

**PROJECT INFORMATION DOCUMENT (PID)  
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC69779

<b>Project Name</b>	Strengthening OAG capacities in procurement audits
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Kosovo
<b>Lending Instrument</b>	IPF
<b>Project ID</b>	P160382
<b>Borrower Name</b>	Ministry of Finance
<b>Implementing Agency</b>	Office of the Auditor General
<b>Environment Category</b>	C - Not Required
<b>Date PID Prepared</b>	29-Sep-2016
<b>Estimated Date of Approval</b>	31-Aug-2016
<b>Initiation Note Review Decision</b>	The review did authorize the preparation to continue

**I. Introduction and Context**

**Country Context**

As a post-conflict country, Kosovo continues to face critical challenges when it comes to fully develop its economic potential, primarily because of weak institutional capacity and expertise, corruption, and constraints on the business environment. Moving forward, Kosovo is focusing on improving its situation, building tasks, increasing domestic productivity and economic growth, reducing unemployment and poverty, fighting corruption and organized crime, and creating a business-friendly environment.

EU has provided Kosovo with a perspective to establish direct contractual relations and move forward with negotiations on a stabilization and association agreement. Some related reform efforts were supported by the 2012-2015 World Bank country partnership strategy, which focused on accelerating economic growth through supporting infrastructure (especially energy), improving the business climate and education, increasing access to finance, and improving public financial management. In 2012, as part of the World Bank program in Kosovo and in order to assist the Government in assessing the undertaken reforms in the public procurement and financial management systems, the Bank prepared and presented a Country Fiduciary Assessment (CFA). The recommendations of the CFA were endorsed by the Government of Kosovo.

**Sectoral and Institutional Context**

A significant proportion of the Kosovo state budget is spent through public procurement thereby having a huge potential impact on the overall economy. Despite progress achieved in developing institutional and legal framework, procurement is still considered as one of the public financial management areas which need further development. This is highlighted in assessments done in the area such as OAG audit reports, SIGMA, PEFA. All expenditures must be managed within the

framework of laws and regulations. Similarly, compliance with these is poor.

These challenges are acknowledged and addressed by recent Kosovo national economic strategy, procurement strategy and draft PFM strategy. However, substantial improvements are still required and OAG work can support these challenges.

Having unfavorable local and international perception around financial management and control, OAG is increasing its procurement and compliance audit activities supporting implementation of the government PFM related strategies. To this end, the proposed project will support OAG in doing this more effectively.

### **Relationship to CAS/CPS/CPF**

As part of the findings of the March 2012 CFA and the Country Partnership Strategy (CPS), which covered the period FY12-FY15 (extended to 2016), ongoing public sector reform agenda remained the main entry point for moving forward with reforms of central governance systems and reducing opportunities and incentives for corruption.

The CPS stated that the World Bank would continue supporting and analyzing the quality of the legal and institutional environment in the areas of public financial management, public procurement, and institutional integrity, ensuring that World Bank support in these areas fully complements the Government's efforts to gradually approximate relevant EU norms and standards. Key Analytical and Advisory Activities in the CPS period comprised programmatic assistance to strengthen public expenditure management, fiduciary framework and anti-corruption efforts.

The grant-financed project was designed to address critical gaps in capacity building support provided by other development partners as well as aligning the effort with key reforms that the World Bank has supported to date. In recent years, the World Bank engagement in supporting public sector reforms has comprised several interventions that have built strong cooperation with Government clients and helped accumulate knowledge on challenges and actions required to improve institutional capacity in key government functions, including public procurement, and civil service management.

## **II. Project Development Objective(s) Proposed Development Objective(s)**

This project will contribute to:

Strengthen Office of Audit General (OAG) capacity on the value for money (VFM) and compliance audit in the field of procurement, enhancing in this manner public procurement process through valued added insights and recommendations;

Use the compliance audit focus in procurement to more widely develop compliance audit activity across the Office of Audit General, consolidating this work in the introduction of a separate compliance audit opinion; and

Conduct procurement post review for project financed by World Bank and other Multilateral Donors Organizations.

