendations were not related to priorities of an institution.
- Unqualified staff to work on implementing them.
- Some institutions chose not to address the Auditor's recommendations, with no specific justification.

Former Auditor General, Lage Olofsson stated that years ago, when the situation was different, public institutions had problems with understanding recommendations as they seemed unclear. However, this cannot be considered as a valid reason anymore. Even then, if public institutions did not understand the Auditor's recommendations they could have asked for clarifications or train their staff in financial matters.

In addition, sometimes public institutions considered that the Auditor's recommendations were not related to priorities of their respective institutions. This is also what deputy mayor of Prishtina, Dardan Sejdiu stated when explaining why the previous governance lead by LDK did not address the Auditor's recommendations. However, this also cannot be used as a valid justification for the negligence of public institutions towards recommendations of the Auditor General. If an institution considers the Auditor's recommendations as not related to its priorities, that does not release that institution from its obligation to act upon them. The fact that it is not considered a major issue, does not mean that the specific irregularity can keep on occurring.

Sejdiu added that another reason why the Municipality of Prishtina has not implemented the Auditor General's recommendations is the unqualified staff working in public institutions. He stated that when his party came to power last year, most of the staff shared the same last name however, carried little qualifications and knowledge with regards to their job. Furthermore, former Auditor General said that at times public institutions just did not want to address his recommendations, providing no justifications.

In order to improve the situation, the Auditor General introduced new reforms that would help public institutions in addressing his recommendations. Given that many public institutions in the past did not implement the Auditor General's recommendations by claiming they were unclear and hard to understand, the OAG has been working very hard in the last years to standardize and clarify the Auditor's recommendations. Both, Albert Krasniqi from KIPRED and Dardan Sejdiu from the Municipality of Prishtina stated that the Auditor's recommendations are very clear and easy to understand. Second, the institution of the Auditor General has introduced the interim audit which includes the process of following up recommendations. So instead of waiting until the next year's report, the OAG tells public institutions how they are doing with regards to implementing recommendations throughout the year.

6.2 Importance of Parliamentary Oversight

As mentioned in the first chapters of this report, the Supreme Audit Institution in Kosovo operates according to the Westminster model. Countries following this model usually name the audit institution as the Office of the Auditor General or more commonly, the National Audit Office. The former name is present currently in Kosovo; however with the new draft law of 2013 the institution of the Auditor General will soon be known as the National Audit Office (Republic of Kosovo, 2013).

For the Westminster model to be successful, a strong relationship between the Office of the Auditor General and the Parliament is essential. The OAG serves as a tool for the Parliament to hold the Government accountable. The Auditor General audits all public institutions funded by the State Budget, provides opinions and recommendations and finally, submits this report to the Parliament. The Auditor General has no executive power whatsoever. It cannot impose penalties on any institution that might ignore his opinions and recommendations. The only thing it can do is repeat the same recommendations year after year, and note that there has been no progress with regards to certain issues from certain institutions. It is up to the Parliament and its committees to act upon the Auditor's recommendations and remind public institutions of their obligation to follow the suggestions and proposals made by the Auditor General. In case the Parliament and PAC (Kosovo's COPF) do not react upon the Auditor's recommendations, then the system of accountability is not working effectively (DFID, 2005). Thus, in order for the

work of the Auditor General in Kosovo to be meaningful, Parliamentary Oversight is a must criterion.

However, it is exactly in the Parliament's role where the situation in Kosovo gets problematic. There is no proper Parliamentary Oversight when it comes to the Auditor General's recommendations. This is also a strong, valid reason why public institutions in Kosovo can get away with things such as ignoring suggestions made by the Auditor General in his report. When asked about this problem, Albert Krasniqi stated that the members of the Kosovo Parliament are more concerned with the way the budget is allocated rather than ensuring that the budget they approved and provided to the Government is being spent as according to plans. In addition, when COPF was created to deal specifically with the work of the Auditor General and its impact, the Parliament attempted to merge it with the Commission for Budget and Finances which dedicates less than 4% of its work to oversight. Thankfully, this harmful decision was not allowed by internationals who insisted in maintaining the Commission for Oversight of Public Finances as a separate committee. Public Account Committees are considered essential for ensuring accountability and transparency for a government. Nevertheless, there are issues inside the Commission for Oversight of Public Finances as well.

