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## Risk Management and Internal Controls for Activities in the Department of Kosovo Customs Procurement

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### Abstract:

*Every organization faces a variety of risks from external sources and internal that should be assessed. A precondition to risk assessment is establishment of organizational objectives, which are linked at different levels and interior steady.*

*Risk assessment is the identification and analysis of relevant risks to achievement of objectives, forming a basis for determining how risks should be managed, because the economic, political, regulatory and operational will continue to change. Based on this are needed the mechanisms for identification and analysis of specific risks accompanied with change.*

*Internal controls are the usual method for reducing the probability of happening of the risk, or impact of risk to which the organization is exposed.*

*Kosovo Customs are built by a complexity of legal and executive units within which carried out different activities, within this complexity also includes public procurement.*

*Although Kosovo Customs collect the largest amount of revenue for the Kosovo Budget, as the study area have chosen procurement activities, because public procurement is an integral part of every public institution, and that at the time when Kosovo is still in continuous transition it is understood that the procurement activities are subject to risks at every step of its development.*

*Already the general public in Kosovo and elsewhere is more or less informed what the tenders are. In this study we have tried to present in a more understandable way of risks possible, their management and internal controls established by management as a result of the identification of risks, along the procurement process in Kosovo Customs.*

**Key words:** Customs, risk, procurement, management, internal control.

## **Customs and its role in the Kosovo Economy**

Kosovo is listed in the category of countries that are still in transition, it has a slow economic development, "rapid economic growth is not a matter of arithmetic, and does not happen spontaneously,"<sup>1</sup> the country's economy depends on the fiscal measures that the state applies, "fiscal sovereignty is the right and unlimited power of the state to decide about public expense"<sup>2</sup> in this context Customs institution as an instrument of trade policy implementation has a very important role in drafting the country's fiscal policy .

National economy of Kosovo shall develop economic policies to exploit resources and its human, natural, capital and technological capacities "<sup>3</sup>, the problem for developing countries lies in the fact that is so extremely difficult to accumulate

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<sup>1</sup> Horvat, Branko. 2007. "Dinamican ekonomski razvoj." ECPD, United Nations University for Peace, Beograd. 144.

<sup>2</sup> Goric, Jovan. 2013. "Fiskalni federalizam, lokalna samouprave i buxhetske politike." ECPD, Beograd. 11.

<sup>3</sup> Samuelson, Paul & William D. 1992. Nordhaus: "Ekonomia", Zagreb. 697.

factors of production, physical and human capital, with a low level of income, a characteristic of these countries."<sup>4</sup>

The Customs impact on development trends in Kosovo is very great, now in Kosovo functioning market economy where there are many private companies that implement export-import with private capital "circulation of private capital represents greater financial international development",<sup>5</sup> Customs role in this aspect is great.

Customs as an instrument of trade policy is exposed to more different risks, one of the most sensitive areas is procurement, and the procurement activities are exposed to the risk of potential abuse. Procurement activities in Kosovo customs are carried out according to written rules within "Law on public procurement in Republic of Kosovo, where the purpose of the law is to ensure the most efficient, cost-effective, transparent and fair use of public funds, public resources and any other funds and resources of contracting authorities in Kosovo by establishing the requirements and rules that shall be observed, the procedures that shall be followed, the rights that shall be respected, and the obligations that shall be performed, by persons, economic operators, undertakings, contracting authorities, works concessionaires and public bodies conducting, or involved, participating or interested in, a procurement activity involving or relating to the use of such funds and/or resources".<sup>6</sup> Managing risk is about making the tactical and strategic decisions to control those risks that should be controlled and to exploit those opportunities that can be exploited.<sup>7</sup>

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<sup>4</sup> Dornbusch, Rudiger & Stanley Fischer. "Makroekonomia", Botim ndërkombëtar, shtëpia botuese *Dituria*. 268.

<sup>5</sup> Ostojiq, Negoslav P. 2012. "Duznicka kriza zemalja u razvoj." ECPD, Beograd. 137.

<sup>6</sup> Law on public procurement in Republic of Kosovo No. 04/L-042, article.

<sup>7</sup> 2011 The Research Foundation of CFA Institute.

### **Risk management measures at the level of the whole organization.**

Risk can explain or define a possibility of the occurrence of an event which will have an impact on the achievement of objectives. Risk management is a very important part in the overall management of the organization and its activities. Risk management is the process of risk control. Risk management cycle is often seen as a five-step process: Risk identification, risk Analysis, planning of reaction to risks, implementation of reaction to risks, monitoring and review.

