



Republika e Kosovës
Republika Kosova - Republic of Kosovo
Qeveria - Vlada - Government

Ministria e Financave
Ministarstvo Finansija - Ministry of Finance

Njësia Qendrore Harmonizuese
Centralna Jedinica za Harmonizaciju - Central Harmonization Unit

Methodology on monitoring and annual reporting for internal control systems of public sector entities

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ABBREVIATIONS

PSE – Public Sector Entity

CAO – Chief Administrative officer

CHU – Central Harmonization Unit on Financial Management and Control in Ministry of Finance

Principle COSO – Principle described in the Commission of Sponsoring Organizations of framework of Treadway Commission (COSO)

FMC – Financial Management and Control

Pursuant to Articles 28.2.2 and 28.2.3 of Law No. 06/L-021 on “Public Finance Internal Control” –
Ministry of Finance issues;

Methodology on monitoring and annual reporting for internal control systems of public sector entities (PSE)

1. This methodology regulates:
 - 1.1. Self-assessment, annual reporting and annual statement for the functioning of Internal Control System provided by the Public Sector Entity;
 - 1.2. Monitoring of quality of FMC in PSE performed by CHU.

I. Self-assessment by PSE

1. CAO of PSE organizes self-assessment of functioning of systems of FMC in annual basis.
2. FMC self-assessment includes the assessment of FMC of PSE based on questionnaire prepared by CHU and published in MF website.
3. During self-assessment CAO should consider results of continuous monitoring of FMC, findings of internal audit, conclusions of NAO and undertaken or proposed measures in order to address identified weaknesses and other source information.
4. FMC self-assessment should cover PSE and its subordinate bodies.

II. Annual report on Internal Control System

1. CAO of PSE prepares an annual report on internal control system, that includes:
 - a. FMC assessment based on FMC self-assessment results and results of activities of internal and external audit,
 - b. Statement of internal control,
 - c. Identified irregularities and undertaken measures during previous year.
2. Model of annual report on Internal Control System attached under Annex 1 of this Instruction.
3. The report defines the action plan including even activities to be undertaken in order to improve FMC in PSE.
4. Annual report on internal control system should be submitted to CHU until the end of May of each year.
5. CHU should submit annual report on public finance internal control system to the Government until the end of June of each year.

III. Monitoring of FMC systems quality

1. The purpose of monitoring is to make an external assessment of FMC by CHU.
2. FMC quality monitoring is comprised by:
 - a. Analysis of PSE self-assessment,
 - b. Analysis of information on disposal for the functioning of internal control in PSE,
 - c. Monitoring visits at PSE.
3. CHU manager prepares annual plan of FMC monitoring, not later than 3 December of current year.
4. The selection of PSE/s to be monitored shall be done by the CHU based on the risk assessment. The following criteria will be used when selecting the PSE/s:
 - a. Annual General Budget of the PSE and its subordinate bodies;
 - b. The size and complexity of the organizations (number of subordinate organizations, number of annual transactions, value of contracts under 10,000 Euro/500,000 Euro versus total number of contracts, percentage of budget re-allocations versus the initial general budget during the fiscal year, etc.);
 - c. Objectives and scope of the activities of the PSE;
 - d. The risk of fraud;
 - e. Irregular rate of spending of the general budget in the PSE;
 - f. Analysis of annual reports by PSE/s;
 - g. Requests from the PSE Manager or CAO on monitoring of FMC system;
 - h. Information on the weaknesses in the FMC/s and PSE/s systems that contain audit reports from the National Audit Office or the assessment reports of international organizations, donors, credit institutions, Treasury or other relevant MF units, etc.
5. Monitoring should target either individual PSE or some PSE that works within one sector and which are involved in the same process.
6. Each monitoring visit should precede a preparatory phase in the form of documentation analysis.
7. Before monitoring visit, CHU Manager sends a letter to the PSE Manager and CAO:
 - a. Informing that they've been selected for monitoring and purpose of monitoring;
 - b. Confirming the reception of monitoring request, and
 - c. Requiring a meeting with PSE Manager and CAO within 7 days after reception of the letter.
8. Upon written notice, the PSE Manager ensures that the CHU monitoring team is provided with full access to documentation, notes and other information necessary for monitoring financial management and control systems. The monitoring team should be provided with access to CAO, CFO, Heads of Subordinate Organizations, Operational Managers and other persons needed to provide information.
9. During the monitoring visit, the meeting should be held between the CHU Manager and/or the Head of the monitoring team, the PSE Manager and/or the CAO and the CFO with a purpose to clarify the goals, access and request the necessary information.
10. During the monitoring, the CHU assesses the status of the FMC system for each COSO principle, including whether there is sufficient, relevant and reliable evidence for each principle, and documents the monitoring results.