In Commonwealth countries, Public Accounts Committees (Kosovo's COPF) are headed by the opposition. This is only logical as it would not make sense for the Government to monitor itself. Of course that membership is granted to individuals from all political parties in the Parliament; however the Committees are led by members of the opposition, who were usually ministers or high officials in the past, and have enough knowledge on running such a committee. For instance, the Public Accounts Committee in the United Kingdom is headed by Margaret Hodge from the Labour Party. Ms. Hodge has previously held positions as a Minister for Children, Minister for Work and Minister for Culture and Tourism before becoming the PAC chairperson in 2010 (UK Parliament). Kosovo is no exception as COPF was led by Ali Sadriu from 2010 to May 2014 when the Parliament was dissolved. Sadriu was Minister for Economy and Finance (2002-2004), and is a member of the Kosovo Democratic League, which was also the largest opposition party.

Nevertheless, Kosovo Democratic Institute states that majority of members in this Commission are from the leading party (Democratic Party), and that political influence inside the

Commission is a real issue that should be addressed (KDI, 2012). Lage Olofsson also stated that one of the main issues COPF has is working under high political influence. Until now, the Commission has not tackled one issue that was sensitive to the previous Government headed by the Democratic Party. The independence issue, stated the former Auditor General leads to other problems such as quality of work, timeliness in submitting their work, and prioritization of issues.

The Commission for Oversight of Public Finances has two main functions:

- Relying on reports from the Auditor General, hold the government to account. COPF reviews the Auditor's report, prepares its own report and submits it to the Parliament. The Commission also calls the executive in meetings and holds them into account.
- Hold the Auditor General to account. The ways in which the Commission does this is by appointing auditors to audit the financial accounts of the Office of the Auditor General and demand accountability from them.

Nevertheless, although the Commission has been established in 2009, not one single report has been submitted to the Parliament regarding reports from the Auditor General. Several sessions have been held, where governmental officials were invited to report with regards to financial matters. However, no report was completed by this Commission. Albert Krasniqi stated that a big challenge among COPF remains low qualifications of people working there who do not really understand the purpose and function of this type of Commission. For that reason, GIZ Project Leader, Alexandra Fehlinger stated that since this organization is going to become one of the main donors of the Commission once it becomes functional, they will offer specialized induction courses with expertise from Germany to help explain the concept of oversight and the work of the Commission for Oversight on Public Finances. Financial support by an organization such as GIZ might also help with the independence issue of the Commission as hopefully, GIZ will expect results for its money.

For places like Kosovo which are faced with weak Parliamentary Oversight, change is usually a slow process with many challenges (DFID 2005). For instance, former Auditor General stated that years were needed for the relationship between his institution (the OAG), and

public institutions to be established. In the beginning, public institutions believed that the auditors were after individual cases rather than strengthening accountability of the whole system. They were afraid of it and thus, opposed it. Although this relationship has significantly improved in the last years, the Office of the Auditor General should continue working to further improve relations with the Parliament as that will increase the impact of this institution.

6.3 Role of Media and Civil Society

All of the interviewees agreed that the civil society can play an important role in increasing accountability of Government. For instance, deputy Auditor General stated that the civil society should demand more information and use that information for research. In this way, the number and quality of reports from the Auditor General will be increased. Albert Krasniqi believes that civil society should demand for all documents from COPF to be made public and discussed. He also said that the civil society should demand from OAG to increase the number of performance audits completed, and from COPF to prepare reports as required by the Westminster model. Alexandra Fehlinger from GIZ also believes in the huge contribution the civil society can have in increasing accountability of the Government. She added that apart from demanding information from the Government, the civil society should also be an active participant in the follow up process of recommendations from the Auditor General.