### **Therefore we believe that the identification of risk should be achieved by:**

- Establish a working body which would identify risks and based on these would make the assessment of risks in accordance with nature and size of the organization.
- Through self evaluation - using questionnaires or workshops where management staff encourages employees to identify risks within their organizational units.
- A comprehensive consultation process well run, identifies risks and increase initiatives for improvement.
- Risk description in the risk register and the designation of responsible personnel.
- Approval a strategy for effective system of risk management as an integral part of the process

### **Risk assessment**

Kosovo Customs estimates the importance of risks in terms of probability and impact using a conceptual approach based on a proper assessment of any risk factors which management considers as suitable, in this regard customs has established the risk assessment sector, however this sector more deals with analysis of importing companies.

We think that it does not meet all the requirements for a more efficient access and effective in risks identifying in the way of achieving the objectives of this organization.

We believe it would be better to use a broader analytical approach which meets the conceptual approach using mathematical formulas to calculate the relationship between risk and result. Such an approach would greatly facilitate the decision making process where the Management decides which risks should be managed and to what extent.

### **Risk Management**

After that customs does not have a risk register, we think that a considerable number of staff did not know how Management considers acceptable risk, and as a result customs staff may not know importance of internal controls and their proper implementation.<sup>8</sup>

We believe that this is not the proper process to identify risks as risk management process will be more successful if all the risks the organization noted in a list and evaluated according to their impact and probability.

### **The organization's attitude toward risk and risk management**

Organization of internal control in Kosovo Customs should be based on clear objectives of the organization, so that it can identify and manage risks, assessment is that the organization has not yet created an authentic culture of knowledge of risks and its management.

### **Procurement department has assigned itself the following goals**

To ensure the most efficient way, more transparent and fairer of enforcement of procurement procedures to fulfilment of each

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<sup>8</sup> Customs Internal Audit Report 2013- Nr.5

requirement in procurement planning and the organization in general

Ensure that objectives will be fulfilled toward integrity and increase accountability of officials in the procurement office, asking that decisions, behaviours, and work whether individually or as a group, are not influenced by personal interests or material, comply with the procedural and substantive requirements of official , and ethical procurement code and procurement goal and organization. Procurement Department is exposed to a number of risks that could damage the fulfilment of these goals.

### **Internal control**

Internal control is defined as a process, effected by an entity's people, designed to accomplish specified objectives. The definition is broad, encompassing all aspects of controlling a business, yet facilitates a directed focus on specific objectives. Internal control consists of five interrelated components, which are inherent in the way management runs the enterprise. The components are linked, and serve as criteria for determining whether the system is effective.<sup>9</sup>

### **Identifying and risk analyzing in department of procurement**

The table below presents some of the risks which may face this department, their impact and the likely those risks to happen.

### **Risks to which the Procurement Department Is Exposed, Their Impact, Probability and Risk Assessment Explanation**

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<sup>9</sup>COSO – Committee of sponsoring organization of the tread way commission Internal Control- Integrated Framework Two-Volume edition 1994.

**Chart 1. Tabular presentation, risks and their impact on the procurement process within the Customs.**

1	Not good planning procurement activities	3	2	Procurement plan activities may not contain all the necessary requirements, <b>Impact</b> is high because the allocated budget can be unstable due to the initiation of activities which are not included in the procurement planning <b>Probabilities</b> are high as there are frequent requests for additional procurement activities.
2	Initiate of procurement activities done without proper authorization and off plan	3	1	<b>Impact</b> is high because the initiation of the procurement activity by unauthorized persons can lead to improper expenditure of public money. <b>Probabilities</b> that the event occur are small after the initiation of procurement activities done through the proper forms that will be placed on file and that these initiations are reported regularly in regular meetings at the department level.
3	Technical specifications are not compiled by the nature of the request by the initiative unit.	3	3	<b>Impact</b> is high because compilation of technical specifications can favour or discriminate professional Economic Operators for an assigned servile. <b>Probability</b> that this to happen is great because Customs does not have the professional people from different technical areas, mainly in technical fields which are field of information technology, vehicle servicing. It is known that a vehicle has hundreds of parts. Requests for these services are frequent.
4	Not informing the general public about the initiation of the tendering procedure	3	1	<b>High impact</b> because properly not informing eliminates serious professional operators from application and as a result may come in expression operators who cannot fulfil the terms of the contract. <b>Probability</b> is low because the Department of Procurement all publications for the initiation of the tendering procedure publishes on more readable papers.
5	Physical offerings providing of economic operators is not at proper level.	3	1	<b>High Impact</b> because not good physical provide of offers may have high impact because it can lead to dissatisfaction of economic operators in case of loss of supply, which in turn will have a negative effect on public opinion and loss of reputation of the Organization. <b>Probability</b> is low because the Department of Procurement records in the registry Economic

