AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF PRIVATISATION AGENCY OF KOSOVO FOR THE YEAR ENDED 31 DECEMBER 2017

Prishtina, June 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 Statements of the Privatisation Agency of Kosovo in consultation with the Assistant Auditor General, Valbon Bytyqi, who supervised the audit.

The report issued is a result of the audit carried out by Team Leader Sabile Musa and team members Kreshnike Haziri, Mazlumshah Sejfadini and Shqiponja Krasniqi under the management of the Head of Audit Department, Faruk Rrahmani.
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Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Statements of Privatisation Agency of Kosovo, which determines the Opinion given by the Auditor General. The examination of the 2017 financial statements 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 statements. The applied audit approach is set out in our External Audit Plan dated 29/09/2017.

Our audit focus has been on:

The level of work undertaken by the National Audit Office to complete the 2017 audit is determined depending of the quality of internal controls implemented by the Management of the Privatisation Agency of Kosovo.

The National Audit Office acknowledges the Senior Management and Staff of Privatisation Agency of Kosovo for cooperation during the audit process.

Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

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

However, we draw your attention to the fact that the expenditures for remuneration of board members have been wrongly budgeted and spent on the category of Goods and Services.

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.
Key Conclusions and Recommendations

Emphasis of Matter reflects weaknesses in budgeting and reporting of expenditures. Similarly, there were also shortcomings when it comes to presentation of the final budget, disclosures of assets and liabilities.

The Chairman of the Board should analyse the reasons for 2017 Emphasis of Matter and identify actions required to enable a true and fair presentation of expenditures by economic categories in 2018. Particular attention should be paid to presenting data fully into AFS (see chapter 2).

Financial management processes are still poor in a number of areas including staff management, management of procurement process and asset management (stocks).

The Chairman of the Board should apply a detailed assessment of the areas to identify the reasons for weaknesses and determine the actions required to address these (see issues 2 to 6).

Despite the progress made in implementation of recommendations, some of them are still in the process of implementation.

The Chairman of the Board should apply a rigorous process to ensure that prior audit year recommendations are actively addressed with key issues/progress reported to senior management on a monthly basis. (see issue 7)

Governance arrangements related to updating risk register need a permanent monitoring with aim to address and reduce risks.

The Chairman of the Board should ensure that Governance arrangements are reviewed to ensure that appropriate changes are made to improve governance arrangements (see issue 8)

Management’s Response

Management of the Privatisation Agency of Kosovo has considered and agreed on audit findings and conclusions and committed to address 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 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;
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

Audit work undertaken reflected our audit risk assessment for Privatisation Agency of Kosovo (hereinafter: the Agency). We have analysed the Agency’s business to the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the Auditor General’s opinion.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review.

Our procedures included a review of the internal controls, accounting systems and related substantive tests and related governance arrangements 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.
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 AFS. We also consider the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance (MoF).

The declaration regarding presentation of the AFS incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the AFS. These assertions are intended to provide the Government with the assurance that all relevant information has been provided to ensure that an audit process can be undertaken.

2.1 Audit Opinion

Unmodified Opinion with Emphasis of Matter

We have audited the AFS of the Privatisation Agency of Kosovo for the year ended on 31st of December 2017 which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement, Disclosures and other accompanying reports.

In our opinion, the Annual Financial Statements for the year ended on 31st of December 2017 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) and MoF Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

Basis for the opinion

Our audit was conducted 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.

Emphasis of Matter

We draw your attention to the fact that the expenditures for remuneration of board members in the amount of €375,387 have been incorrectly budgeted and spent from the category of Goods and Services instead they should be made from the category of Wages and Salaries. Remuneration of Board members included regular monthly payments, other remunerations for oversight,
extraordinary meeting and remunerations as members appointed to board committees/commissions. the Agency relied its budgeting and payment of remuneration from goods and services, on its internal regulation for remuneration of the Board of Directors. However, this regulation is in contradiction with 2017\(^1\) Budget Law and Financial Rule no.01/2013\(^2\) on Expenditure of Public Money.

As a result, the category of Goods and Services is overstated, while that of wages and salaries was understated for this value, leading to unfairly presentation into AFS.

