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ZYRA KOMBËTARE E AUDITIMIT  
NACIONALNA KANCELARIJA REVIZIJE

NATIONAL AUDIT OFFICE

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## AUDIT REPORT

ON THE FINANCIAL REPORT FOR THE PROJECT "SUPPORT FOR  
IMPROVING POLICY DEVELOPMENT IN KOSOVO" FOR  
THE YEAR ENDED 31 DECEMBER 2016

***Audit based on the agreement with SIDA***

Prishtina, May 2017

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control which, according to the Constitution and domestic laws, enjoys functional, financial and operational independence. The National Audit Office undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

Our Mission is to contribute to sound financial management in the public administration. We perform audits in line with internationally recognized public sector auditing standards and good European practices.

The reports of the National Audit Office directly promote accountability of public institutions as they provide a base for holding managers' of individual budget organisations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability.

The Auditor General has decided on the audit opinion on the Annual Financial Report on the "Support for Improving Policy Development in Kosovo" in consultation with the Assistant Auditor General, Valbon Bytyqi who supervised the audit.

The opinion and report issued are a result of the audit carried out by Arian Haxha (Team Leader) and Refiqe Morina (member) under the management of the Head of Audit Department Arvita Zyferi.

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## Executive Summary

### Introduction

This report summarises the key s arising from our audit of the 2016 Annual Financial Report for the Project “Support for Improving Policy Development in Kosovo”, which determines the Opinion given by the Auditor General.

The Fund for Improving Policy Development in Kosovo was established based on an agreement signed between the Government of Kosovo (represented by the Office of the Prime Minister) through the Government Coordination Secretariat and represented by the Swedish International Development Cooperation Agency. The project has three main aims in order to improve the performance of offices within the Office of the Prime Minister with the current framework of tasks:

- Developing clear foundations upon which policy development procedures in Kosovo can be built;
- Increasing capacity and expanding the skill sets of key policy coordination and development staff; and
- through the Office of the Prime Minister, increasing capacity at the line ministries in line with the tasks that staff at these institutions has to fulfil. The objective reflects the Government of Kosovo’s priorities for public administration reform, as crucial in managing economic development and advancing the European Union integration process

The examination of the 2016 financial report was undertaken in accordance with the International Standards on Supreme Audit Institutions. Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial report.

Our audit focus (detailed in Annex 1) has been on:



The level of work undertaken by the National Audit Office to complete the 2016 audit is a direct reflection of the quality of internal controls implemented by the Management of the Office of the Prime Minister.

### **Secretary General's Response**

The Secretary General has considered the detailed audit findings and conclusions in this report and has committed to address all given recommendations.

### **Opinion of the Auditor General**

#### Unmodified Opinion

The Annual Financial Statements *present a true and fair view* in all material aspects.

For more, please refer to Section 1.2 of this report.

Annex II explains the different types of Opinions applied by the National Audit Office.

We would like to thank the Secretary General and his staff for the cooperation during the audit process.

# 1 Financial reporting and other External Reporting Obligations

## Introduction

Our review of the Financial Report for the project financed by Swedish International Development Cooperation Agency (SIDA) considers both compliance with the reporting framework and the quality and accuracy of information recorded in the report. We also consider comparison of expenditures made against planning of project activities.

### 1.1 Audit Opinion

#### **Unmodified Opinion**

We have audited Financial Report for the project financed by SIDA “Support for Improving Policy Development in Kosovo”, for the year ended on 31<sup>st</sup> of December 2016 which include a summary of the Budget Comparison with Actual Amounts and the Explanatory Notes.

In our opinion, the Financial Report for the year ended on 31<sup>st</sup> of December 2016 present a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (cash based Accounting), Law no.03/L-048 on Public Financial Management and Accountability (as amended and supplemented).

#### **Basis for the opinion**

We conducted the audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the AFS section of our report. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.

