



PROVISIONAL INSTITUTIONS OF SELF GOVERNMENT

KUVENDI I KOSOVËS
СКУПШТИНА КОСОВА
ASSEMBLY OF KOSOVO

Law No. 02/L-74

ON INTERNAL AUDIT

Assembly of Kosovo,

Pursuant to Chapter 5.1(b) and 9.1.26 (a) on a Constitutional Framework for Provisional Self-Government in Kosovo (UNMIK Regulation No. 2001/9 of 15 May 2001),

Recognizing that the lawful and efficient functioning of public administrative operations, management and control systems and procedures - especially those relating to budgetary, financial, fiscal and procurement matters – requires an institutionalized system for the conduct of regular internal audits of public sector entities;

Intending to establish such an institutionalized system and to assign to the persons tasked with implementing it the authority and responsibility to conduct regular systemic internal audits of public sector entities for the purpose of reviewing their internal operations, procedures and systems to determine their efficiency and the level of compliance with applicable laws and regulations; and

Further intending to assign to such persons the authority and responsibility to identify and record all irregularities, inefficiencies and illegalities in the operations, procedures and systems of public sector entities and to bring such issues, together with recommendations for the correction thereof, to the attention of the senior managers and officials of the concerned public sector entity and, where necessary or required, certain other officials;

Hereby adopts the following:

LAW ON INTERNAL AUDIT

CHAPTER I

I. GENERAL PROVISIONS

Article 1
Purpose

1.1. This purpose of the present law is to ensure greater operational efficiency, budgetary and financial discipline and legal and regulatory compliance by public sector entities by requiring each such public sector entity to subject its operations, records and management and control systems to regular, systematic and comprehensive internal audits.

1.2. It is also the purpose of the present law to ensure that such internal audits are conducted for the purpose of adding value to public sector entities in a manner that enhances the benefits provided by public sector entities to their users and beneficiaries and the people of Kosovo.

1.3. Consistent with such purposes, the present law also establishes an institutional system to ensure the proper conduct of such internal audits.

Article 2 Definitions

2.1. For the purposes of interpreting and applying the present law, each of the following terms shall have the indicated meaning unless the context within which such term appears clearly intends another meaning:

“Chief Administrative Officer” or **“CAO”** means, with respect to a budget organization, (i) its Permanent Secretary, (ii) if it has no Permanent Secretary, its Chief Executive Officer, or (iii) if it has neither a Permanent Secretary nor a Chief Executive Officer, the person who has principal day-to-day administrative authority over its operations, personnel and finances. In the case of an autonomous public undertaking that is not a budget organization, these terms mean the chief executive officer, managing director or other person having principal day-to-day administrative authority over its operations, personnel and finances.

“Budget organization” means any public authority or public undertaking that directly receives under an Appropriations Law an appropriation that is not a component of a larger aggregate appropriation provided to another public authority or public undertaking.

“Public authority” means any of the following: (i) any central, regional, municipal or local authority, public body, ministry, department or other authority that exercises, pursuant to an authorization in a law or an UNMIK regulation, executive, legislative, regulatory, public-administrative or judicial powers, and (ii) any part or subunit of any of the foregoing.

“Public undertaking” means (i) any designated entity specified in Schedule A to the Law on Public Financial Management and Accountability and (ii) any other undertaking that (a) is publicly owned or has been established with public funds or pursuant to public law, and (b) is not a public authority or part of a public authority.

“Autonomous Public Undertaking” means (i) any designated entity specified in Schedule A to the Law on Public Financial Management and Accountability, and (ii) any other public undertaking that operates with substantial autonomy and is not subject to direct managerial control by a public authority even though it may be subject to management supervision or regulatory supervision by a public authority.

“Controlled Public Undertaking” means any public undertaking that is not an “autonomous public undertaking”

“Public Sector Entity” is a general term that means and includes each and every public authority and public undertaking in Kosovo.

“Financial Rules” means the Financial Rules issued pursuant to the Law on Public Financial Management and Accountability.

“PIFC” means Public Internal Financial Control.

“PIFC Rules” means the PIFC rules issued pursuant to the Law on Public Financial Management and Accountability.

“**Audit Committee**” means an Audit Committee described in Article 5.

“**Central Internal Audit Harmonization Unit**” or “*CHU*” means the Central Internal Audit Harmonization Unit within the Ministry of Economy and Finance established pursuant to Article 6 of the present law.

“**Internal Audit Unit**” or “*IAU*” means the internal audit unit of a budget organization or an autonomous public undertaking established pursuant to Article 9 of the present law.

