



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 FOR THE PROJECT
“SUPPORT FOR IMPROVING POLICY DEVELOPMENT IN
KOSOVO” FOR
THE YEAR ENDED 31 DECEMBER 2017

Audit based on the 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 on the "Support for Improving Policy Development in Kosovo" in consultation with the Assistant Auditor General, Emine Fazliu who supervised the audit

The report issued is a result of the audit carried out by Qëndresa Sogojeva (Team Leader) and Lumturije Sopi (team member) under the management of the Head of Audit Department Samir Zymberi.

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Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Report of the project “Support for Improving Policy Development in Kosovo” for the year ended in 31.12.2017, which determines the Opinion given by the Auditor General.

The Fund for Improving Policy Development in Kosovo was established based on the Agreement signed between the Government of Kosovo (represented by the Office of the Prime Minister) through the Government Coordination Secretariat and Swedish International Development Cooperation Agency. The project has three main goals to improve the performance of offices within the Office of the Prime Minister under 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;
- 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 priorities of Government of Kosovo for Public Administration Reform, as crucial in management and economic development, in advancing towards the European Union integration process.

Examination of the 2017 financial report was undertaken in compliance 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 determined depending on expenditures incurred in this period of time.

The National Audit Office acknowledges the Senior Management and the Staff within the Office of the Prime Minister for cooperation during the audit process.

Opinion of the Auditor General

Unmodified Opinion

The Annual Financial Statements for 2017 *present a true and fair view* in all material aspects.

For more, please refer to Section 2.1 of this report.

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

The Secretary General's response

The Secretary General has taken into consideration and agreed with the findings and conclusions of the audit, and has committed to address all given recommendations.

1 Audit Scope and Methodology

Introduction

The National Audit (NAO) based on the agreement/contract with the Swedish International Development Cooperation Agency (SIDA) is responsible for carrying out a Regularity Audit which involves the examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- Special terms of Agreement between the Government of Kosovo, represented by the Office of the Prime Minister (OPM/GCS) and Sweden, represented by Swedish International Development Cooperation Agency (SIDA);
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit and additional tasks based on agreed procedures.

The audit methodology has been focused on examination of the information and financial transactions, including supporting documentation. We have determined the level of substantive testing required to secure evidence which support 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 Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information recorded in the financial report. We have also considered the comparison of the expenditures incurred in relation to the activities planned by the project.

2.1 Audit Opinion

Unmodified Opinion

We have audited the Financial Report of the project “Support for Improving Policy Development in Kosovo” financed by SIDA for the year ended on 31st of December 2017 which comprises of the expenditures, a summary of the budget comparison with current amounts and explanatory notes.

In our opinion, the Financial Report for the year ended on 31st of December 2017 presents a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (according to cash based accounting), Law no.03/L-048 on Public Financial Management and Accountability (as amended and supplemented).

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 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 Persons Charged with Governance for AFS

The Management of the Office of Prime Minister (OPM) is responsible for implementation of the project and managing with SIDA’s financial contributions. Financial Support by SIDA is comprised of two parts: the direct contribution to the Government (Treasury) and payments for technical assistance. OPM is responsible for accounting and preparation and fair presentations of the Annual Financial Report.

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

Auditor General's Responsibility for the audit of the AFS

Our responsibility is to express an opinion on the AFS 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 AFS.

An audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. 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 the Management, as well as evaluating the presentation of the financial report.

2.2 Compliance with AFS and other reporting requirements

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

- Terms of the Special Agreement between Government of Kosovo, represented by OPM through the Government Coordination Secretariat (GCS), and Sweden, represented by SIDA;
- Requirements of LPFMA no. 03/L-048, (as amended and supplemented); and
- Compliance with Financial Rule no.01/2013 on Expenditure of Public Money

OPM has prepared a summary report in relation to the funds spent, while this report will further be included within OPM "Consolidated" Annual Financial Statements. Financial report is drafted in line with the agreement. The narration report is also prepared containing an analysis on progress of project activities and outcomes.

In the context of reporting, we have no issues to raise.

3 Financial Management and Control

Introduction

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Expenditure Systems within Budget Organisations. As part of this, we consider Budget management, Procurement issues, Process of payments and Liabilities.

