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OFFICE OF THE AUDITOR GENERAL

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**AUDIT REPORT ON THE REVENUES AND EXPENDITURES  
OF THE RADIO TELEVISION OF KOSOVA FOR THE YEAR**

**ENDED**

**31 DECEMBER 2007**

**Prishtina, October 2008**

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## 1. EXECUTIVE SUMMARY

The Office of the Auditor General has completed the audit of the accounts and expenditure of the Radio Television of Kosovo (RTK) for the year ended 31 December 2007.

In our opinion, given the fact that RTK is not properly managed and controlled, it does not comply with its regulatory framework in terms of financial reporting and internal control.

AG Auditor General

IFAC International Federation of Accountants

IPSAS International Public Sector Accounting Standards

KEK Kosovo Energy Corporation

OAG Office of the Auditor General

PPRC Public Procurement Regulatory Committee

RTK Radio Television of Kosova

SRSB Special Representative of the Secretary-General

UNMIK United Nations Mission in Kosovo

## I. EXECUTIVE SUMMARY

The Office of the Auditor General (OAG) performed an audit of the revenues and expenditures of the Radio Television of Kosova (RTK) for the year ended 31 December 2007.

In our opinion except for the deficiencies presented below the RTK has properly managed revenues and expenditures during 2007, and complied with its regulatory framework in carrying out its operational and financial activities.

Our audit was carried out in accordance with international auditing standards issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants and included such tests and procedures as we deemed necessary to report about the RTK's financial management.

Our Audit report at Section VI, presents findings and a total of 8 sets of recommendations in the following areas:

- Financial Management
- Public Broadcasting Fee Revenues
- Marketing Revenues
- Wages and Salaries
- Procurement
- Travel Expenses
- Staff Training
- Internal Audit

### II. Background of RTK

Radio Television of Kosova (RTK) is a public institution providing a public service in the field of radio and television broadcasting. RTK is a legal person founded by the Assembly of the Republic of Kosova through the Law No.021/07 promulgated with 12000/07 regulation on 2007/14.

RTK is supervised by a Governing Body - RTK Board and a Managing Body - General Director and the Senior Management.

The RTK Board approves the RTK Finance Rules of Procedures and publishes by 31 March each year an annual financial report of revenues and expenditures for the previous year that report is known as independent audit.

## II. Introduction

Office of the Auditor General carries out its functions based on Law No.03/L-075.

According to article 3.2 of this Law, the Auditor-General shall annually conduct a Regularity Audit of the Kosovo Consolidated Budget, budget organizations, including but not limited to the Assembly of the Republic of Kosovo, the Office of the President of the Republic of Kosovo, each Ministry and executive agency, municipalities, independent bodies, the Central Bank of the Republic of Kosovo (CBK), and other entities that are either more than 50 %publicly owned or receive funding from, or provide dividends or other non tax revenue to the Kosovo Consolidated Fund including but not limited the Kosovo Customs Service, the Kosovo Privatization Agency and the Ombudsperson.

According to Article 1 of this Law (definitions) "Regularity Audit" means attestation of financial accountability involving examination and evaluation of financial statements and other financial records and expression of opinions on:

Whether the financial records, systems and transactions comply with applicable statutes and regulations;

The appropriateness of internal control and internal audit functions;

The probity and propriety of administrative decisions taken within the audited institution or entity; and

All matters arising from or relating to the audit.

## III. Background of RTK

Radio Television of Kosova (RTK) is a public institution providing a public service in the field of radio and television broadcasting. RTK is a legal person founded by the Assembly of the Republic of Kosova through the Law No.02/L-47 promulgated with UNMIK regulation no.2006/14

RTK is composed of a Governing Body – RTK Board and a Managing Body – General Director and the Senior Management.

The RTK Board approves the RTK Statute, Rules of Procedure and publishes by 30 March each year an annual financial report of revenues and expenditures for the previous year; this report is subject to independent audit.

General acts approved by the RTK Board regulate the day to day activities to regulate how financial and accounting activities are carried out. The RTK Board approves financial, operational and development plans.