“**Internal Auditor**” means a person holding a current and valid Internal Auditor license, including a temporary license that has been issued in accordance with the present law.

“**Internal Audit Advisor**” means the advisor engaged by the Ministry of Economy and Finance in accordance with Article 18.1 of the present law.

“**Minister**” means the Minister of Economy and Finance.

2.2. References in the present law to any other law or regulation shall be interpreted as referring to any successor legislation thereto.

Article 3 Principles

All Internal Audit Units and Internal Auditors shall conduct internal audits in accordance with the following principles:

(a) **Legality.** Every Internal Audit Unit and every Internal Auditor shall conduct internal audits in strict accordance with the applicable law, rules, standards and practices, including, but not limited to, those specified in Article 9.8 of the present law.

(b) **Integrity.** Every Internal Audit Unit and every Internal Auditor shall perform internal audits in a strictly professional manner in accordance with all applicable legal requirements, and the concerned internal auditors shall strictly avoid all conflicts of interest and shall not allow any personal considerations of any description to affect or influence the manner in which he/she conducts the internal audit.

(c) **Objectivity.** Every Internal Audit Unit and every Internal Auditor shall use the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. They shall make a balanced assessment of all relevant circumstances and shall not allow their activity, opinions or conclusions to be influenced in any manner by their own personal interests or the interests of any other person.

(d) **Confidentiality.** Every Internal Audit Unit and every Internal Auditor shall respect the value and ownership of information they acquire and shall not disclose such information to any person except as may specifically be required by the present law.

(e) **Competency.** Every Internal Audit Unit and every Internal Auditor shall possess and apply the professional knowledge, skills, and experience required for the professional conduct of such audit.

(f) **Independence.** Every Internal Audit Unit and every Internal Auditor shall be wholly independent from the activities being audited and the persons responsible for or involved, directly or indirectly, in such activities.

Article 4
Conduct and Purpose of Internal Audits

4.1. Every public sector entity is required to ensure that its operations, records and management and control systems are regularly – at least once a year - and systematically subjected to a comprehensive internal audit, in accordance with the provisions of the present law, either by:

- (a) an Internal Audit Unit that, under Article 9.1 of the present law, has internal audit authority over such public sector entity, if such an Internal Audit Unit has been established; or
- (b) in the event that such an Internal Audit Unit has not been established, by an Internal Auditor procured in accordance with Article 8.

4.2. Such audits shall be performed for the purpose of ascertaining the level of compliance with the Law on Public Financial Management and Accountability, the PIFC and Financial Rules, the Law on Public Procurement, the legislation governing the civil service and other laws, regulations and sub-normative acts governing or affecting financial and budgetary matters.

4.3. Such audits shall also be performed to evaluate the economy, efficiency and effectiveness of the management and control systems of the audited entity and for the purpose of adding value to public sector entities in a manner that enhances the benefits provided by public sector entities to their users and beneficiaries and the people of Kosovo.

4.4. Such audits shall be performed in accordance with the rules, policies, manuals, guidelines, and professional standards developed by the CHU and promulgated by the Minister pursuant to Article 6.4.

4.5. The Internal Audit Unit or Internal Auditor performing an internal audit shall promptly provide to all members of the concerned Audit Committee written reports:

- (a) identifying and describing all violations and events of non-compliance with the present law and the laws and sub-normative acts specified in 4.2, and recommending measures, including disciplinary measures, to be taken to eliminate such violations and events of non-compliance and to prevent their recurrence;
- (b) identifying and describing any significant deficiencies in the management and control systems of the audited entity and recommending measures to be taken to improve such systems to correct such deficiencies;
- (c) making other recommendations for the improvement of the operations and/or efficiency of the audited entity for the purpose of enhancing the value of the entity and the benefits provided by the entity to its users and the people of Kosovo;
- (d) assessing the measures taken by the concerned public sector entity to implement the recommendations provided under (a), (b) and/or (c) above specifically for the purpose of ascertaining (i) the degree to which those measures have been implemented and (ii) the extent of any improvements resulting therefrom.

4.6. The concerned Audit Committee and the concerned Internal Audit Unit or Internal Auditor shall, for a period of at least seven (7) years, maintain the reports described in Article 4.5 as well as comprehensive written records on all matters and evidence relating to such reports and all actions taken by the Audit Committee in response to such reports. The Auditor General and any other public authority having investigative or controlling functions or powers shall be given full and immediate access to all such reports and records upon request.