The provision of constructive, well focused recommendations related to procurement will promote enhanced procurement processes within Kosovo intended to deliver more efficient and effective service provision to citizens. The associated improvement in the controls applied to the procurement process will underpin wider PFM developments further enhanced by a more developed Office of Audit General compliance audit approach in non-procurement audit. This will promote an improvement in the Government PFM performance and service delivery.

To achieve these objectives, the project will develop a broader audit of procurement through an improved strategic overview of the field to identify where VFM activity can have most impact. This will be supported by pilot audits. A wider understanding of the compliance aspects of existing laws and regulations will drive the compliance audit developments and allow the basis for a consistent analysis of issues that would impact on the opinion.

The project will directly contribute to PEFA 2016 PI.19 ➤( competition, value for money and controls over procurement (scored C in the PEFA assessment). A broader Office of Audit General portfolio and other advisory activities will support public sector organizations strengthen competition, value for money and controls over public procurements thereby addressing challenges identified by the last PEFA and other external procurement assessments. It will also support better compliance with laws and regulations across all financial systems.

Through improving the quality and range of Office of Audit General inspection, the project will develop the skills of audit staff with a positive impact on all audit activity undertaken. An increased focus on systems and controls will contribute to more proactive action deterring fraud and corruption which are obstacles to long term Government development priorities. Also boosting auditors capacity, by training them to audit donors financed projects will help international organization to rely more on country system.

## **Key Results**

The goal of the project is to enable the OAG to carry out effective value for money audits in procurement and effective compliance audit with specific focus on procurement in line with international audit standards and good professional practices for public sector.

Intended results of the project will be as follows:

Better VFM in procurement and compliance audit reports;  
Updated OAG methodology in line with ISSAI and EU good practices;  
Focused training provided to OAG staff;  
Enhanced working with internal audit units;  
New compliance related audit opinion;  
Enhanced audit capacities of auditors towards MDO post reviews; and  
Workshop with external stakeholders to disseminate the lessons learned from the project.

In the long terms the results and impacts are expected to be as follow:

Internally: Building up OAG sustainable capacities and expertise in carrying out effective VFM and compliance audits with specific focus on public procurement by broadening and deepening its audit approach;

Externally: The extended OAG audit portfolio and other advisory activities will support public sector organizations use public money in an open and transparent manner, in compliance with the legal requirements, securing value for money and providing services of a good quality to citizens; and

OAG will respond to future demands of international organization for procurement post reviews contributing these way in building confidence in country system, and

Regionally: OAG is part of a network of regional SAIs which goal is to promote the implementation of audit methods and techniques in compliance with international standards and best EU practices.

Besides periodic meetings of heads of SAIs, cooperation involves working groups, seminars, workshops and parallel audits. Therefore, this presents an opportunity for Kosovo OAG to contribute development of the audit profession regionally in procurement and compliance related issues

### **III. Preliminary Description**

#### **Concept Description**

Output 1: Assessment of the (relevant) landscape and context that the project will address

Activity 1.1: Review and Analysis of Factors that will determine the focus of work being undertaken

This activity will identify and analyze the impact of key documentation, guidance and other relevant information which will maximize the impact of project activity. The outputs of this exercise will be shared with all relevant stakeholders and will serve as a basis for discussions to refine the scope of the intervention. Reference will be made to:

Public Expenditure and Financial Assessments (PEFA) conducted in Kosovo in past years to provide an overview of the current situation in the public financial management system to the extent that these impact on procurement and compliance audit activities;

the key actors and developments in Procurement and the extent to which this drives a revised (risk based and impact focused) strategy and supports more focused compliance audit activity through a

better risk assessment of where the key audit issues are;

existing laws and regulations that impact on a compliance audit of Procurement and Non Procurement activity to set clear and unambiguous guidelines as to what a compliance failure is and when such a failure would have an impact on the proposed **► ( Compliance Opinion ► ( ; and**

ISSAI guidance (ISSAI 4000/4001/4002) setting out International Standards on Public Sector Compliance Audit to ensure that the basis of compliance audit addresses international best practice and is embedded in OAG processes.