Naim Kamberaj, Ismail A. Mehmeti, Bashkim Arifi- **Risk Management and Internal Controls for Activities in the Department of Kosovo Customs Procurement**

			Operators who have received and submitted bids.
6	Official information flow for tender of various Economic Operators.	3 2	<b>High impact</b> as the official information flow affect the regularity of procurement activity as follows: -Coming up to the repetition of the procurement activity for some time. -Favoured specified Economic Operator, as a consequence will have indications of corruption. <b>Probabilities</b> of that happening are moderate because it mainly could happen after the first round of bid opening and can easily be suspected.
7	Tender Evaluation Committee is in non-professional composition	3 2	<b>High impact</b> , because the appointment of committee members who are related with any of the participants in the tendering process may come due to conflict of interest, then such a committee composed can produce unrealistic assessment by Potential Operators damaged. <b>Probability</b> is moderate because the Procurement Department prepares Affidavit
8	Not done adequate legal information for Contract Award.	1 1	<b>Impact</b> is low because Economic Operators in case if they have no individual notice of contract award, Customs made notice of contract award through newspapers and through the official site. <b>Low probability</b> because the participating companies in tender process are cared and have enough information for the outcome of the end of activity.
9	Criteria of signed contract between the contracting authority and Operator are not respected.	2 1	<b>Medium impact</b> because disrespect of contract is possible to occur as a result of an unprofessional appraiser commission and as a result can have a job or low quality of service offering. <b>Low probability</b> that this will happen because there are legal penalties for not fulfilling the contract.
10	Notes bills are not in accordance with the contract notes	3 2	<b>High impact</b> because the contracting authority can not specify in contract details of items or a service, such as the price of items per unit, deadline for supply and payment etc.. This will result with inadequate services and exceeded the budget possibilities with this entry without cover financial obligations for the next year. <b>Moderate probability</b> because the goods admissions committee cannot make comparisons between invoice data and contract data.
11	Received of goods	3 1	<b>Impact is high</b> because this will cause a



	and services is contrary with the specification.		damage to Customs and as a result will have unplanned additional costs without cover, these costs will affect the budget of Customs. <b>Probability</b> that this will happen is low because the officer of goods received compares the invoice amount by the contracted amount.
12	Not verified and not compared invoice prices by the contracted process.	3 2	<b>Impact of high importance</b> because it may come to a mismatch between the contracted value and the invoice where as a result of this we will have an act of fraud. <b>Moderate probability</b> because authorized officer in the absence of responsibility preliminary before the payment cannot make documentation verification if invoice process are compatible with contract.

Legend: 1-Low probability, low impact  
2-Moderate probability, moderate impact  
3-High probability, high impact

The table presented above shows that management will be able to prepare a risks register for all sectors and units within the Customs and to present his approach to risks which risks will understand all officials.

Definition of potential risks, determining their impact on Customs, and the Probabilities of their occurrence helps management in its decisions on how and to what extent individual risks need to be addressed and where to implement internal controls.

### **Description of Management Approach to Risk Management in Department of Procurement and Options**

**Table 2. Table presentation, the current level of risk management in procurement Department within Customs.**

Nr.	Risks in procurement department	Management approach to risk management	The alternative approach to risk management
1	Not good planning of procurement activities	Risk is addressed by the department of finance due to unplanned budget costs.	Proper planning procurement activities based on reasonable requirements and budget possibilities and