4.7. The Internal Audit Unit or Internal Auditor responsible for performing an internal audit shall also be required to develop and submit to the members of the concerned Audit Committee the plans identified in Article 5.2.

CHAPTER II INTERNAL AUDIT INSTITUTIONS

1. Audit Committees

Article 5 Audit Committees

5.1. There shall be established at each and every budget organization and autonomous public undertaking an Audit Committee consisting of the CAO and at least three other members of the senior management of the budget organization or autonomous public undertaking. The Audit Committee of a budget organization or an autonomous public undertaking shall serve as the Audit Committee for:

- (i) the concerned budget organization or autonomous public undertaking,
- (ii) its component parts, sub-units, and subsidiaries, and
- (iii) any controlled public undertaking or other public sector entity under its control.

5.2. The concerned Internal Audit Unit or Internal Auditor shall develop and submit to the members of the concerned Audit Committee for review and approval a three-year strategic plan on the basis of a risk evaluation. On the basis of its currently approved three-year strategic plan, the Internal Audit Unit or Internal Auditor responsible for performing an internal audit shall, by October 31 of each calendar year, develop and submit to the members of the concerned Audit Committee for review and approval an annual internal audit plan for the upcoming calendar year.

5.3. The CHU shall have the authority to obtain and review any such plan and to recommend reasonable modifications thereto.

5.4. Upon the completion of an internal audit and receipt of the reports specified in items (a), (b) and (c) of Article 4.5, the Audit Committee shall have the authority and the obligation:

- (a) to ensure that the senior management and personnel of the concerned public sector entity undertake measures to implement the recommendations made by the Internal Audit Unit or Internal Auditor;
- (b) to require or permit the Internal Audit Unit or Internal Auditor to conduct the assessment specified in item (d) of Article 4.5; and
- (c) to report all instances of suspected legal violations to the concerned or interested public authorities and institutions.

5.5. The Audit Committee and each of its members shall have the obligation to take whatever measures may be necessary:

- (a) to ensure the independence of the Internal Audit Unit or Internal Auditor; and
- (b) to immediately remedy any conduct by any person that obstructs or impairs the ability of the Internal Audit Unit or the Internal Auditor to carry out an internal audit in accordance with the present law; which may involve suspending, dismissing or taking other disciplinary action against the concerned person or persons.

2. The Central Internal Audit Harmonization Unit

Article 6

The Central Internal Audit Harmonization Unit

6.1. There shall be established within the Ministry of Economy and Finance a Central Internal Audit Harmonization Unit (“CHU”). The CHU shall have the status of a special department within the Ministry of Economy and Finance.

6.2. The CHU shall be administered by a Director who shall be a senior civil servant appointed in accordance with applicable legal requirements on the appointment of senior civil servants.

6.3. The total number of staff in the CHU shall not exceed five. All such staff shall be civil servants and shall be hired by the Ministry with the advice and consent of the Director. With respect to the conduct of their professional or administrative activities, all such staff shall report to the Director.

6.4. The CHU shall develop - consistent with the present law and the laws, rules and other normative acts specified in Article 4.2 - and submit to the Minister for approval and promulgation, rules, policies, manuals, guidelines, and professional standards for the conduct of internal public auditing by Internal Auditors and Internal Audit Units. All such rules, policies, manuals, guidelines and standards shall be in accordance with and reflect the standards of the Institute of Internal Auditors and European Union’s best practices. The Minister shall not promulgate any rules, policies, manuals, guidelines, or professional standards for the conduct of internal public auditing without first obtaining the advice of the CHU.

6.5. The CHU shall conduct an annual assessment of the performance of all Internal Auditors and Internal Audit Units.

6.6. The CHU shall provide professional support and assistance to Internal Audit Units and Internal Auditors in all aspects of internal audit, plans of works, European best practices in internal audit practice, and the quality and proper functioning of the internal audit system.

6.7. No later than 1 January 2007, The Ministry of Economy and Finance and the CHU shall have arranged for and institutionalized a system of rigorous professional training and strict, objective and anonymous testing - both prior to and upon completion of the training - of all persons desiring to become Internal Auditors. The Ministry and the CHU shall be required to ensure that such training and testing is provided and conducted by highly qualified professional internal audit experts who have been licensed or certified by an internationally recognized internal audit organization.