RTK is funded by:

- Public Broadcasting Fee;
- Contracts with third parties for transmission services,
- Other programme services;
- Publishing music video, audio products, books, newspapers and magazines related to the RTK programmes;
- Concert activities and public performances;
- Advertising and publishing other paid messages;
- Sponsorship and donations in accordance with law;
- Sale of RTK programmes;
- Other sources in compliance with the Law. RTK carries out its activity by means of funds collected from the Public Broadcast Fee and other funding sources, which are in their entirety deposited in a bank account designated by the Ministry of Economy and Finance.

RTK revenues are used to fund programmes of Radio Kosova and Television of Kosova as well as other purposes established in the annual programme and financial plans approved by the RTK Board of Directors.

RTK's annual budget is approved by the RTK Board of Directors based on the proposal of RTK Management. Caution is exercised to ensure that expenditures do not exceed projected revenues.

#### IV. AUDIT SCOPE

OAG performed an audit of the revenues and expenditures of the RTK for the year ended 31 December 2007.

The primary objective of this audit was to enable the OAG to report on the management of RTK revenues and expenditures during the fiscal year ending 31st December 2007; determine whether revenue and expenditure transactions complied with applicable laws and regulations; and whether these transactions were properly recorded to ensure reliable reporting of the RTK's financial activities under the accrual system of accounting set out by the International Public Sector Accounting Standards of the International Federation of Accountants (IFAC).

## V. AUDIT APPROACH

Our audit of the RTK revenues and expenditures for the year ended 31 December 2007 was conducted in accordance with international standards on auditing (ISA) issued by the International Auditing and Assurance Standards Board. The Board functions as an international standards setting body under the auspices of IFAC. The ISAs establish the international framework within which the OAG is to perform its work and covers matters such as general principles and responsibilities, risk assessments and responses to assessed risks, audit evidence, relying on the work of others, and audit conclusions and reporting.

Our audit was planned and performed during the period of 14th April to 16th May 2008.

In order to fulfil our responsibilities, we:

Reviewed the RTK internal financial statements against the approved budget for 2007;

Determined whether the transactions were registered in accounting records and whether RTK financial statements were prepared in accordance with IPSAS "Financial Reporting under the Accrual System of Accounting";

Undertook extensive substantive testing of financial transactions;

Used a combination of judgment and random sampling to select transactions for testing;

Established materiality levels of 5 percent for uncertainties and 3 percent for errors as a threshold for assisting in determining the type opinion to render on the financial statements;  
Relied on a combination of interviews, analytical reviews, document reviews, and physical verification to assess the validity and propriety of financial transactions;

Assessed the independence and quality of work of the RTK Internal Audit Unit to determine if their work could be relied upon for our audit purposes;

If appropriate, the audit report should discuss any limitations on the audit, such as denial of access to records, missing documentation, inability to visit project sites, etc. and the impact of such limitations on the audit.

Our findings and conclusions are based upon the documentation and other information and explanations provided to us during the course of our audit work. It is possible that additional information existed but was not provided to us and, if provided, might have altered our findings.

## VI. KEY FINDINGS AND RECOMMENDATIONS

The key audit findings and recommendations resulting from our audit of RTK revenues and expenditures are as follows:

### Financial Management

The RTK's system of financial reporting, including Cash management, is regulated by Financial Policies and the RTK Statute.

RTK records accounting transactions applying accruals based accounting principles in accordance with International Accounting Standards.

In addition to annual financial reports, RTK also prepares periodic internal financial management reports.

In accordance with RTK Law and internal rules, all revenues collected must be deposited as public money to a bank account designated by the Ministry of Economy and Finance.

Up to June 2008, RTK collected public broadcasting fee revenues through the Central Bank, and other source revenues through the commercial bank, ProCredit Bank. Since June, the management of all revenues is through ProCredit Bank.

Payments are made through a bank account by either payment order transfers or by issuing cheques.

Bank transfer payments must be approved by a minimum of 2 members of senior management.

### Finding

In contravention of the requirement, that all public money must be deposited in the bank account designated by MEF, in 2007 RTK had 2 main bank accounts and 5 subaccounts, which were used for deposits and payments. One of these sub accounts was opened on the request of a donor.