Our opinion is not modified for this matter.

**Responsibility of Management and Persons Charged with Governance for AFS**

The Managing Director 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 statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law no. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented).

The Board of Directors and Managing Director is responsible to ensure the oversight of the Agency’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 any material misstatement that might exist. 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 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

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\(^1\) Article 13 paragraph 4 - Expenditure of public money from the category of expenditures “Goods and Services” is not allowed for the payment of employees, whether in the form of a daily allowance or as a contribution to commodities, including meals or gifts

\(^2\) Article 33 - Budget Organizations must ensure that all persons in employment relationship are paid from the payroll.
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 statements.

2.2 Compliance with AFS and other reporting requirements

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

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
- Requirements of LPFMA no. 03/L-048, (amended and supplemented by Law No. 03/L-221, no. 04/L-116, no. 04/L-194 and Law no. 05/L-063);
- Compliance with Financial Rule no.01/2013 and 02/2013;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures;
- Other budget reporting requirements such as quarterly reports including nine-month financial statements; and
- Reports on Outstanding Liabilities.

In the context of the AFS we have these issues to raise.

- Stocks, in the amount of €39,908 were not presented in the AFS;
- In the budget execution report, it is noticed that the revised budget was incorrectly presented in the final budget column, where the difference was in the amount of €37,016; and
- In Note 15, the Report on Liabilities (Invoices), two invoices in the amount of €480 even though they were received were not presented at Outstanding Liabilities.

All external reporting requirements were met with a good quality and we have no issues to raise in this regard.
2.3 Recommendations related to Annual Financial Statements

**Recommendation 1** The Chairman of the Board should ensure that an analysis is undertaken to determine the causes of the Emphasis of Matter by undertaking specific actions to eliminate errors in the classification of expenditure. The Agency should amend the internal rules for remunerations to the Agency’s Board of Directors, and then all expenditures are budgeted and recorded in line with the Chart of Accounts based on the requirements of the Budget Law.

**Recommendation 2** The Chairman of the Board should ensure fair and complete presentation of information into the financial statements including the final budget and disclosures of assets and liabilities. Further on, effective processes should be in place to confirm that 2018 AFS production plan formally addresses all compliance related issues. The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be signed unless all necessary checks have been applied.
3  Financial Management and Control

Introduction

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Budget Organisations. Specifically, the focus of the audit was Budget management, Procurement issues, Human Resources as well as Assets and Liabilities.

Financial Management and Control Conclusion

In the context of financial systems, controls over expenditure and revenues are generally appropriate and are being implemented effectively – but a range of areas require further improvement. In 2017, the Agency had a satisfactory budget performance since it spent 91% of the budget.

Shortcomings have been identified in several financial management and control processes where as more priority areas requiring more improvements are: staff management, including overcoming the practice of managing positions with acting, better management with procurement processes, and asset management (stocks).

3.1  Budget Planning and Execution

We have considered the sources of budget funds, spending of funds and revenues collected by economic categories. This is highlighted in the following tables:

Table 1. Sources of budgetary Funds (in €)

<table>
<thead>
<tr>
<th>Description</th>
<th>Initial Budget</th>
<th>Final Budget</th>
<th>2017 Outturn</th>
<th>2016 Outturn</th>
<th>2015 Outturn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources of Funds</td>
<td>7,020,884</td>
<td>7,582,788</td>
<td>6,876,167</td>
<td>6,312,889</td>
<td>5,970,267</td>
</tr>
<tr>
<td>Government Grant -Budget</td>
<td>100,000</td>
<td>661,904</td>
<td>652,960</td>
<td>9,515</td>
<td>10,572</td>
</tr>
<tr>
<td>Dedicated Revenues</td>
<td>6,920,884</td>
<td>6,920,884</td>
<td>6,223,207</td>
<td>6,303,374</td>
<td>5,959,695</td>
</tr>
</tbody>
</table>

The final budget in relation to the initial budget increased by €561,904. Initially, the budget has increased by €598,920, and then under a government decision⁴, the budget has been reduced by €37,016. The budget increase occurred as a result of request for Trepca’s Reorganization and Feasibility Study.