6.8. The CHU shall be required to issue a license to a person as an Internal Auditor if the internal audit experts referred to in Article 6.7 have issued a formal written recommendation certifying that the person has successfully completed both the referenced training and testing and that - in the opinion of such internal audit experts - has demonstrated the professional ethics, discipline, integrity required of an Internal Auditor. The CHU shall have no authority to issue a license to any person in the absence of such a formal written recommendation from such internal audit experts.

6.9. No later than 31 December 2008, The Ministry of Economy and Finance and the CHU shall have established a system of, and requirements for, mandatory continuing professional education for persons who have been duly licensed as Internal Auditors pursuant to Article 6.8. The Ministry and the CHU shall be required to ensure that such education is provided by highly qualified professional internal audit experts who have been licensed or certified by an internationally recognized internal audit organization.

6.10. The CHU - with the advice and consent of the Minister - shall have the authority to revoke the license of an Internal Auditor who:

- (i) violates these requirements or any other provision of the present law,
- (ii) fails to demonstrate adequate competence or otherwise fails to adhere to the principles specified in Article 3; or
- (iii) fails to comply with the mandatory continuing professional education requirements established pursuant to Article 6.9 In such event, if such a person is a member of an Internal Audit Unit, the concerned budget organization or autonomous public undertaking shall immediately remove the de-licensed person from its Internal Audit Unit. The person affected by such a revocation shall have the right to challenge such decision and to have it reviewed in accordance with the law on administrative procedures.

Article 7

Duties and Responsibilities of the CHU Director

7.1. The Director of the CHU shall:

- (a) Regularly - at least once every three months - provide reports to the Minister of economy and finance and to the Board on all activities of the CHU; and
- (b) Prepare and submit to the Minister a formal written annual report on the functioning of the internal audit system. The Ministry shall review such report and then submit report, along with the Minister's comments thereon, to the Government, the Assembly and the Auditor General.

7.2. As of 30 June 2008, no person shall serve as either the Director or a professional staff member of the CHU if he/she has not complied in full with the training and testing requirements of Article 6.7 and the licensing requirements of Article 6.8. Any person in the CHU on that date who has not earlier complied with these requirements shall, as a matter of law, no longer be eligible to serve as the Director or as a professional staff member of the CHU, and any such person shall be immediately and permanently removed from the CHU by the appropriate body having authority to remove or dismiss the concerned person.

7.3. Until 30 June 2008, neither the Director nor the professional staff of the CHU shall be required to have complied in full with the requirements of Article 6.7 or 6.8; *provided, however*, the Director and professional staff of the CHU shall be required, as soon as practicable after the present law comes into effect, to begin and to diligently, continuously and successfully pursue the required training and testing and to demonstrate the possession of the professional characteristics required to obtain a license. If, in the opinion of either the internal audit experts referred to in Article 6.7 and 6.8 or the Internal Audit Advisor, the Director or a professional staff member is failing to comply with any element of the provisions in the first sentence of this Article 7.3, they are required to notify the appropriate authorized body to permanently remove or dismiss the concerned person from the CHU.

Article 8 Procurement of Internal Audit Services

8.1. If a budget organization or an autonomous public undertaking has not, for any reason, established a properly functioning Internal Audit Unit, the CHU shall have the authority to require, and shall require, the concerned budget organization or autonomous public undertaking to undergo an annual internal audit conducted by an Internal Auditor procured by the budget organization or autonomous public undertaking in accordance with this Article 8. The concerned budget organization or autonomous public undertaking shall immediately comply with the CHU's requirement, and the Internal Auditor so procured shall have the same rights and responsibilities as those assigned by the present law to an Internal Audit Unit.

8.2. If the concerned budget organization or autonomous public undertaking fails to comply with Article 8.1, the CHU shall advise the Minister of such failure and the Minister shall request the Auditor General to immediately conduct an external audit of the concerned budget organization or autonomous public undertaking. Furthermore, the persons at the budget organization or autonomous public undertaking responsible for such failure foreseen in Article 8.1 shall immediately be subject to removal or dismissal, and the concerned failure shall as a matter of law be adequate and sufficient justification for such removal or dismissal.

8.3. The cost for the conduct of such an internal audit shall be borne by the concerned budget organization or autonomous public undertaking.

8.4. The concerned budget organization or autonomous public undertaking shall observe all of the requirements of the Law on Public Procurement in selecting an Internal Auditor to perform such an internal audit; *provided, however*, that:

- (i) only restricted procurement procedures shall be used and a copy of the contract notice shall immediately be provided to all Internal Auditors licensed by the CHU who are not part of an Internal Audit Unit at a budget organization or autonomous public undertaking;
- (ii) the professional suitability criteria used shall be those established by the CHU for such a procurement; and
- (iii) the contract value used shall be established with the advice and consent of the CHU for such a procurement, *provided* that such value must be set at a level:
 - (a) that is commensurate with the amount of time and effort that is reasonably expected to be needed to professionally conduct the internal audit, and
 - (b) that can reasonably be expected to attract a substantial number of tenders from Internal Auditors.