From the start of 2008, RTK restructured its bank accounts into two main accounts and one subaccount for the project "Road Sezam".

## Conclusion

Multiple bank accounts can lead to a weakening of controls over revenues and expenditures. It also becomes difficult to accurately monitor and manage cash flows.

We are pleased to report that RTK management have reduced the number of bank accounts in 2008.

## Recommendation 1

RTK must manage its bank accounts in full compliance with the legal and operational requirements of the organisation.

## RTK Revenues

RTKs revenues are generated from the following sources:

	Euro	
1. Public Broadcasting Fee Revenues	7,991,363	(81%)
2. Marketing Revenues	1,526,519	(16%)
3. Service Revenues	189,098	(2%)
4. Other revenues	105,302	(1%)
Total	9,812,282	(100%)

## Public Broadcasting Fee Revenues

The Law on Radio Television of Kosova No.02/L-47 identifies the main funding source of RTK as the Public Broadcasting Fee to be paid by citizens for the provision of broadcast services.

The legal framework authorizes the KEK to act as an agent for collecting Public Broadcasting Fees on behalf of the RTK. This has been confirmed in a service contract signed between RTK and KEK on 18th November 2005.

The Public Broadcasting Fee is set at 3.5 Euro per month for each household or business to which KEK issues an electricity bill. KEK must remit this fee income to a designated RTK bank account every month within 10 days of the end of the previous month. For providing this agency service, KEK is permitted to deduct and retain the VAT and a monthly commission of 6% of fee income collected.

The Public Broadcasting Fee revenues collected by KEK on behalf RTK in 2007 was €7,991,363 gross and €7,439,959 net after the deduction of commission retained by KEK. VAT included in the gross income was €551,404.  
By the 31st December 2007 KEK had transferred to RTK € 5,332,598 in respect of 2007 Public Broadcasting Fee collections.

#### Finding

In contravention of the contract between RTK and KEK funds are frequently transferred significantly later than the 10 day maximum required by the contract. For example:

#### January 2007 Fee Income of €690,244

This income should have been transferred to the RTK account by no later than 10th February 2007. However we report that this was concluded by the following four instalment payments:

	Net sum paid €	Date of payment	Delay Days
1.	250,244	03.04.2007	52
2.	240,000	24.04.2007	73
3.	60,000	25.04.2007	74
4.	140,000	16.05.2007	95

The service contract does not have any provision for applying financial penalties in the event of late remittances by KEK to RTK.

#### Conclusion:

Delay in transferring funds from KEK to RTK is in direct violation of the contract. Additionally, these delays have a serious impact on the cash flow of RTK and could affect its operations. A service contract of this nature would normally be expected to have a provision for the application of financial penalties in the event of late transfer of remittances.

#### Recommendation 2:

KEK must formally undertake to fulfil its contractual obligation to remit Public Broadcast Fee income collected on behalf of RTK within 10 days of the month following collection of said fees.

RTK should re-negotiate its service contract with KEK to include an appropriate provision for the application of financial penalties in the event of late remittances of Public Broadcasting Fee revenues from KEK to RTK.

RTK's Management comments :

1. On page 10, on the Conclusion of the Recommendation 2, of the Draft Report on Audit of The Revenues and expenditures of the Radio Television of Kosova for the year ended on 31 December 2007, RTK clarifies as below:
  - a) It is fact that the delays on the transferring of the funds from KEK to RTK is direct breach of the contract by KEK, respectively of the paragraph 5.1., of the Article 5, on the Remittance to RTK of Fee Collected.
  - b) RTK had several times requested from KEK to implement the obligation of the transfer of the RTK money collected, as stated on the current contract, otherwise RTK is prepared to undertake legal actions in order to collect its debts. (attached correspondence)
  - c) The current Contract RTK-KEK expires on 30 November 2008. RTK will follow your recommendations during the new RTK-KEK contract which is due to start soon, to incorporate the Article on the financial penalty in the event of the late remittances of the Public Broadcasting Fee Revenues from KEK to RTK.