The civil society can pressure the Parliament to act, especially with regards to reports that are of their interest. In South Africa for instance, there is a non-governmental organization known as the Public Sector Accountability Monitor (PSAM) which works together with the Parliament to monitor the Government's response to reports of the Auditor General (DFID, 2005). This organization really does nothing very special or difficult; it only uses its access rights to information to publish the actions that have been taken or must have been taken by the Government (DFID, 2005). This would be a perfect example of the impact an active society would have in increasing accountability.

Use of publicity as a tool to achieve purposes is an old story, but also an effective one. Using media to report on cases where serious violations are being done by public institutions is an excellent way to get attention both, from citizens and institutions to act upon those violations. However, deputy mayor of Prishtina raised his concern with regards to Kosovo media. He said

that there is a lack of proper research by journalists who do not raise important issues and use unreliable information.

Figure 6.3.1 Role of media and civil society in increasing accountability

Auditor General	COPF	GIZ	Municipality of Prishtina
<ul style="list-style-type: none"> •Request more information •Use information from the Auditor’s reports in different researches. In this way, the number of Auditor’s reports increased as well as their quality 	<ul style="list-style-type: none"> •Demand increase in the number of performance audits produced by OAG •Demand reports by COPF •Civil society and media to demand for all these documents to be made public and discussed 	<ul style="list-style-type: none"> •Demand information and follow up of Auditor’s recommendations •Media should report cases of institutions which do not address recommendations 	<ul style="list-style-type: none"> •Improve quality of research •Research should not be superficial •Focus on important issues •Use reliable information

6.4 Using the Judicial Model as an example for Kosovo

During the interviews, one of the founders of COPF proposed to take Turkey as an example for Kosovo. According to Krasniqi, an appropriate model which would work in Kosovo would be the judicial model in which the Supreme Audit Institution operates as a separate court that deals with financial matters.

There are several features the judicial model carries. They include:

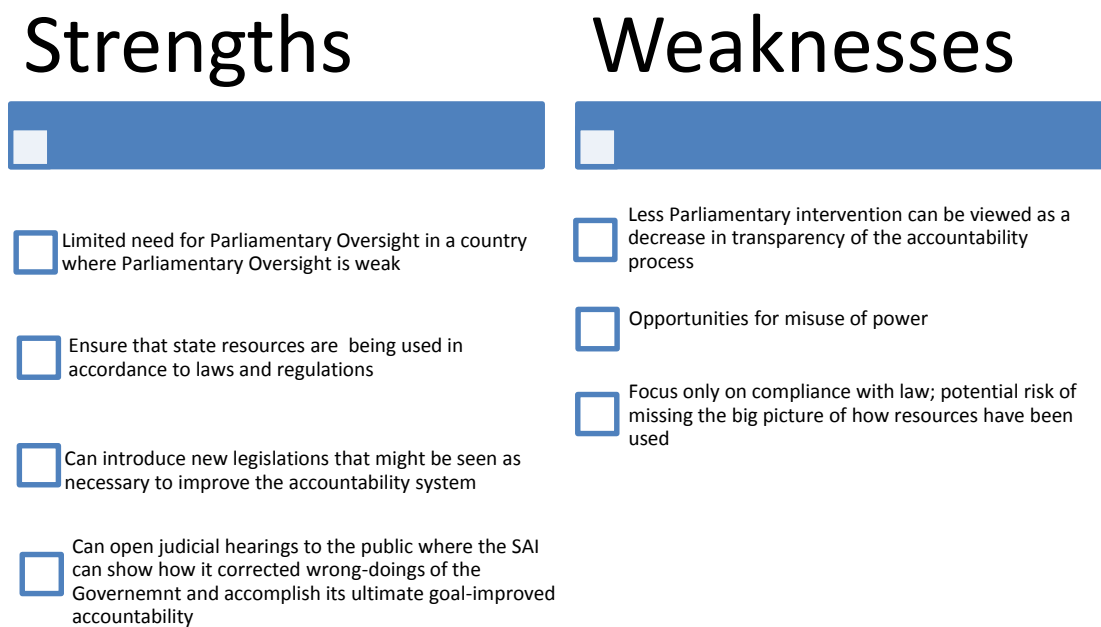
- The Supreme Audit Institution operates as a court and its members have law degrees rather than economic background
- The members have the power of imposing penalties on institutions or individuals
- Members are appointed for a lifetime job and are let go only at retirement age
- There is one president selected by the court however, every member has judicial autonomy in making decisions cases in front of them (DFID 2005)
- Audit work is concentrated in the legality of reports presented by government officials

- There is usually no Public Accounts Committee (Kosovo’s COPF), as there is no need for it.
- There is limited need for Parliamentary follow up of the Auditor’s reports, as the Auditor has the power to impose penalties on officials who do not comply with regulations.