3. Internal Audit Units

Article 9 Establishment of Internal Audit Units

9.1. Every budget organization and autonomous public undertaking shall establish and maintain an Internal Audit Unit.

9.2. Such Internal Audit Unit shall have the authority and responsibility for conducting regular internal audits of:

- (i) the concerned budget organization or autonomous public undertaking,
- (ii) its component parts, sub-units, and subsidiaries, and
- (iii) any controlled public undertaking under its control.

9.3. Every Internal Audit Unit shall comply with Article 4 and the other provisions of the present law. Every Internal Audit Unit shall also comply with the manuals, guidelines, and professional standards promulgated by the Minister pursuant to Article 6.4 of the present law.

9.4. Every Internal Audit Unit shall have at least one Internal Auditor. The concerned budget organization or autonomous public undertaking shall otherwise ensure, after consultation with the CHU, that its Internal Audit Unit has sufficient resources to permit it to perform the duties assigned to it by the present law.

9.5. If the size or operations of the concerned budget organization or autonomous public undertaking is such that the duties of the Internal Audit Unit can be adequately performed by only one Internal Auditor, nothing in the present law shall be interpreted as requiring the Internal Audit Unit to have more than one Internal Auditor. If an Internal Audit Unit requires only one Internal Auditor, that Internal Auditor shall serve as the Director of the Internal Audit Unit, in accordance with Article 13.

9.6. Except in the case of an autonomous public undertaking, every Internal Auditor within the Internal Audit Unit shall have the status of a civil servant.

9.7. All persons shall fully, routinely and uneventfully cooperate with the Internal Audit Unit and provide access to all systems and documents immediately upon request. All persons shall respect the independence and autonomy of an Internal Auditor and the Internal Audit Unit.

9.8. Every Internal Auditor and Internal Audit Unit shall carry out its activities in strict accordance with:

- (i) the present law and other applicable laws in Kosovo, especially those dealing with budgetary, fiscal, financial or procurement issues; and
- (ii) the rules, policies, manuals, guidelines, and professional standards promulgated by the Minister pursuant to Article 6.4 of the present law.

Article 10
Exemption from the Requirement to Establish an Internal Audit Unit

10.1. Notwithstanding the requirement of Article 9.1, the CHU - with the consent of the Minister - may exempt a budget organization or autonomous public undertaking from the requirement of Article 9.1 if such an exemption is objectively justifiable for either of the following reasons:

- (i) an insufficient number of Internal Auditors to permit the budget organization to comply with Article 9.1; or
- (ii) the size, budget or other specific circumstances of the budget organization or the autonomous public undertaking are such that it would be - from a cost-effectiveness perspective - unreasonable to require the budget organization or autonomous public undertaking to establish an Internal Audit Unit.

10.2. The CHU shall develop and submit to the Minister for review, approval and promulgation, a set of transparent, rational and non-discriminatory criteria that shall be applied when determining whether an exemption should be granted under Article 10.1.

10.3. Any exemption granted under Article 10.1 shall expire after 24 months. The CHU - with the consent of the Minister - may grant a new exemption under Article 10.1 if the conditions specified in Article 10.1 justify the grant of a new exemption.

10.4. The CHU may - with the consent of the Minister - revoke any exemption granted under Article 10.1 at any time when the circumstances that justified the grant of such exemption are no longer present.

10.5. Any budget organization or autonomous public undertaking that has received an exemption under Article 10.1 shall be required to comply with the internal audit requirements of the present law by procuring, in accordance with Article 8, the services of an Internal Auditor to conduct any required internal audit.