OAG's evaluation :

RTK agrees with OAG findings, whereas presented comments by RTK are in line with actions that will be initiated regarding implementation of our recommendations.

**Marketing Revenues**

RTK has contracted "CMB Productions & Marketing" as its agent to collect revenues from the sale of advertising time.

For this service, CMB is paid the following commissions based on the value of revenues generated by this source.

Euro	Commission
0 - 1,300,000	10%
1,300,001 - 1,500,000	15%
1,500,001 and above	20%

Total revenues from this source in 2007 were €1,526,518. €1,519,620 was collected by CMB, whilst the balance of €6,898.64 was collected from Radio sources.

Commission paid to CMB for services delivered in collecting revenues for the year 2007 was €168,933 (Inclusive of VAT). This expenditure is classified under "Goods and Services" in the RTK statement of Revenues and Expenditures.

**Conclusion:**

To ensure consistency in financial reporting it would preferable if the commissions paid for agency services for marketing revenues were clearly and uniquely identified in the RTK statement of Revenues and Expenditures. This is already the case with commissions paid to RTK and our recommended change will bring about transparency and reporting consistency.

**Recommendation 3:**

The RTK Board should consider amending the financial reports to show commissions paid for Marketing Revenues as a separate item and not as current practice reporting these as "Goods and Services" expenditure

**RTK's Management comments:**

2. On the page 11, on the Conclusion of the Recommendation 3 of the Draft Report on Audit of The Revenues and expenditures of the Radio Television of Kosova for the year ended on 31 December 2007, RTK clarifies as below :
  - a) On the detailed RTK Financial Annual Report for year 2007, which has been reviewed and approved by the RTK Board of Directors, copy of which has been delivered to the Parliamentary Commission for Public Administration, Local Authority and Media, the expenditures of the RTK Marketing Provision are stated as the separate item. The expenditures of the RTK Marketing Provision are shown as a separate item also on the RTK's publicized reports on the RTK's web site. ([www.rtklive.com](http://www.rtklive.com)).
  - b) On the next RTK BoD meeting the RTK Management shall recommend to that the RTK Marketing Expenditures be shown as separate item in the future.

**OAG's evaluation :**

RTK agrees with OAG findings, whereas presented comments by RTK are in line with actions that will be initiated regarding implementation of our recommendations.

**RTK Expenditures**

Total RTK expenditures in 2007 were €9,680,150. These fall into the following main categories:

Category	€	% total
1. Wages and Salaries	3,544,783	37
2. Capital Investment	1,525,310	16

3. Subsidies and Transfers	583,823	6
4. Goods and Services	3,813,865	39
5. Utilities	212,369	2
<b>Total:</b>	<b>9,680,150</b>	<b>100</b>
<b>Wages and Salaries</b>		

During 2007 RTK employed 423 staff under regular contracts.

In addition, RTK engaged professionals using service contracts to assist RTK to implement specific projects related to RTK operations.

**Finding:**

Internal RTK regulations permit the engagement of professional associates based on its annual plan for productions. This plan is approved by the RTK Board. RTK Human Resources unit prepares and publishes the advertisement for honorarium workers and recruits this category applying standard recruitment procedures.

In extraordinary circumstances, the RTK General Director may directly engage an honorarium associate in consultation with relevant heads of units.

In 2007 a professional associate for legal matters was engaged to provide the legal services envisaged in the RTK organisation chart by a permanent legal unit. The RTK Board took this decision based on their assertion that they would be unable to recruit a full time legal council within the salary structure of RTK. Therefore, whenever the need arose, they engaged a legal council using a service contract

**Conclusion:**

Whilst we can understand the difficulties RTK has in recruiting and retaining appropriately qualified and experienced legal officers it would be preferable if they were able to do so. Alternatively, the RTK should seek full board approval to amend its organisation structure to reflect the fact that it is not feasible to have a permanent legal service and as a substitute RTK will use associates to provide legal services.

**Recommendation 4:**

RTK must either actively seek to recruit legal officers to establish a permanent RTK legal unit or seek full board approval to amend the current organisation chart to reflect the fact that it is impossible to recruit for this unit.