Strengths and Weaknesses of the Judicial Model for Kosovo

The figure 6.4.1 shows a summary of pros and cons of the judicial model for the current situation in Kosovo.

Figure 6.4.1 Strengths and Weaknesses of establishing the judicial model of audit in Kosovo



The main reason Mr. Krasniqi proposed this model for Kosovo was because it requires a very limited need for Parliamentary intervention in the audit reports and follow-up process. Given that Parliamentary Oversight is considered as the leak in the accountability system of Kosovo, taking it out of the equation might appear to be a good solution. However, reduced or eliminated parliamentary intervention might as well have its side effects too. For instance, less intervention can be viewed by the public as a decrease in transparency of the whole accountability process (DFID, 2005). Provided that the court has legal power, there is less space for debate on the audit findings. In addition, court hearings in which they even decide the institution has done a proper job in spending public money or “punish” them are done for every public institution individually which might be of little interest to people (DFID, 2005).

Nevertheless, for a developing country such as Kosovo where other financial control mechanisms are not strong, ensuring that resources are spent in accordance to laws and regulations provides for a strong foundation which can be built upon by other steps such as evaluating whether resources have been used efficiently, effectively, and economically (DFID, 2005). Furthermore, the SAI, being also a court can introduce legislation which might seem necessary to improve accountability of the system. For instance, instead of publishing annual reports regarding use of financial resources by the Government, the Court of Accounts (Kosovo's OAG) could introduce a new legislation that would allow for it to publish other reports during the year and further improve the follow-up process.

There are concerns that since the judges are appointed for no limited time and have high autonomy in their work, there might be potential risk for misuses of that power. In addition there are examples where the roles of each institution are not well understood and financial punishments go back to the Court instead of going back to the Government. In this way, it would be as the Court of Accounts was punishing itself and the incentive to impose penalties would decrease (DFID, 2005). Furthermore, by focusing only if audit reports from public institutions are in compliance with laws and regulations, there is a real risk of missing the big picture of how public money has been used.

Despite of several cons to the judicial model, it cannot be denied that the Supreme Audit Institution under this model has more power to correct the wrong doings of public institutions in a country. In addition, the Court of Accounts can hold public hearings and inform the public about its work and further promote proper spending of taxpayers' money. Nevertheless, for Kosovo it would mean a drastic change; we would have to move from one established model to a whole new one with no guarantee for success.

Chapter 7 Conclusion and recommendations

The aim of this project was to investigate the reasons behind the failure of public institutions to implement recommendations from the Auditor General. It also included lack of Parliamentary Oversight to deal with the aforementioned issue. Coming up with recommendations that would serve to decrease the prevalence of this issue was also one of the goals of the research.

Given that recommendations provided by the Auditor General seek to improve public institutions' financial management and protect taxpayers' money, their non-implementation should be considered as a serious issue. There are two main ways public institutions can be incentivized to address the Auditor's recommendations; first, by imposing penalties on those institutions who refuse to act upon them and second, through increased oversight from the Parliament increase pressure on institutions to undertake actions towards the Auditor's recommendations. However, given that the first option would imply switching to a whole new system (from Westminster to Judiciary) and goes well beyond the scope of this project, it will not be considered as an alternative. On the other hand, the second option is more realistic and thus, more feasible.