#### **Responsibility of Management and Those Charged with Governance and AFS**

The Management within the Office of the Prime Minister is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Modified Cash based Accounting and for such internal control as management determines is necessary to enable the preparation of financial report that are free from material misstatement, whether due to fraud or error. This includes the application of Law number 03/L-048 on Public Financial Management and Accountability (as amended and supplemented).

Chief Administrative Officer is responsible to ensure oversight for the financial reporting process within the Office of the Prime Minister.

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## **Auditor General's Responsibility for the Audit of the AFS**

Our responsibility is to express an opinion on the Financial report based on our audit. We conducted our audit in accordance with ISSAIs. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

An audit involves performing procedures to obtain evidence about the financial records and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the entity's circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the presentation of the financial report.

## **1.2 Compliance with AFS and other reporting requirements**

OPM is required to comply with a specified reporting framework and other reporting requirements. We considered:

- Requirements arising from special agreement between the Government of Kosovo, represented by the Office of the Prime Minister (OPM), through the Government Coordination Secretariat (GCS), and Sweden, represented by the Swedish International Development Cooperation Agency (SIDA);
- Requirements of LPFMA no. 03/L-048, as amended by Law no. 03/L-221, Law no. 04/L-116 and Law no. 04/L-194; and
- Compliance with the Financial Rule no. 01/2013 on the Expenditure of Public Money.

In the context of reporting, we have no issues to raise. In relation to the funds spent by the OPM, the summary report has been prepared, whereas this report will be then included in the "Consolidated Annual Financial Statements" of the OPM. Financial reporting is done in line with the Agreement. A narrative report is also prepared, which contains an analysis of the progress on project activities and outcomes.

## 2 Financial Management and Control

### Introduction

Our work on Financial Management and Control (FMC) reflects the detailed work undertaken on Expenditure Systems within Budget Organisations. As part of this, we consider budget management, procurement issues, payment process and liabilities.

### 2.1 Financial Management and Control Conclusion

In the context of financial systems, controls over expenditures are generally strong and are being implemented effectively. Financial systems and transactions are in line with applicable laws and regulations, with the exception of some minor shortcomings in terms of budget execution, recording of expenditures under adequate economic codes and delays in paying liabilities.

### 2.2 Budget Planning and Execution

All expenditures executed within the project relate to the category of goods and services. In the table below, we have considered spending by economic codes.

**Table 1. Expenditures incurred against budget (in €)**

Description	Budget 2016	Outturn 2016	Unspent budget
Conferences	15,000	1,510	13,490
Salaries for interns	10,000	9,970	30
Office equipment	10,000	6,276	3,724
Translation and others	10,000	4,303	5,697
Meeting rooms	30,000	30,752	-752
Seminars with partner countries	20,000	19,882	118
<b>Total</b>	<b>95,000</b>	<b>72,692</b>	<b>22,308</b>

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**Issue 1 - Budget Execution - High Priority**

**Finding** Budget execution during 2016 was at a low level. Only 77% of the final budget was executed. The delay in starting with project implementation reflected on the low budget execution.

**Risk** Inadequate budget planning and low budget execution reduces the effectiveness of annual operating plan and makes the intended objectives difficult to achieve.

**Recommendation 1** The Secretary General in coordination with the GCS should undertake a systematic assessment of the reasons for the low level of execution and determine practical options for improving its execution in 2017.

### 2.2.1 Goods and Services and Utilities

The final budget for Goods and Services in 2016 was €95,000. Out of these, €72,692 or 77% were spent. Controls in area of expenditures have operated well, however additional actions are needed to address the following shortcomings.

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**Issue 2 - Recording of expenditures within inadequate economic codes - Medium Priority**

**Finding** Expenditures for allowances from traveling in the amount of €8,996 were not recorded within the appropriate codes. The appropriate code for recording was 13141 - allowances for the official travel, while they were incorrectly recorded in code 13140 - as other official travel expenses. However, these are presented fairly in the financial report as the allowances for official travel.

**Risk** Classification of expenditures into inadequate economic codes reduces transparency and has an impact on improper presentation of expenditures.