RTK's Management comments :

3. On page 13, on the Conclusion of the Recommendation 4 of the Draft Report on Audit of The Revenues and expenditures of the Radio Television of Kosova for the year ended on 31 December 2007, RTK clarifies as below:

- a) On its regular meeting held on 10 September 2008, the RTK Management has decided to recruit two legal officers within RTK Legal Unit through public vacancy announcement (public vacancy announcement at [www.rtklive.com](http://www.rtklive.com) )

OAG's evaluation :

RTK agrees with OAG findings, whereas presented comments by RTK are in line with actions that will be initiated regarding implementation of our recommendations.

**Procurement**

**Findings:**

As required by Section 7.2 of the Law on Public Procurement 2003/17 Senior Management of RTK must submit an approved annual procurement forecast to the PPA. This was not done and all 2007 procurements were performed on the basis of an unapproved preliminary forecast.

The RTK Procurement Officer responsible for procurements for the Radio service could not provide any evidence of relevant training as required by Section 21.2 of the Law on Public Procurement.

**Conclusion:**

The absence of a PPA approved annual procurement forecast allied to the fact that the Radio service procurement officer has not undergone the required training could weaken the management of all procurement processes.

**Recommendation 5:**

The RTK Management should ensure that there is full compliance with the requirements of the Law on Public Procurement.

RTK's Management comments :

4. On the page 13, on the Conclusion of the Recommendation 5 of the Draft Report on Audit of The Revenues and expenditures of the Radio Television of Kosova for the year ended on 31 December 2007, RTK clarifies as below :

- a) In order to comply fully with the law requirement on the Public Procurement, RTK Procurement officials have been selected to follow the training as required by section 21.2 of the Law on Public Procurement. .

OAG's evaluation :

RTK agrees with OAG findings, whereas presented comments by RTK are in line with actions that will be initiated regarding implementation of our recommendations.

**Travel Expenses**

**Finding:**

In contravention of RTK financial policy an advance allowance of €1000 for official travel was cleared 2-months after return and not the maximum of 8-days required by internal regulations. These same regulations permit the RTK to deduct overdue advances from employee salaries. In this case no such action was initiated.

**Conclusion:**

The reported delay in clearing advances is in direct contravention of RTK approved policies and could indicate a weakness in the management of RTK funds.

**Recommendation 6:**

RTK management should rigorously apply its polices and procedures when dealing with the retirement of advances to staff.

**Staff Training**

**Finding:**

In April 2007 RTK signed a service contract with the School of Design and Fashion "Design Factory-KS". The contract specified that an RTK employee would attend studies in this school for three years, and RTK in return would provide advertising time to this school for each academic year until the candidate graduated. The value of this contract was not specified.

We report that we could find no evidence confirming the enrolment and attendance by any RTK employee at this school as envisaged by the contract. However, on 2nd December 2007,

the school invoiced RTK for the amount of €15,400 to cover the cost of the full three years of studies.

Finally we report that the RTK permitted this organisation to utilise its entire value of credits for advertising (€15,400) in a 2-month period contrary to the contract expectation that this would be evenly spread over a three-year period.

**Conclusion:**

We conclude that this contract has not provided the RTK with the services expected and that RTK should not have authorised the free advertising time to the school. As a result of their actions, we conclude that RTK has potentially lost advertising revenue to the value of €15,400.00.

**Recommendation 7:**

The RTK Management must ensure that an RTK employee is immediately nominated to attend the planned three-year studies envisaged in this contract. Alternatively, the RTK Management should investigate the circumstances of this potential loss of revenue and take appropriate action.

**RTK's Management comments :**

5. On page 14, on the Conclusion of the Recommendation 6 of the Draft Report on Audit of The Revenues and expenditures of the Radio Television of Kosova for the year ended on 31 December 2007, RTK clarifies as below:
  - a) On the signed Contract between RTK and "Design Factory" faculty for the lessons attendance of the one of RTK employee, the beginning of the implementation of the contract is foreseen for the academic year 2007.
  - b) Due to the health problems of the RTK employee the lessons attendance was not accomplished as foreseen in the contract.( medical reports of the RTK employee are at the office of the RTK Administration)
  - c) RTK has been informed that faculty "Design Factory" has in meantime signed the contracted with the licensed university in Macedonia. This fact enables RTK to select another employee in order to follow the lessons attendance in the faculty "Design Factory" for the next three academic years, on bachelor degree.