The information collected from literature review and interviews with representatives from institutions related to or affected by the work of the Auditor General revealed one important thing: that implementation of recommendations from the Auditor General and Parliamentary Oversight are complements. If the intention is to increase implementation of the Auditor's recommendations, improved Parliamentary Oversight is essential. However, weak Parliamentary Oversight is a real problem in Kosovo. For instance, although the Commission for Oversight of Public Finances was created in 2009 to deal specifically with the work of the Auditor General, it failed to complete its duty. Although this Commission is supposed to review the Auditor's reports, come up with its own findings and suggestions which are then submitted to the Parliament, no such report has been completed. Furthermore, the independence of this Commission has been put in question given that no issue sensitive to the Government has ever been tackled.

With the purpose of further improving the situation concerning implementation of Auditor General's recommendations from public institutions, several recommendations are proposed:

1. Parliamentary Oversight should be significantly improved. The main reason public institutions are able to ignore recommendations of the Auditor General is because of the lack of Parliamentary Oversight. The Parliament is required by law to pressure the Government in implementing the Auditor's recommendations and as such, it should start doing its job.
2. Commission for Oversight of Public Finances (COPF) should start preparing its own reports based on those from the Auditor General and then submit its own findings and recommendations to the Parliament. All documents from COPF should be made public. This Commission should also continue to hold sessions with Government officials to discuss on financial matters. The sessions should also be open to the public, especially the media. Provided that this Commission has been facing critics with regards to its independence and governmental influence, the new governance should ensure objectivity and independence in their work. By discussing the Auditor General's report in the Parliament and holding public institutions accountable, the impact and relevance of OAG will increase. In addition, Commission for Oversight of Public Finances should also engage in active cooperation with the media. Effectively, the role and work of the Commission would be understood better.
 - There are no additional costs for COPF. The Commission should only start performing with their current allocated budget of 5000 euros which does not including salaries of the staff; they are provided by the Parliament.
3. COPF should be in constant interaction with the Auditor General. They should inform the Office of the Auditor General of the Parliament's interests, including proposing topics for performance audits that might be interesting to the legislative although the final decision remains on the Auditor General. The OAG should give consideration to Parliament's interests in setting audit priorities. This would help in further improving relations between the two institutions. In addition, the Commission should engage in creating follow-up mechanisms of the Auditor's recommendations and provide regular reports on the extent to which these recommendations have been addressed.

4. The Auditor General can create summaries of his reports which will be more accessible for the majority of citizens. Full annual reports are informative and necessary; however, not many people read the whole report and sometimes important pieces of information can be missed. These annual reports could be summarized in less than 10 pages, containing only the most important points. In this way, it would be easier to understand the report of the Auditor General and in the meantime, it would increase its impact as more people would be able to read it and discuss about it. In addition, the Auditor General could send these summaries with major findings to the media, thus promoting its good work and further improving the image of this institution.
 - Cost of the project is estimated to be around 18,000 euros including two employees and the necessary equipment to work with.
5. Public institutions should work on improving their own internal audit. When the Auditor General comes up with more than 15 recommendations for an institution, many of which address errors in presenting financial statements and other irregularities, this reflects the failure of that institution's internal audit. Thus, public institutions should increase their capacities, take more responsibility and work on improving their internal audit so that the Auditor General does not come up with the same recommendations every year. In addition, poor quality in record keeping makes the Auditor's job more difficult especially when providing an opinion for the whole report. An effective internal audit is a key requirement in improving public financial management. Many countries around the world have adopted Integrated Financial Management System (IFMS), an IT system of accounting and budgeting which puts the most important functions of financial management into one software set.
 - Estimated costs of one institution in hiring more staff, or training current employees in internal audit goes up to 25,000 euros, considering average salaries of 300 euros for new employees, training costs for current employees including accommodation, lectures and other costs.
 - The estimated cost of establishing IFMS would probably exceed 100 million euros and require all institutions' cooperation. Nevertheless, if done properly it would significantly improve record keeping, increase transparency and strengthen the whole process of internal audit.