Article 11
Rights of Internal Auditors and Internal Audit Units

Any Internal Audit Unit or Internal Auditor lawfully performing an internal audit under the present law shall have the authority and responsibility:

- (a) To perform internal auditing in accordance with the rules, policies, manuals, guidelines, and professional standards promulgated by the Minister pursuant to Article 6.4 of the present law;
- (b) To require and obtain, review and to use without restriction all technical, economic, financial and other data, information and documents in the possession or control of the public sector entity being audited;
- (c) To make copies of such data, information and documents for internal audit purposes and to ensure these copies are either original or certified. The original documents after the use should be sent back to the public sector entity from where they originated;

- (d) To require any official, employee, consultant or contractor of the public sector entity being audited to provide physical evidence, records and/or oral testimony or other information on matters related to the conduct of the audit or the matters being audited;
- (e) To have access to any premises of the public sector entity being audited without any hindrance, and to verify and estimate the material and monetary values of the public sector entity in accordance with the rules and legislation;
- (f) To recommend the measures specified in Article 4.5 to be taken by the audited entity;
- (g) To obtain certified information from the Treasury, the BPK and any other public or private organization with respect to any current and/or closed accounts and/or transactions of or involving the public sector entity over which the Internal Auditor or Internal Audit Unit has auditing authority under Article 9.1; and
- (h) To immediately report any and all interference, refusal or resistance by any person to the concerned Auditing Committee. The concerned Auditing Committee shall investigate all such events of alleged interference, refusal or resistance and, if substantiated, the Auditing Committee shall immediately take the measures required by Article 5.5.

Article 12 Prohibitions

12.1. No person shall conduct internal auditing activities for or provide internal auditing services to a public sector entity if he/she does not hold a current and valid Internal Auditor license issued in accordance with the present law.

12.2. No person shall be eligible to receive or retain an Internal Auditor license if he/she:

- (a) holds or performs, or in the past three (3) years has held or performed, any office, position or function in or for a political party;
- (b) has, in the past five (5) years has been convicted of a crime;
- (c) has ever been determined by a court of competent jurisdiction to have committed a criminal or civil offence involving fraud, misrepresentation, corrupt practices, money laundering, embezzlement, misuse or misappropriation of funds, bribery or kickbacks under the laws or regulations applicable in Kosovo or in any country or jurisdiction, or under international treaties or conventions;
- (d) has ever been determined to have engaged in unprofessional conduct by a court, body or organization responsible for enforcing standards of professional conduct; or
- (e) has ever intentionally made material misrepresentations in any affidavit or other sworn, sealed, notarized or official document.

12.3. No person shall conduct internal auditing activities for or provide internal auditing services to a public sector entity if he/she currently holds a position in or performs work for a private sector entity other than an entity regularly and lawfully engaged in providing professional independent auditing services.

12.4. An Internal Auditor shall not conduct internal auditing activities for or provide internal auditing services to any public sector entity if he//she:

- (a) has previously been employed or engaged in any position or capacity that was subordinate to a member of the current senior management of that public sector entity; or
- (b) has in the past three (3) years been employed or engaged in any position or capacity at that public sector entity other than as an Internal Auditor.

Article 13 Directors of Internal Audit Units

13.1. Each Internal Audit Unit of a budget organization or autonomous public undertaking shall have a Director. Each such Director shall be an Internal Auditor. He or she shall be appointed by the concerned budget organization or autonomous public undertaking; however such appointment shall not be effective unless and until the CHU has consented thereto in writing, which consent shall not unreasonably be withheld.

13.2. The Director of an Internal Audit Unit shall be responsible for the following:

- (a) Managing and supervising the personnel and operations of the Internal Audit Unit;
- (b) Selection, on a competitive basis and after consultation with the CHU as required by Article 9.4, of any additional Internal Auditors that may be required by the Internal Audit Unit. Such selection shall be made from a list of Internal Auditors provided by the CHU. Such selection shall also comply with any other requirements under the law applicable in Kosovo, including - except in the case of an autonomous public undertaking - the applicable legislation on the civil service;
- (c) Ensuring the productive, cost-effective, and efficient use of the resources of the Internal Audit Unit;
- (d) Ensuring the proper implementation and observance of the laws, rules, policies, guidelines, manuals and standards referred to in Article 9.8;
- (e) Ensuring the proper and timely preparation and submission of the plans specified in Article 5.2
- (f) Organizing, performing and supervising, the conduct of all internal audit activity performed by the Internal Audit Unit, and submitting the resulting reports and recommendations to the Audit Committee of the budget organization or autonomous public undertaking;
- (g) Preparing and submitting quarterly and annual reports on all internal auditing activity of the IAU to the Audit Committee of the budget organization or autonomous public undertaking;

13.3. In light of the high level of competency required of a Director of an Internal Audit Unit, he/she shall be compensated at a salary level equivalent to that of a Permanent Secretary.