Financial Management and Control Conclusion

Financial systems and Controls over expenditures are generally appropriate and are being implemented effectively. Financial systems and transactions are in compliance with the laws and applicable regulations, and in line with the terms of the agreement. Some shortcomings related to Budget Execution and closing of advance payments are disclosed below:

3.1 Budget Planning and Execution

We have considered planning based on SIDA's budget lines and expenditures. This is highlighted in the following tables:

Table 1. Expenditures according to the SIDA's budget lines (in €)

Description	Planned Budget 2017	2017 Outturn	Planned Budget 2016	2016 Outturn
Type of Expenditures/total	311,500	186,506	95,000	72,692
Conferences	50,000	0	15,000	1,510
Study visits in Sweden	31,200	31,322	0	0
Study visits in Belgium	31,300	38,194	0	0
Salaries for interns	15,000	14,455	10,000	9,970
Office Equipment	3,500	4,272	10,000	6,276
Translation	25,000	4,500	10,000	4,303
Meeting Hall/meeting expenditures	45,000	45,084	30,000	30,752
Socialising (Team Building)	2,500	362	0	0
Trainings	35,000	12,027	0	0
Workshops with partner countries	20,000	25,941	20,000	19,882
RBM workshops - (Result Based Management)	10,000	0	0	0
Annual Audit	3,000	2,415	0	0
Counselling services	40,000	7,933		

According to the Treasury information, the budget for 2017 was €317,477, out of which €213,390 is carried forward from 2016 and €104,087 are funds from 2017.

Government Coordination Secretariat (GCS) and the Project Implementation Team have kept evidence of expenditures according to the planned budgetary lines, based on the agreement dated 15.12.2015, and reviewed on 02.02.2017 (see table 1). As a result of this, budget planning is lower by €5,977 than the available budget. The review of the agreement resulted in improving the project's budget trend.

The table shows that planning is exceeded in three budget lines:

- For study visits in Sweden and Brussels, the budget is exceeded by €7,016. This occurred because this line also included translator/translation expenditures, and due to the joint invoice that included the other part of the group (Travel tickets and accommodation¹ expenditures). This has reflected that expenditures in translation line are reflected as lower than they are in fact.
- The budget for seminars with partner countries (Regional Cooperation) is exceeded by €5,941. This occurred due to entering into the agreement with Albania on exchange of experience related to implementing better arrangement and Policy Impact Assessment; and
- Budget Line for office supply is exceeded by €772 in comparison to the planning based on the agreement. The budget was exceeded because the planning have not included unspent funds from previous year in the amount of €3,724 in this line and the order of the equipment was made in 2016, while the invoice was received in 2017.

59% of the final budget or €186,506 was spent in 2017, and comparing to the 2016 we have a decrease in execution level by 18%. Budget execution remains at unsatisfactory level.

¹ Translations are foreseen by another budget line which is not fully executed

Issue 1 - Budget Planning and Execution

Finding Based on article 9.2 of the Agreement between Government and Swedish Embassy, the Government will prepare and submit to the Swedish Embassy the updated budget on annual basis, which will include the period January-December of the upcoming fiscal year. The budget has to be spent based on planned activities and timeframe.

The Government has planned and submitted the budget in line with the agreement, however, the unspent funds from previous year were not taken into account during the planning. For this reason, the planned budget was lower than the available funds² by €5,977. The review of the initial agreement for 2017 has reflected that the difference between planned budget and the available budget is not so high.

The level of expenditures/budget execution in 2017 is not at expected level. This situation resulted from delays in developing activities from the very beginning of the project. For this reason, a considerable part of the funds are carried forward from 2016.

Risk Budget planning, not including all available funds is not realistic and may lead to the failure of aligning activities with the budget and may also negatively affect in budget execution. Low budget execution shows non-efficiency and risks meeting the project objectives.

Recommendation 1 Secretary General in coordination with GCS should ensure qualitative budget planning, considering available funds. Budget execution performance should be reviewed systematically, in order to avoid obstacles in meeting operational and financial objectives/planned outcomes.

² Carried forward fund were € 213,390 and the instalment foreseen by the agreement is €104,087 , in total €317,477.

3.2 Goods and Services

The final budget for Goods and Services in 2016 was €317,477³, out of which €186,506 was spent. Those relate to advance payments, expenditures for official lunches, expenditures for traveling abroad, allowances for traveling abroad, and payments for interns.

We have examined these expenditures to obtain assurance whether all applicable laws have been considered.

Issue 2 – Delays in Closing Advanced Payments

Finding Based on article 8 of the Administrative Instruction on official trips, all officials are required to submit evidence for expenditures incurred related to the advance payments, received within 15 days after conclusion of the official visit.

Risk We have identified four cases with delay for more than two months, whilst in one case, expenditures for the summer school for public policy in value of €2,830 was justified with delay of six months (February 2018)

Risk Failure to justify advanced payments in time is in non-compliance with the applicable regulations, and this may lead to the risk that the money spent is not justified and not used as intended.

Recommendation 2 Secretary General in coordination with GCS should ensure that legal timeframe in closing advance payments is adhered and accountability on those expenditures should be ensured in order to preserve public money.

3.3 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2017 was €4,455. These liabilities are carried forward to be paid in 2018. Unpaid invoices did not exceed the legal timeframe of 30 days, however they are set as priority and paid at the beginning of 2018.

Recommendations

We have no recommendations in this area.

³ Planning in table is €311,500, however the budget available was €317,477.

4 Progress in implementing recommendations

Our Audit Report on the 2016 Financial Report of the project “Support for Improving Policy Development in Kosovo” resulted in three recommendations.