**Recommendation 2** The Secretary General in coordination with the GCS should ensure that additional actions are taken in order that the expenditures are recorded within the respective economic codes.

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## 2.3 Outstanding Liabilities

The statement of outstanding liabilities to suppliers at the end of 2016 was €7,741. Outstanding invoices/liabilities arose mainly due to inadequate controls within the payment process by the Office of the Prime Minister.

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### Issue 3 - Delays in paying invoices / liabilities - Medium Priority

- Finding** According to Article 39 of the Law on Public Financial Management and Accountability, the Budget Organisation shall pay each valid invoice within 30 calendar days from the date when the invoice is received. During our testing, we noticed that in 15 cases, the invoices/liabilities towards the suppliers in the amount of €7,741 were not paid within the statutory timeframe.
- Risk** Failure to pay liabilities within the statutory timeframe may lead to the increase in expenditures due to interest penalties by the suppliers as well as the increase in unpaid liabilities at the end of the year.
- Recommendation 3** The Secretary General in coordination with the GCS should ensure that liabilities towards suppliers are paid within the statutory timeframe in order to avoid the execution of direct payments from the Treasury, or increase the outstanding liabilities at the end of the year.

## Annex I: Audit Approach and Methodology

The responsibilities placed on the Auditor and Those Charged with Governance are detailed in the Opinion set out in Section 1.2 of this report.

While a key output of our work is the audit opinion this report reflects the totality of our work with specific focus also on Governance s including Financial Management and Control. The latter is informed by our extensive, risk based, compliance audit programme.

The Executive Summary is intended to highlight the key finding of the audit and the key action that the Secretary should ensure are taken to address identified management/control weaknesses.

The detailed report provides an extensive summary of our audit finding with emphasis on determining the cause audit findings and providing appropriate recommendations to address these. For completeness we have included s identified at the interim audit where they remain relevant. Our findings are defined as:

**High Priority** - s which if not addressed may result in a material weakness in internal control and where action will offer the potential for improvements to the efficiency and effectiveness of internal controls; and

**Medium Priority** - s which may not result in a material weakness but where action will also offer the potential for significant improvements to the efficiency and effectiveness of internal controls.

Findings considered low priority were reported separately to finance staff.

Our procedures included a review of the internal controls and accounting systems and associated substantive testing and associated governance arrangements only to the extent considered necessary for the effective performance of the audit. Audit findings should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.

## Annex II: Explanation of the different types of opinion applied by NAO

(extract from ISSAI 200)

### Form of opinion

147. The auditor should express **an unmodified opinion** if it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the opinion in the auditor's report in accordance with the section on "Determining the type of modification to the auditor's opinion".

148. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor should discuss the matter with the management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the audit opinion.

### Modifications to the opinion in the auditor's report

151. The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or if the auditor was unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Auditors may three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.

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*Determining the type of modification to the auditor's opinion*

152. The decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification – that is, whether the financial statements are materially misstated or, in the event that it was impossible to obtain sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

153. The auditor should express a **qualified opinion if**: (1) having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

154. The auditor should express an **adverse opinion if**, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

155. The auditor should **disclaim an opinion if**, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, the auditor concludes that the effects on the financial statements of any undetected misstatements could be both material and pervasive. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the audit scope that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705<sup>19</sup> provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

*Emphasis of Matter paragraphs and Other Matters paragraphs in the auditor's report*

157. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not materially misstated in the financial statements, the auditor should include an Emphasis of Matter paragraph in the auditor's report. Emphasis of Matter paragraphs should only refer to information presented or disclosed in the financial statements.

158. An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading “Emphasis of Matter” or another appropriate heading;
- include a clear reference to the matter being emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor’s opinion is not modified in respect of the matter emphasised.

159. If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor’s judgement, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report, and provided this is not prohibited by law or regulation, this should be done in a paragraph with the heading “Other Matter,” or another appropriate heading. This paragraph should appear immediately after the opinion and any Emphasis of Matter paragraph.