Article 14
CAO Responsibilities in Internal Auditing

Every CAO of a budget organization or autonomous public undertaking shall:

- (a) Ensure that the IAU or Internal Auditor has sufficient human, financial and other resources to enable it to competently carry out its internal audit responsibilities;
- (b) Ensure that prompt and effective measures are undertaken to implement the recommendations made by the Internal Audit Unit, an Internal Auditor, the Audit Committee and/or the CHU;
- (c) Eliminate irregularities revealed during audits and implement measures to ensure such irregularities do not recur;
- (d) Bear ultimate responsibility for ensuring the budget organization or autonomous public undertaking performs and observes all requirements of the present law; and
- (e) Be responsible for ensuring that all civil servants and other persons employed or engaged by - or serving in - the budget organization, the autonomous public undertaking or another entity specified in Article 9.1:
 - (i) provide the IAU or Internal Auditor with absolutely free and unfettered access to all documents, records, offices and premises that the IAU or Internal Auditor requires to perform its responsibilities and functions; and
 - (ii) take active and helpful measures to assist the IAU or Internal Auditor and to facilitate the IAU's or Internal Auditor's ability to properly perform its functions.

Article 15
Recruitment, Qualifications and Training of Internal Auditors

Any person desiring to be licensed as an Internal Auditor shall:

- (a) Possess, at a minimum, (i) a university degree in public administration, public finance, accounting or law; or (ii) a valid and current internal auditor license or certification from a jurisdiction outside Kosovo that has been issued in accordance with the standards of the Institute of Internal Auditors.
- (b) Fulfil any reasonable additional requirements that may be established by the CHU – with the advice and consent of the internal audit experts referred to in Article 6.7 - to ensure competence, honesty, integrity and objectivity;
- (c) Have successfully complied with the training, testing and licensing requirements established by Article 6.7 and 6.8 of the present law; and
- (d) Not ineligible for a reason specified in Article 12.2.

Article 16
Conflict of interests

16.1. Every Internal Auditor shall immediately notify the Audit Committee and the CHU in writing of any potential conflict of interest that may arise from an audit assignment.

16.2. A conflict of interest shall exist if an audit assignment involves or concerns:

- (a) A public sector entity in which the Internal Auditor was employed or engaged in any capacity - other than as Internal Auditor under the present law - during the previous three years;
- (b) A public sector entity that currently has, or in the past three years has had, in its management or among its senior political officials, a person with whom the Internal Auditor:
 - (i) has had any business or significant personal relationship in the past three years or
 - (ii) has any familial relationship up to the third level as defined in the legislation on the Civil Service; or
- (c) A public sector entity in which or with which any of the following persons has had an interest or business dealings in the past three years:
 - (i) the Internal Auditor
 - (ii) any person with which the Internal Auditor has had any business or significant personal relationship in the past three years, or
 - (iii) any person with which the Internal Auditor has any familial relationship up to the third level as defined in the legislation on the Civil Service;

16.3. When developing the rules and standards of professional conduct referred to in Article 6.4, the CHU may – if consistent with the standards of the Institute of Internal Auditors and European best practices - specify in such rules and standards other situations and conduct that involve a conflict of interest.

16.4. An Internal Auditor with a conflict of interest shall not participate in, discuss or attempt to influence, in any manner whatsoever, the conduct of the concerned audit.

16.5. If any person has or receives information that indicates that an internal audit has been or is being conducted with the involvement of a conflicted Internal Auditor, the CHU shall be immediately be informed and the CHU shall investigate the matter and, if the information is substantiated, the license of the conflicted Internal Auditor shall be suspended and the CHU shall require the concerned budget organization or autonomous public undertaking to engage a new Internal Auditor in accordance with Article 8 to re-perform the audit. The original audit shall be invalidated, but all documents relating thereto shall be retained by the Audit Committee and the CHU for evidentiary purposes in the event the new audit reveals significant negligence or intentional misconduct by the conflicted Internal Auditor.

CHAPTER III
FINAL AND TRANSITIONAL MATTERS

Article 17
Relationship with External Audit

The CHU shall liaise with the Auditor General of Kosovo in order to:

- (a) Develop a mutual understanding of their respective roles;
- (b) Reduce duplication of efforts; and
- (c) Ensure appropriate sharing of information.

Article 18
Transitional Matters

18.1. Until the Director and the professional staff of the CHU have been duly trained and licensed as Internal Auditors in accordance with Articles 6 and 7 of the present law, the Ministry of Economy and Finance shall procure - either directly or through a donor - the services of an Internal Audit Advisor, who shall have the authority and responsibility to provide day-to-day technical assistance and support to the CHU. The Internal Audit Advisor shall be a highly qualified professional internal audit expert who has been licensed or certified by an internationally recognized internal audit organization.

