



REPUBLIKA E KOSOVËS / REPUBLIKA KOSOVA / REPUBLIC OF KOSOVA

ZYRA KOMBËTARE E AUDITIMIT  
NACIONALNA KANCELARIJA REVIZIJE  
NATIONAL AUDIT OFFICE

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**AUDIT REPORT**  
**ON THE ANNUAL FINANCIAL REPORT ON THE PROJECT**  
**“KOSOVO ENVIRONMENTAL PROGRAM - KEP 2016-2020”**  
**FOR THE PERIOD 01.11.2016 to 31.12.2017**

***Audit based on Agreement with SIDA***

Prishtina, april 2018

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 through quality audits strengthen accountability in public administration for an effective, efficient and economic use of national resources.

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 of the project "Kosovo Environmental Program - KEP 2016-2020" in consultation with the Assistant Auditor General, Emine Fazliu, who supervised the audit.

The report is a result of the audit carried out by Blerina Krasniqi (Team Leader) and Fatlinda Podvorica (member) under the management of the Head of Audit Department, Astrit Bllaca.

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## Executive Summary

### Introduction

This report summarises the key issues arising from our audit of the Annual Financial Report for the project “Kosovo Environmental Program - KEP 2016-2020” for the period 01.11.2016 to 31.12.2017, (hereinafter: audit period), which determines the Opinion given by the Auditor General. The examination of financial report for the audit period was undertaken in accordance with the International Standards on Supreme Audit Institutions (ISSAIs). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial report.

Our audit focus has been on:



The level of work undertaken by the National Audit Office to complete the 2017 audit is a is determined depending of the expenditures incurred during this period.

The National Audit Office acknowledges the Senior Management and Staff of the Ministry of Environment and Spatial Planning for cooperation during the audit process.

### Opinion of the Auditor General

#### Unmodified Opinion

The Annual Financial Report *presents a true and fair view* in all material aspects.

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

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

### Management response to audit 2017

The Secretary General agreed with the findings and conclusions of the audit, and has pledged to address all the recommendations given.

# 1 Audit Scope and Methodology

## Introduction

The National Audit (NAO) is responsible for carrying out a Regularity Audit which involves the examination and evaluation of Financial Report and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial matters for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- Whether the financial report is in line with the requirements of the special agreement between the Government of Kosovo, represented by the Ministry of Environment and Spatial Planning (MESP) and Sweden, represented by the Swedish International Development Cooperation Agency, SIDA (Sweden);
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

The audit methodology is focused on examining financial records and transactions, including supporting documentation. We have determined the level of detailed tests required to provide evidence supporting the AG's opinion.

The following sections provide a more detailed summary of our audit findings.

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.

## 2 Annual Financial Statements and other External Reporting Obligations

### Introduction

Our audit of the Annual Financial Report considers both compliance with the reporting framework and the quality and accuracy of information recorded in the financial report. We also considered the comparison of expenditures incurred against planning of project activities.

### 2.1 Audit Opinion

#### **Unmodified Opinion**

We have audited the Financial Report of the project funded by SIDA “Kosovo Environmental Program - KEP 2016-2020”, for the period 01.11.2016 to 31.12.2017, which includes a summary of the expenditures for the activities carried out during this period.

In our opinion, the Financial Report for the period 01.11.2016 to 31.12.2017 presents a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (according to cash based accounting).

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

The audit is carried out in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the part of Auditor’s responsibilities for the audit of the Financial Statements. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.

#### **Responsibility of Management and Persons Charged with Governance**

The Ministry of Environment and Spatial Planning (MESP) is responsible for project implementation and for managing financial contributions from SIDA. SIDA’s financial contribution consists of two parts: direct disbursements to the Government (Treasury) as well as payments directly to the provider of technical assistance for expenditures incurred. MESP is responsible for accounting as well as for the preparation and fair presentation of the annual financial report.

## **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 statements are 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 detect every material misstatement that might exist. Misstatements may 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 financial report.

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 financial report, 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 report 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 the Management, as well as evaluating the presentation of the financial report.

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

MESP is required to report in accordance with the specific reporting framework and requirements arising from a special agreement between the Government of Kosovo, represented by the Ministry of Environment and Spatial Planning (MESP) and Sweden, represented by the Swedish International Development Cooperation Agency, SIDA (Sweden).

In the context of reporting, we have no issues to raise on these matters. Concerning the funds spent by MESP, the summary report was prepared, while this report will be included in the MESP's "Consolidated" Annual Financial Statements. Financial reporting is done in line with the agreement, narrative reports are also prepared containing an analysis of the progress of project activities and outcomes.

### 3 Budget Planning and Execution

We have considered the sources of budget funds, spending of funds by economic categories. Most of expenditures relate to the category of goods and services. This is highlighted in the following table.