## Output 2: VFM Reports on Procurement

### Activity 2.1: Pilot Audits

The pilot audit process will incorporate four mentored audit: two will be cross cutting reviews (one related to central government and one related to municipalities, one will be focused on a single Budget Organization and one will address comparative audit by benchmarking similar public organizations. The final outputs will be reported to Parliament but also used as the basis for a conference with key stakeholders to raise and discuss the barriers and opportunities that exist related to enhanced procurement in Kosovo. This conference will also be used to highlight other procurement projects/ activities ongoing and seek to identify how the benefits of all these initiatives can be maximized.

### Activity 2.2: Revised OAG guidelines on VFM Procurement

In the spirit of continuous improvement the existing VFM procurement guidelines will be revised and updated to reflect lessons learned from the pilot audits. The audit guidelines, prepared with support of a previous IDF grant Enhancement of Public Procurement project, consist of: an initial audit strategy which requires ongoing development to reflect activity 1.1 above; and an audit manual streamlining VFM audit methodology to be applied by teams which now needs to be tested in practice and updated as appropriate. Special attention will be given to the use of market price comparisons and system based audit. As referred in the final report of the previous IDF grant project these are not fully ingrained in the OAG procurement audit process.

## Output 3: Compliance Audit

### Activity 3.1: Introductory Training

An initial training program for OAG staff will be developed based on the results of Output 1 and an assessment of existing skills within the OAG.

### Activity 3.2: Coaching and Mentoring audit support department

A program will be implemented to ensure that the audit support department is able to carry out an effective quality assurance process of a new compliance audit approach.

### Activity 3.3: Pilot Audits

Nine mentored audits will be undertaken (one for each OAG directorate) to apply a systematic approach to procurement and non-procurement compliance audit. Team leaders not involved in the pilot audits will be involved in the pilots to promote a consistent approach. A separate audit will also be carried out as a cross cutting review of specific procurement audit issues. The outcome of this work will be reported to the Assembly but will also be used to inform the conference highlighted in Activity 2.1 to maximize the benefits of the work within the PFM framework.

#### Activity 3.4: Training and pilot auditing on Procurement Process in Donors Projects

OAG auditors will be trained with donor procurement regulations and this would address a range of donors, including the EC and World Bank. Pilot auditing will be carried out to examine procurement activities after they are completed by the Borrower. These activities will create capacities that may be used by World Bank or other Multilateral Donor Organizations. OAG already undertaken audits of some donor funds such as Danida projects and other donors such as SIDA have expressed interest in using OAG for their audits. As there is an increasing demand in this regard OAG is seeking support to strengthen its capacities in auditing donor projects thereby opening the way for more use of country system by the donors and direct budget support - one of the underdeveloped areas according to PEFA.

#### Output 4: Regional knowledge exchange

##### Activity 4.1: Regional knowledge exchange workshop

A regional event will be organized to allow stakeholders from Kosovo to share their knowledge and experience with peer countries engaged in similar activities or having overcome similar challenges. The Network of Supreme Audit Institutions of EU candidate and potential candidate countries (Network of SAI) including Albania, Serbia, Montenegro etc. This will build on existing round table arrangements but will allow greater focus on procurement and compliance audit

### IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

### V. Financing (in USD Million)

Total Project Cost:	0.198	Total Bank Financing:	0
Financing Gap:	0		
<b>Financing Source</b>			<b>Amount</b>
Strengthening Accountability and the Fiduciary Environment			0.198

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