CONTROL ENVIRONMENT IN KOSOVO PUBLIC INSTITUTIONS

Keywords
Control Environment in Public Institutions,
Internal Audit,
Financial Control.

JEL Classification
G00

Abstract

The study on how is Internal Control System developed in public institutions is of a special importance for modalities, forms and the manner of the application of relevant strategies for the functioning of internal control environment in public institutions. In this paper, there is treated the existing situation of internal control system environment of public finances and its implementation in public sector. For internal control system environment in public finances to function effectively, there should exist a coherent control environment which includes responsibilities for financial management from managers of Publicly Owned Enterprises and with complete functioning of internal audit, which exists in the function of development to add value. In Kosovo public institutions, this framework is offered by legislation and by institutional mechanism for the implementation of legislation according to these parameters.
1. Functioning of Internal Control System based on legislative framework

There is a comprehensive legislative framework in public institutions, which governs Public Internal Financial Control, which is comprised of: EU guidelines, other authoritarian standards; Governmental policies; primary legislation, and secondary and tertiary supporting legislation, such as the following:

- PIFC guidelines according to EU;
- INTOSAI and COSO standards for control and risk management;
- CIPFA Financial Management Model;
- Policy of Kosovo Government: PIFC Policy Document incorporating;
- PIFC policies approved;
- Law on Public Financial Management and Accountability (Law no. 03/L-048);

Unlike budget organizations, where the political role of the Minister is separated from the responsibility of CAO for administration and operation, the Mayor manages also municipal government and its administration/operations and is accountable to the people, for the actions of both (Government Republic of Kosovo).

2. Level of responsibility for the Internal Control system of environment

Each and every senior manager in public sector entities is fully responsible for the implementation of PIFC and is accountable for their performance in the utilization of public resources for the achievement of organization purposes. National Audit Office in the PIFC Conference in 2009, in Brussels, in order for PIFC to be effective, it should be implemented by a hierarchy of experienced managers, as it is said in the philosophy of modern management: “Every system is as good as the people who are responsible for its implementation” (General Directorate of Audit, 2010-2013).

**Figure 1**

In addition, one should also mention the Kosovo Anti-Corruption Agency, although this has not been presented in the previous charts. This autonomous body, which is established in 2006, reports to the Assembly for the accomplishment of responsibilities which are regulated by the Law on Combating Corruption. It focuses on the prevention of conflicts of interest and on monitoring the obligations of senior and property officers, monetary income or earnings earned while employed in the public service. For this purpose, this agency has a strong interest on the sound operation of internal financial controls (Government Republic of Kosovo).

3. Factors impacting the non-functioning of internal control system

Relating to information presented in the table above, for factors existing in the non-functioning of internal controls in public institutions, we have focused on the following areas:

- Improper segregation of duties;
- Conflict of interests;
- Improper creation of system;
- Political instability;
- High level of corruption;
- Limited access;
- Improper creation of policies;
- High level of nepotism.

Information on the modality of areas defined above in the non-functioning of internal controls in public institutions provide an important overview, at what level do they represent the functional situation of the system.

Based on the results presented, the main higher risk factors which do impact the non-functioning of internal controls is the improper creation of a system which prevails with 22.6%, high level of corruption with 22%, political instability with 21.80%, and the improper segregation of duties with 20.00% (Rexhepi, 2014).

According to the parameters found, the following assessments exist for the non-functioning of internal controls: respondents from six (6) institutions have expressed their opinion that the main impact for the non-functioning of ICS comes from high level of corruption and from the improper creation of the system. When it comes to the assessment of high level of nepotism, Ministry of Justice is at the highest level with 40%, while 4 other institutions are with 0% (Rexhepi, 2014).

**Figure 2**

**Figure 3**

According to the assessment, 53 % of employees are slightly satisfied with the activities undertaken by the management of Public Institutions in order to improve the quality of this phenomenon, while 21% of them have expressed themselves more positively, being satisfied with the processes undertaken, and 20% of respondents that are not satisfied at all.

Based on these assessments, we think that such a system is still not functioning to the interest of citizens and taxpayers, since the actions undertaken by the managements of Public Institutions are not sufficient and are basic in the function of the improvement and development of internal controls (Rexhepi, 2014).

4. Elements of non-functioning of the control system

The rate of percentage breakdown according to elements determining the employees’ dissatisfactions on the non-functioning of internal control system in public institutions.
As a higher risk is the level of insufficient communication with 22%, which means that there is no climate of cooperation created in the institutions and the seriousness that communication activities are developed within a sound system and with a high performance.