11. Based on monitoring results, CHU monitoring team prepares monitoring report that contains:

- a. Principle results – according to principle assessment of FMC in PSE,
- b. Assessment of systems effectiveness of FMC in PSE,
- c. Identification of those aspects of FMC systems that requires further improvement;

Assessment results according to each COSO principle will be described and assessed by points.

During assessment:

3 points will be awarded when the COSO principle is understood and functions very well in all PSE structures, as evidenced by the practice and supporting documents, approved by the PSE Manager, registered at the PSE protocol office and that are public or presented to the monitoring team with the self-assessment questionnaire or during the monitoring;

2 points will be awarded when the COSO principle is partially understood or functions only in some integral PSE links, or when the fulfillment of the conditions is planned and is in process, either fully completed or unfinished. This assessment is also provided if the practice is harmonized with the requirements of the principle (or is supposed to be harmonized and no evidence is available to the contrary) but the PSE cannot provide supporting documentation or supporting documents are under preparation or not registered in the protocol register.

1 point will be awarded when the COSO principle is not applied and/or when it is not understood by the integral parts of PSE. This assessment will also be provided if the practice is not harmonized with the requirements of the principle and the organization cannot provide supporting documentation.

The assessment of FMC system effectiveness in PSE will be grounded on available data and collected data on PSE performance, as well as on financial results and unknown irregularities.

Reporting model of monitoring of FMC functioning in PSE is attached under annex 2.

- 12. Not later than 30 days after monitoring visit, CHU Manager submits preliminarily monitoring report to the CAO and PSE.
- 13. PSE CAO within 8 working days is entitled to present comments/remarks on preliminarily monitoring report. If there are no comments, the report is considered as final one and PSE CAO prepares an action plan that addresses recommendations and submits it to CHU within 8 working days.
- 14. Comments submitted for the preliminary monitoring report are reviewed by the CHU Manager, which decides on their rejection or approval. Final monitoring reporting is sent to the PSE within 8 working days and the action plan is prepared and sent to the CHU within 8 working days after submission of the final monitoring report.
- 15. If during monitoring systematic weaknesses were identified, CHU Manager should ensure that those are included in the MFC annual report.
- 16. CHU Manager should approve the documentation of FMC quality monitoring in PSE, e.g. control lists and template used by monitoring team, which after fulfillment by monitoring team will be preserved as documentation on performed monitoring.

IV. FMC Annual Report

1. CHU prepares an annual report on functioning of FMC in PSE/s based on information from MFC self-assessments, PSE annual reports, monitoring reports and other relevant documents, as National Audit Office reports, EU Progress reports, etc.
2. This report should be part of consolidated report on PFIC, as provided by Article 28. 4 of Law on PFIC.
3. Especially, FMC report should include the conclusion on overall functioning and current status of FMC system in the country, including existence of systematic weaknesses and an overall overview of improvements recommended to be undertaken.

V. Final provisions

1. Following annexes are attached to the methodology and are an integral part of it.
 - Annex 1 – Model of annual report on PSE Internal Control System
 - Annex 2 – Model of monitoring report on FMC functioning in PSE.
2. The failure of the Declaration and the Annual Report on the Quality of FMC Systems burdens with responsibility the CAO of PSE, pursuant to Article 77.2 of Law no. 03 / L-048, as revised by Law no. 04 / L-194 on Public Financial Management and Accountability”.
3. This methodology enters into force upon signature of Minister of Finance.

Minister of Finance

Bedri Hamza

Director of CHU

Kosum Aliu

VI. Annexes

Model of annual report on PSE Internal Control System

Annual report on Internal Control System in..... (Name of PSE)

1. General assessment of Internal Control System

This part includes an overall description of the PSE Internal Control System, based on the monitoring results provided for in Article 15 of Law on PFIC and the results of internal and external audit activities. It should also include a description of the identified irregularities and measures taken during the previous year in order to improve the quality of FMC.