**Table 1. Expenditures incurred and comparison with the budget (in €)**

| Description                                 | Budget<br>01.11.2016 -<br>31.12.2017 | Execution<br>01.11.2016 -<br>31.12.2017 | Unspent<br>budget |
|---|--------------------------------------|---|-------------------|
| Official travel expenses within the country | 52,348                               | 0                                       | 52,348            |
| Official travel expenses abroad             | 27,208                               | 0                                       | 27,208            |
| Education/training services                 | 10,551                               | 0                                       | 10,551            |
| Press service - not marketing               | 5,277                                | 0                                       | 5,277             |
| Other contracting services                  | 464,665                              | 119,506                                 | 345,159           |
| Computers less than €1,000                  | 9,496                                | 0                                       | 9,496             |
| Other equipment less than €1,000            | 42,445                               | 0                                       | 42,445            |
| Official vehicles                           | 6,272                                | 0                                       | 6,272             |
| <b>TOTAL</b>                                | <b>618,262</b>                       | <b>119,506</b>                          | <b>498,756</b>    |

#### Issue 1 - Budget Execution

**Finding** Budget execution for the period 01.11.2016 to 31.12.2017 was low, only 19% of the budget was executed and this resulted from delays in starting with the project implementation. These delays have resulted mainly due to administrative problems such as delays in selecting project implementation company, then the need to amend the basic agreement, and similar.

**Risk** Low budget execution reduces the effectiveness of the annual operational plan and hampers meeting of project objectives.

**Recommendation 1** The General Secretary in cooperation with the project implementer should undertake an assessment of the reasons for the low level of budget execution and determine the practical options for improving the budget execution in the future period of the project.

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## 3.1 Goods and Services

The final budget for the reporting period for these categories was €618,261, out of which 119,506 were spent. Expenditure controls have operated well, but additional actions are needed to address the following shortcomings.

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### Issue 2 - Managing procurement expenditures

**Finding** Treasury Rule no. 01/2013 requires that recording in KFMIS is done in line to the accounting codes into the codes for advances in goods, then throughout the year the justification of expenditures should be made depending on the trends of the project implementation.

MESP signed a Memorandum of Understanding on the procurement of services in the amount of 6,618,765 krona with the Swedish company which had a contract with SIDA for the implementation of the project 'Kosovo Environmental Program - KEP 2016-2020'. The agreement foresees that MESP will initially pay an advance in the amount of 900,000 Swedish krona (or €94,906) at the beginning of the project, which will remain open throughout the project. Advance payment was not made from the advance code but from the code of other contracting service (13460).

Although in the final report of the project, the expenditures for the activities carried out in accordance with the foreseen budget lines were presented, the supporting financial documents were not presented and justified in MESP.

Further on, the agreement foresees that MESP will pay a procurement management fee to the implementing company in the amount of 3% of the procurement budget, while this fee is not foreseen or does not rely upon the basic agreement between SIDA and MESP.

**Risk** Signing of agreements where fixed advances are foreseen or open for more than one year, and their payment by inadequate code is in contradiction with the rules and results in failure to justify timely the advance payment and consequently improper presentation of expenses occurred. Payment of ungrounded fees and which are not foreseen by agreement by the Ministry may result in irregular payments..

**Recommendation 2** The Secretary General should ensure that all the Ministry's agreements are in line with the Treasury rules on spending of public money, where advances are recorded in the respective codes and the same at the end of the year are justified by supporting documents in order to ensure fair presentation of expenditures. As well,, paying management fees for contracted companies for the provision of services on behalf of the project should be based on the relevant agreements.

This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.

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## Annex I: 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 issue 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 after every Emphasis of Matter paragraph.

## Annex II: Letter of confirmation



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|---|-------------------------------------|------------------------------|-----------------------------|
| REPUBLIKA E KOSOVËS REPUBLICA OF KOSOVO                 |                                     |                              |                             |
| ZYRA KOMBËTARE E AUDITIMIT                              |                                     |                              |                             |
| NACIONALNA KANCELARIJA REVIZIJE   NATIONAL AUDIT OFFICE |                                     |                              |                             |
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**Republika e Kosovës**  
**Republika Kosova - Republic of Kosovo**  
*Qeveria - Vlada - Government*

*Ministria e Mjedisit dhe Planifikimit Hapësinor*  
*Ministarstvo Sredine i Prostornog Planiranja*  
*Ministry of Environment and Spatial Planning*

**LETËR E KONFIRMIMIT**

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm për periudhën 01.11.2016 deri më 31.12.2017 dhe për implementimin e rekomandimeve.

Për: Zyrën Kombëtare të Auditimit

Vendi dhe data: Prishtinë, 23/04/2018

I nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për Auditimin e Raportit Financiar të projektit të financuar nga SIDA "Programi mjedisor i Kosovës – PMK 2016-2020", për periudhën 01.11.2016 deri më 31.12.2017 (në tekstin e mëtejme "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Sekretari i Përgjithshëm:

*Arben Çitaku*