18.2. Where necessary to enable the Internal Auditor to timely and professionally fulfil his/her functions and responsibilities under the present law, the Ministry shall procure - either directly or through a donor - the services of other similarly qualified professional internal audit experts to assist the Internal Audit Advisor.

18.3. The Ministry of Economy and Finance shall give the highest possible priority to completing the procurement of the services of the Internal Audit Advisor required by Article 18.1, the other internal audit experts required by Article 18.2, and the trainers required by Article 6.7. The Ministry shall initiate this procurement activity no later than thirty (30) days after the promulgation of the present law, and shall complete the activity no later than ninety (90) days after it has been initiated.

18.4. Notwithstanding any other provision of the present law, until the Director and at least three members of the staff of the CHU have been duly trained and licensed as Internal Auditors in accordance with Articles 6 and 7 of the present law:

- (i) the Minister and the Director of the CHU shall be required to first obtain the formal written opinion of the Internal Audit Advisor with respect to all actions or activities they propose or plan to take pursuant to the authority of the present law or otherwise affecting internal auditing; and
- (ii) in particular, the Minister shall not promulgate any rules, policies, material, guidelines or professional standards or take any action under the authority of the present law without first obtaining the written opinion of the Internal Audit Advisor and, as generally required by Article 6.4, the advice of the CHU.

18.5. The CHU and shall, immediately upon the engagement of the Internal Audit Advisor and the other internal audit experts required by Articles 18.1 and 18.2, undertake a dedicated, coordinated and serious effort - without relaxing any requirement of the present law - to:

- (a) develop and submit to the Minister for review and promulgation, the policies, guidelines, manuals and standards referred to in Article 6.4; and
- (b) to recruit qualified persons to begin internal audit training in accordance with Article 6.7.

18.6. The Minister of Economy and Finance shall provide, if necessary, the funds required to obtain the services of the Internal Audit Advisor and the other experts required by Articles 18.1 and 18.2 and/or the professional internal audit trainer required by Article 18.5(b). In such event, the Procurement Department of the Ministry of Economy and Finance shall conduct the concerned procurement. The requirements of the Law on Public Procurement shall be strictly observed in selecting such persons; provided, however:

- (i) only restricted procedures under the Law on Public Procurement shall be used;
- (ii) the Procurement Department shall ensure that the contract value and the professional suitability and other criteria are established in a manner that can reasonably be expected to attract a number of tenders from at least three highly qualified internal audit experts; and
- (iii) the contract notice shall be published in an international publication enjoying wide circulation in Europe.

Article 19 Temporary Licenses

19.1. Notwithstanding any provision of the present law to the contrary, the CHU may, with the express written advice and consent of the Internal Audit Advisor, issue temporary Internal Auditor licenses to up to ten (10) persons that the Director of the CHU and the Internal Audit Advisor both believe have accumulated significant experience to allow them to adequately perform basic internal auditing services under the present law. No such temporary license may, however, be issued to any person who is ineligible by reason of Article 12.2.

19.2. All such temporary licenses shall expire on 31 December 2008 and may not be re-issued or renewed. The authority of the CHU to issue such temporary licenses shall also expire on that date.

19.3. Any person holding such a temporary license shall be deemed to be a licensed Internal Auditor for all purposes of the present law, and shall have the same rights, obligations and responsibilities as any licensed Internal Auditor; *provided, however*, that any person holding a temporary license is required, as soon as practicable after receiving such temporary license, to begin and to diligently, continuously and successfully pursue the required training and testing and to demonstrate the possession of the professional characteristics required to obtain a normal license in accordance with Articles 6.7 and

Article 6.8. If, in the opinion of either the internal audit experts referred to in Article 6.7 and 6.8 or the Internal Audit Advisor, any holder of a temporary license is failing to comply with any element of the provisions in the first sentence of this Article 19.3, they are required to notify the CHU in writing of such failure, and the CHU shall be required to revoke such person's temporary license.

Article 20
Relationship with Other Laws

In the event of any conflict between the present law and a provision of any prior legislation dealing with the internal audit of public sector entities, the present law shall prevail.

Entry in Force
Article 21

The present law shall enter into force after adoption by the Assembly of Kosova on the date of its promulgation by the Special Representative of the Secretary-General.

Law No. 02/L-74
16 November 2006

President of the Assembly

Kolë Berisha