Naim Kamberaj, Ismail A. Mehmeti, Bashkim Arifi- **Risk Management and Internal Controls for Activities in the Department of Kosovo Customs Procurement**

			the respect of procurement plan would reduce the evident risk.
2	Initiate of procurement activities done without proper authorization and off plan.	Risk management is addressed by the procurement during regular management meetings	Design a registry which shall include all persons authorizing of procurement process and distribution of this register through the budget unit.
3	Technical specifications are not compiled by the nature of request by initial unit.	Risk is addressed by the compiler specifications unit where they encounter difficulties.	Committees should be appointed with professional composition (should engage people of different fields) in case of compiling of technical specifications by adapting nature of the goods and services or works especially to the servicing of vehicles and to equipment of information technology.
4	Not informing the general public about the initiation of the tendering procedure.	Risk is addressed by reports compiled by the procurement department to participate not enough tenders based on the small number of submitted tenders.	Getting started from fact that a considerable number of cases submitted for participation in the tender small number of Economic Operators believe that the risk could be addressed in finding other ways to inform the public to participate in the tender, except the daily press and web official site. Sending notices should be through email and regular mail to producer and potential traders, especially for specific goods and services.
5	Physical offers security of Economic Operators is not at the proper level.	Risk is addressed by complaints of tenders who complain that missing any document with case of examination of documents by the contracting authority.	Further risk addressed to the envelope security in which is set the documentation of tenders sealing envelope with special stamp and putting signatures of the tender and the contracting authority where the closed envelope.
6	Official	Risk is addressed by	We believe that the

Naim Kamberaj, Ismail A. Mehmeti, Bashkim Arifi- **Risk Management and Internal Controls for Activities in the Department of Kosovo Customs Procurement**

	information flow for tender of various Economic Operators.	verifying and analyzing the causes of the cancellation of the procurement activities and structure of the tenders.	assignment and implementation of an internal control in this stage which would focus on the credibility of the commission during the opening of tenders would be appropriate; however the risk can also be addressed by changing the composition of the committee members after each failure procurement activity.
7	Tender Evaluation Committee is in non-professional composition	Risk is directly addresses to management of procurement after it will identify and appoint members of the evaluation committee.	For probability that this to occur, it would be appropriate that risk addressed in assign of criteria which are built on health basis for the selection of a committee at this stage of the procurement.
8	Not done adequate legal information for Contract Award	Risk is addressed by the Public Procurement Regulatory Commission because some tenders are biased due to disrespect of procedures.	Observance of legal deadlines and contract award notice to Economic Operators and contract award consultations before taking command of the Public Procurement Commission.
9	Received of goods and services is contrary with the specification.	Risk is addressed by departments who complain about services or goods offered by Economic Operators.	We think the approach is right but management would be more efficient if except measures for legal penalties in case of constant repetition of these actions these operators will be terminated contracts and against them to undertake legal proceedings.
10	Not verified and not compared invoice prices by the contracted process.	Risk is addressed by the Certifying Officer based to some identified cases of incapability.	Risk should be addressed in the revision of invoices before be paid by payment officer who will report to management for any irregularities This would impact that such a mistake avoided before they happen.
11	Extended	Risk is addressed by the	This risk can be addressed

	contracts for Economic Operators who do not adhere signed obligations.	Commission for registration of warehouse goods.	further to the goods receiving officer which should always be taken care of during receipt of goods, where should receive only those goods which are listed on the offered document and tendered. It is necessary to have a data base to record all received and delivered goods on time to other officials after the completion of the relevant document.
12	Not performed real payments on time for services of Economic Operators	Risk is addressed by the certifying officer in weekly report which hi prepares for its activities.	We appreciate that the receiving officer of the invoice for the procured goods must be professional and have high work ethics, hi must does comparisons of all tender process and invoiced prices for procured goods and then sent the invoice for the execution of payment.

## Conclusion

With extraction of the interior acts where discussed in detail the performance of duties of employees, specifying their powers and responsibilities, Management has ensured the implementation of internal controls; however, they still had not provided an effective system of supervision and review of the effectiveness of internal controls.

## Recommendation

After all activities in Kosovo Customs are related to each other is of great importance to establish a unit within the organization which will be responsible for overall management of risk and based on identified risks to create adequate internal controls to monitor activities in function to achieve the objectives.

For the discussed case in the field of public procurement within the customs, although there is a law that defines the rules that should followed during the tendering process, organizations again should establish appropriate mechanisms for risk assessment during all steps, starting from the phase of creating the need for a supply, transport, repair, construction, etc.. to the closing stages of the contract with Economic Operator, thereby organization should establish internal control mechanisms for all phases of risk identified.

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