2. Action Plan on addressing identified weaknesses of ICS and auditors recommendations.

No.	Weakness/Recommendation	Activities to be undertaken on implementation of recommendation	Time limit and responsible person
1.	...		

3. Date and signature of PSE Manager

Annexes:

1. Statement of Internal Control (*see below*)
2. Self-assessment questionnaires with answers

Statement of Internal Control

Scope of responsibility

As a Responsible Officer, I have the responsibility to maintain a sound financial management and control system that supports the implementation of the policies, goals and objectives of the organization set by the Government of Kosovo, at the same time preserving the funds and public assets to which I am personally responsible, in accordance with the responsibilities assigned to me.

[Responsible Officers should add this paragraph to provide an explanation for regulating the responsibility about their role.]

Purpose of Financial Management

Financial management has to do with strengthening an organization's performance to ensure better decision making, better services, and better value for money.

Financial management is based on the premise that management is responsible not only for making financial decisions but also for ensuring that those decisions are taken properly and are in the best interest of the public. This also means ensuring that resources, e.g. staff, assets and budgets are used efficiently, effectively and economically.

Financial management includes work and financial planning, budgeting and reporting and includes the principles of transparency and accountability through which individuals accept responsibility for their actions.

[Describe the key elements of financial management within your organization, including the way on how the authority is delegated, definition of objectives and expectations, monitoring and reporting performance.]

Financial management within the organization is in accordance with the guidelines set out in the Financial Management and Control Rule and the FMC Manual of Procedures, and existed for the year which ended in 31 December, and until the date of approval of reports and annual accounts.

[Add another text or add if needed.]

The purpose of Internal Control System

The internal control system is designed to manage rather than eliminate the risk of failure in realizing the organization's policies, goals and objectives. Therefore, it can provide reasonable and ineffective assurance of effectiveness.

The internal control system is based on a continuous process designed to identify the main risks for achieving the organization's policies, goals and objectives; to assess the nature and extent of those risks and to manage it efficiently, effectively and economically.

The process within the organization is in accordance with the guidelines set out in the Financial Management and Controls and the FMC Manual of Procedures and existed for the year that ended on 31 December [20XX] and until the date of approval of the report and annual accounts.

[Add another text or add if needed.]

Risk and control framework

All budget organizations should operate a risk management system in accordance with the guidelines set out in Procedure no.4 of the FMC Manual.

[Describe the key elements of the risk management system including the manner in which the risk is identified, assessed and controlled. Describe the key ways in which the risk management process has been prioritized, including providing of training and guidance to the appropriate staff. Describe the key ways in which risk management is embodied in the organization's activity.]

In the most general aspect, the organization is committed to the process of continuous development and improvement; developing systems in response to any significant review and development in the area of risk management. Particularly in the period covering the year until 31 December, and until the signing of the accounts the organization has:

[Adapt the wording as needed to use this paragraph to identify any significant developments in the framework or implemented during the reporting or planned period.]

Effectiveness review

As responsible officer I have the responsibility for reviewing MFC system effectiveness. My review has been informed by:

- Self-assessment checklist completed by managers within the organization who have the responsibility for the development and maintenance of FMC;

(Signature of Chief Administrative Officer of
PSE and stamp)

MONITORING REPORT ON FMC FUNCTIONING IN..... (EMRI I SSP-SË)

1. Table of content

2. List of abbreviations

3. Purpose and objective of monitoring

This part should explain overall purpose and legal basis on CHU monitoring activities.

4. Monitoring team

This part should describe CHU staff which participated in monitoring,

5. Monitoring period and sources

This part should present monitoring dates and provide details on documents that have been used as ground for findings.

6. PSE responsibilities

This paragraph should briefly describe entity responsibilities.

6.1. PSE budget

This part should include information on PSE budget.

7. Findings and key recommendations

This part should content findings and key recommendations in table form and examples of good practices identified in PSE.

Nr.	GJETJET KRYESORE	REKOMANDIME
...

8. Detailed information on current status of FMC in PSE

This part should describe current status of FMC, on each COSO principle.

9. Assessment and results interpretation

This part should describe assessment method and interpretation of its results.

Annex – FMC quality review

The annex includes findings, assessment of FMC system quality on each COSO principle as well as reasoning on the assessment.

Principle	CHU assessment (1- 3)	Comments (clarifications)
....