**OAG's evaluation :**

RTK agrees with OAG findings, whereas presented comments by RTK are in line with actions that will be initiated regarding implementation of our recommendations.

## VII. INTERNAL AUDIT

An effective and functionally independent internal audit service is a key component of the internal control system. It acts as an adviser to senior management on the effectiveness of internal controls in the prevention and detection of irregularities and potential fraud. It will also provide management with recommendations designed to improve the internal control environment.

### Findings:

In 2007 RTK had one internal auditor who carried out two audits in this year. These audits were performed in accordance with the annual work plan and the subsequent reports provided useful recommendations to rectify identified weaknesses.

### Conclusion:

As the planned and actual audit activities did not cover all of the important operational and financial activities of the RTK and were not based on any risk analysis we concluded that we could place no reliance on the work of RTK internal audit for the purposes of our review.

### Recommendation 8:

The RTK Management should seek to improve the internal audit service currently being provided to the RTK by ensuring that planned audits are based on a risk assessment that will identify audit priority areas.

The RTK Management should consider recruiting additional suitably qualified and experienced personnel to strengthen and expand the activities of the internal audit service.

### RTK's Management comments :

6. On page 16, on the Conclusion of the Recommendation 8 of the Draft Report on Audit of The Revenues and expenditures of the Radio Television of Kosova for the year ended on 31 December 2007, RTK clarifies as below:
  - a) During the year 2007, RTK Management has discussed several times on the need for the additional officer on the unit of the RTK Internal Audit. As on the financial instability due to arbitrary announcement by KEK on the Termination of the RTK-KEK Contract, RTK could not recruit and cover the expenditures for additional staff in the RTK Internal Audit Unit.(attached the announcement on the Contract Termination RTK-KEK)

- b) Following the Recommendation 8 of the Draft Report on Audit of The Revenues and expenditures of the Radio Television of Kosova for the year ended on 31 December 2007, the RTK Management has decided to recruit additional staff on the RTK Internal Audit Unit through public vacancy announcement. (public vacancy announcement at [www.rtklive.com](http://www.rtklive.com) )

**OAG's evaluation :**

RTK agrees with OAG findings, whereas presented comments by RTK are in line with actions that will be initiated regarding implementation of our recommendations.

Code	Description	Unit	Value
1	Revenue	3,544,781	3,544,781
2	Operating expenses	2,212,401	2,212,401
3	Administrative expenses	809,431	809,431
4	Other revenues	615,677	615,677
5	Other expenses	669,473	669,473
6	Subsidy and grants	781,703	781,703
7	Commission to KPA	486,421	486,421
8	Real and immovable	221,239	221,239
9	Other	311,399	311,399
10	Other	146,180	146,180
11	Other	13,139	13,139
<b>Total</b>			
Total Revenue		3,544,781	3,544,781
Total Expense		4,488,752	4,488,752
Total Difference		943,971	943,971

Annex I - Statement on Revenues and Expenditures of the Kosova Radio Television for the year 2007

RTK income statement according to the status as of 31 December 2007

No.	REVENUES	EURO	EXPENDITURES	EURO
1	Public Broadcasting Fee revenues	7,991,363	Wages and salaries	3,544,783
2	Marketing revenues	1,526,519	Programme	2,312,091
3	Reimbursements	189,098	Amortization	909,633
4	Other revenues	65,668	Investment	615,677
5	Donor revenues	39,634	Goods and services	604,573
6			Subsidies and transfers	583,823
7			Commission to KEK	496,401
8			Fuel and maintenance	220,630
9			Utilities	212,369
10			EBU	146,362
11			Other	33,808
	<b>Total revenues</b>	<b>9,812,282</b>	<b>Total expenditures</b>	<b>9,680,150</b>

Total revenues 9,812,282€

Total expenditures 9,680,150€

Positive difference 132,132€