With 20% is assessed, “the improper interest for actual problems resulting in institutions”, and with 16% as a high risk is “the failure of sound application of laws and internal procedures, and with 14% as a main problem is the non-creation of modalities for an efficient control (Rexhepi, 2014).

See Table 1

5. Actions undertaken by the management for the functioning of ICS
The assessments with regard to at what level of reliability are Institutions for the actions undertaken by the management for the functioning of ICS, based on these results, show that actions undertaken are moderate and that they stand in a 47%, which is an inefficient and a non-functional assessment of ICS.

46% think that public institutions have still not provided the sufficient control assurance. 41% think that institutions have not provided an efficient system in the management of public funds. In the assessment of the freedom of expression, in order to report on the non-functioning of control in Public Institutions, 31% of respondents think that it is at a very low level, while 39% think that there is a moderate assessment of expression, but it is not sufficient, for cases that they have to report are not free to do it (Rexhepi, 2014).

Figure 4
For policymakers and managers of institutions, to what extent are designed performance measurement strategies for the past three years in the implementation of tasks and responsibilities, and the level of application of effective internal controls, the figures presented on the basis of percentages indicate challenges which should be encouraged even more by relevant managements for more favorable strategies and actions taken for the functioning of proper controls (Government Republic of Kosovo, 2013).

Figure 5
Related to analyzes and results as depicted in figure 4, 42% of respondents think that the management of institutions have adopted strategies for measuring the past three years to assess the performances, while 33% of respondents stated that the management has not developed strategies for evaluating measurement performance. According to the results presented in Figure 5 have concluded that management has taken action on applying average organizational controls with 34%, while 30% of respondents stated that management has not taken action on the application of the internal control system.

6. Results and Conclusions
This material has analyzed developments on the functioning and application of the system in internal control environment in public institutions. For a sound functioning of the system, a special role is also played by internal controls, form and the way of application and at what extent it is the prioritization of risks done which are identified in the systems of public institutions.

Developments in the non-functioning of the system are mainly in the improper observation of the activities undertaken by the institutional management level, in the function to eliminate irregularities and to implement legal and administrative procedures, which affect the effective performance of the system.

Management of PI should be focused on concrete actions with efficient modalities which are in the function of development and improvement of the Institution.

In our judgement, we have noticed that internal audit, which should in the function to impact an efficient management in PI does not have the management’s ethical and professional sustainability, in order to support the audited entity and to take recommendations into account in the function of the institutional interest.

As a matter of fact, the priorities which are applied by IA in the Strategic Plan may also vary over the time, thus reflecting them, depending on the relevant cases and changes in risks which require the provision of explanatory information and objective reasoning, where for such changes, audits to be carried out along with the provision of overall assurance for the systems will also consider specific risks identified (from risk management process if there is any, or the internal audit assessments). This audit plan, based on the risk assessments, shows how will internal audit help the management in risk mitigation, by reviewing and assessing systems through which they are managed, and will, therefore, provide recommendations to improve Internal Control System.

References
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Appendices

![Diagram](image-url)

Figure 1. The chain of accountability for organizations FMC Central Budget
Table 1. Reliability over actions undertaken by management for the functioning of ICS

<table>
<thead>
<tr>
<th>Actions undertaken by management for strengthening IC</th>
<th>Level of trust by employees for control and assurance provided by the management to the Institution</th>
<th>How much of efficient control is available with the institutions in the management of public funds</th>
<th>How free are they to report in relation to the non-functioning of controls in public institutions</th>
<th>Over these years, has the management undertaken any positive steps in strengthening ICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>2 %</td>
<td>5 %</td>
<td>7 %</td>
<td>7 %</td>
</tr>
<tr>
<td>Very little</td>
<td>34 %</td>
<td>25 %</td>
<td>31 %</td>
<td>34 %</td>
</tr>
<tr>
<td>Moderate</td>
<td>47 %</td>
<td>46 %</td>
<td>41 %</td>
<td>47 %</td>
</tr>
<tr>
<td>A lot</td>
<td>7 %</td>
<td>26 %</td>
<td>27 %</td>
<td>23 %</td>
</tr>
<tr>
<td>No answer</td>
<td>5 %</td>
<td>2 %</td>
<td>13 %</td>
<td>19 %</td>
</tr>
</tbody>
</table>
Figure 4: Performance of achieving implementation of the tasks and responsibilities by the Management during the last three years.

Figure 5: Percentage of efficient control application during three recent years by the Management of the Institution.