At the end of our 2017 audit, two recommendations have been implemented and one was in process. For a more thorough description of the recommendations and how they are addressed, see Annex II.

Recommendation

We have no recommendation in this area.

5 Good Governance

Introduction

Good Governance implies basic principles of accountability, effectiveness of controls, risk management and good governance on developed activities and financial management.

A key tool supporting effective governance is the implementation of audit recommendations as this demonstrates to what extent the Management (GCS) is seeking to improve existing processes and controls. Periodical reporting of the Board of Directors from the Office of Prime Minister and responsible staff for implementation of project “Support for Improving Policy Development in Kosovo”.

Overall Governance Conclusion

In general, the Office of the Prime Minister has good controls in place in relation to its statutory obligations. The Internal Audit Unit and the Audit Committee are operational. Financial Management and Control have demonstrated a good process of review and assurance in implementation of the legislation and other control processes.

Governance in the area of managerial reporting and accountability, as well as risk management reflects a positive situation, and implementation of considerable part of recommendations demonstrates willingness for improvement. However, there is still room for improvement of control and governance. Activity planning and managing arrangements have shown weaknesses.

Further on, OPM has no strategy in place related to the international and local councillors, instead they rely upon the agreements/contracts between two parties in line with guidance and procedures in place.

In relation to the Anti-Corruption Strategy, the OPM relies upon National Anti-Corruption Strategy 2018- 2022, previously 2013-2017 with Action Plans. However, there are no formal activities in place regarding this issue. There is no strategy or program drafted/approved related to online reporting for overall activities. Further on, the process for purchasing equipment is not followed up to their registration in the asset register⁴.

5.1 Management Reporting, Accountability and Risk Management

In order to have a proper planning, supervise the activities on a regular basis and allow effective decision-making, the Management needs to have planning of expenditures based on the available budget.

Although, a range of internal controls are applied by Management to ensure that systems operate as intended, we have noticed that there is still room for improvements and in some aspect that will provide effective and timely response to the identified operational problems.

⁴ The issue of registering equipment in value of €2,696 will be addressed in the draft report for OPM 2017

Issue 3 - Weaknesses in Planning and Implementation of Activities- trainings, workshops, internships

Finding Within point 4 of the Annex to the agreement, OPM (GCS) should design a training program for development of policies targeting different groups within respective ministries. For 2017, GCS and implementing staff have not planned/ designed a general list of trainings and workshops. However, the vast majority of trainings/workshops are organised on the basis of current requests. Out of the 49 trainings/workshops organised, around 80% of them were made from current requests. But according to the officials of the GCS, the activities are related to the fulfilment of the objectives set forth in the framework of project outcomes.

Finding Within the Annex to the agreement, point 5.10 has foreseen giving the opportunity to the students to carry out internship in OPM respective offices. In 2016, Interns were selected using simplified recruitment procedures (notification for offering internship, written test and interview for applicants). However, from our testing we have noticed that two interns engaged in 2017 were not selected from the shortlist of successful candidates proposed by the competition committee.

Risk The lack of a detailed planning of activities and this may risk that the project does not meet the expected objectives and in time. This may have negative impact on budget execution, quality in organizing activities and consequently in project outcome. Admission of interns outside short list/recruitment procedures increases the risk for engaging inadequate staff and prevents the promotion of a fair competition.

Recommendation 3 Secretary General in coordination with GCS should ensure that a good planning of activities is in place, which ensures that project objectives are met and would maximise the achieved outcomes against the funds received by the donor. Further on, to ensure that the processes promote fair competition/transparency when developing the activities.

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

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.

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 1705¹⁹ 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.

Annex II: Prior and Earlier Year Recommendations

Audit Component	Recommendation given in 2016	Implemented	Under implementation	Not implemented
Planning and Budget Execution	Secretary General in coordination with GCS should perform systematic evaluation of the reasons that led to the low level of execution and to determine practical options to improve execution in 2017.			Not Implemented.
Goods and Services	Secretary General in coordination with GCS should ensure that additional actions are taken to register expenditures with proper economic codes.	Implemented.		
Outstanding Liabilities	Secretary General in coordination with GCS should ensure that liabilities toward suppliers are paid within legal timeframe, in order to avoid execution of payment directly from Treasury, or increase of the liabilities at the end of the year.	Implemented.		

Annex III: Letter of confirmation



LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2017 dhe për zbatimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit/Pasqyrave Financiare të Projektit "Përkrahje për Përmirësimin e Hartimit/Zhvillimit të Politikave në Kosovë", financuar nga SIDA, për vitin e përfunduar më 31 dhjetor 2017 (në tekstin e mëtejshëm "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 zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

z. Fitim Krasniqi

Sekretar i Përgjithshëm i Zyres së Kryeministrit,

Data: 25. Prill 2018, Prishtinë