6. Media and the civil society should increase its pressure towards the Government. The civil society should be an active participant in the follow up process of recommendations from the Auditor General. They could attract attention by selecting topics of interest such as irregularities in Public Procurement processes and hold public discussions, perform research projects on them, publish them in media etc. The impact will certainly be obvious. Increased demand from civil society for additional information in holding the Government accountable will lead to an increase in the quality of reports, be that from the Auditor General or COPF, and increase pressure on the Parliament to participate more actively in the follow-up process of the Auditor's recommendations.

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Appendix

Interview questions

Questions for the former Auditor General, Lage Olofsson and deputy Auditor General, Artan Venhari

1. How do you ensure and maintain independence? Is your independence threatened in any way?
2. What is the purpose of the Auditor's recommendations?
3. What do you think are the main reasons public institutions do not address recommendations from the Auditor General?
4. You have introduced some new reforms with the purpose of incentivizing public institutions to address your recommendations. Could you comment on that? Is the situation better now compared to 2009? How could it be further improved?
5. What is the role of the Committee for Oversight of Public Finances with regards to recommendations?
6. The Kosovo Progress Report for 2014 considered that the Committee for Oversight of Public Finances should concentrate on developing mechanisms to follow up the implementation of OAG recommendations. Could you comment on that? What should the Parliament's role be in this case?
7. Many PAC countries have legal regulations for Parliament Oversight that is, the Parliament is legally required to make institutions address and implement recommendations. Is enforced parliamentary oversight necessary in Kosovo?
8. Are there any actions the Auditor General can take with regards to issues raised in the audit reports?
9. How can the civil society also contribute to increase accountability of public institutions and improve public financial management?

Questions for Albert Krasniqi (COPF)

1. How does the Commission preserve its independence? Has it been threatened in any way?

2. What is the relation of COPF with the Office of the Auditor General? What about the Parliament and other budgetary commissions?
3. What is the actual status of COPF? When will it become functional? Will it have the same supporters (donors) or will there be changes in this direction?
4. What do you think, are the main reasons public institutions do not address the Auditor's recommendations? Do you think the situation has been improved in the last years? Why?
5. What is the role of the Commission for Oversight of Public Finances with regards to the Auditor General's recommendations?
6. The Kosovo Progress Report for 2014 considered that the Committee for Oversight of Public Finances should concentrate on developing mechanisms to follow up the implementation of OAG recommendations. Could you comment on that? What should the Parliament's role be in this case?
7. How can the civil society also contribute to increase the relevance of the committee and contribute to increase accountability of public institutions and improve public financial management?

Questions for Alexandra Fehlinger (GIZ)

1. GIZ decided to support the establishment of the Commission for Oversight of Public Finances! Where do you see the particular importance of this committee, and how does your support look in the implementation? Is GIZ the only source of support, or are there other donors currently involved with the committee?
2. What is the time frame for your continued support? How long do you think is necessary for the committee to become fully functional?
3. The Kosovo Progress Report for 2014 considered that the Committee for Oversight of Public Finances should concentrate on developing mechanisms to follow up the implementation of OAG recommendations. Could you comment on that? Do you see other important priorities for the committee?
4. Should the Office of the Auditor General focus more on performance evaluations during their audits?
5. From your experience, would you consider the Auditor General independent? If not, who influences it? What would you suggest be done with regards to this issue?

6. How can the civil society also contribute to increase the relevance of the committee?

Questions for Dardan Sejdiu, deputy mayor of Prishtina

1. What is the relation of the Municipality with the Office of the Auditor General? What about the Commission for Oversight of Public Finances?
2. Prishtina is the municipality with the largest budget allocated in comparison to other municipalities. However, from audit reports of 2008,2009 until 2013 the municipality has failed to address most of the Auditor's recommendations. What are the reasons?
3. Has the municipality worked on addressing the Auditor's recommendations in the last year?
4. Does the municipality possess the capacity for addressing and implementing all recommendations from the Auditor?
5. Does the municipality prioritize recommendations? On what basis?
6. Different from other public institutions, municipalities do not report directly to the Parliament. In this way, it becomes difficult for COPF to deal with them. On the other hand, municipalities are the institutions with the most problems concerning the Auditor's recommendations. Is there a correlation between these two factors?
7. How can the civil society also contribute to increase accountability of public institutions and improve public financial management?