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³ Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.
⁴ Government Decision no. 10/19 - December 2017
In 2017, the Agency spent 91% of the final budget or €6,876,167, an improvement of 3% compared to 2016. The explanation for the current position is detailed below.

Table 2. Spending of funds by economic categories - (in €)

<table>
<thead>
<tr>
<th>Description</th>
<th>Initial Budget</th>
<th>Final Budget</th>
<th>2017 Outturn</th>
<th>2016 Outturn</th>
<th>2015 Outturn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending of funds by economic categories</td>
<td>7,020,884</td>
<td>7,582,788</td>
<td>6,876,167</td>
<td>6,312,889</td>
<td>5,970,267</td>
</tr>
<tr>
<td>Wages and Salaries</td>
<td>4,402,884</td>
<td>4,402,884</td>
<td>4,390,281</td>
<td>4,402,591</td>
<td>4,321,066</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>2,380,000</td>
<td>2,911,904</td>
<td>2,349,683</td>
<td>1,745,292</td>
<td>1,401,519</td>
</tr>
<tr>
<td>Utilities</td>
<td>98,000</td>
<td>118,000</td>
<td>80,913</td>
<td>73,594</td>
<td>84,980</td>
</tr>
<tr>
<td>Subsidies and Transfers</td>
<td>40,000</td>
<td>50,000</td>
<td>41,379</td>
<td>78,809</td>
<td>116,003</td>
</tr>
<tr>
<td>Capital Investments</td>
<td>100,000</td>
<td>100,000</td>
<td>13,910</td>
<td>12,603</td>
<td>46,700</td>
</tr>
</tbody>
</table>

Explanations for changes in budget categories are given below:

- The budget for capital expenditures was executed only 14%. The low level of spending was a result of that two projects that accounted for 80% of the value had changed the circumstances during the year. The project for purchase of official vehicle in the amount of €75,000 was not executed due to the fact that the Central Procurement Agency initiated the process of leasing vehicles on behalf of all contracting authorities at central and local level. Whereas the project for repairing the premise of the Agency, planned for the replacement of the facility and the necessary changes to it, was not executed because the Agency failed to change the facility during 2017; and

- The increase of the budget for goods and services by €531,904 is the result of executing Trepca Reorganization and Feasibility Study contract. However, the surplus against the increased budget in this category is due to inadequate procurement planning and delays in initiating requests from the requesting units.

Recommendations

We have no recommendations in this area.

3.2 Revenues

Revenues generated by the Agency in 2017 were in the amount of €6,111,946. They relate to the administrative fee of 5% on all revenues received as a result of any sale. Further on, as revenues were recorded the reimbursements of land telephony funds as well as other returns.

For exceeding the spending limit of mobile phone by its staff during the year, the Agency started applying the method of cash reimbursement for the exceeded value and deposited these funds into the bank account and registered them as revenue in the economic code 50019 with the description
of other administrative fees. Reimbursements received in this form, either by nature or by purpose, are not revenue, in fact they are a return of expenses incurred from the category of goods and services.

After addressing this issue in the audit memo at the final stage we have noticed that the Agency since November 2017 has changed the policy on covering the mobile phone expenses by transferring all the telephony costs into the “prepaid” system which eliminates the shortcoming highlighted above.

Recommendations

We have no recommendations in this area.

3.3 Wages and Salaries

Wages and Salaries are paid through a centralised system managed by the Ministry of Public Administration and MoF. The budget for the category of Wages and Salaries was €4,402,884, while the expenditures were €4,390,281.

Recommendations

We have no recommendations in this area.

3.4 Personnel Management

The Agency has a Human Resources Department in place which is responsible for developing and overseeing the implementation of policies and procedures related to human resource management and development.

The staff of the Agency and its charter are regulated by the Law on the Agency, Labour Law, Civil Service Law, bylaws and other legal provisions in force. The planned number of staff was 258, while the current number in December 2017 was 238. The Agency has the Board of Directors, the Managing Director and two Deputy Managing Directors, the Executive Secretariat Director as well as the professional and technical staff.
Issue 3 - Acting Duty in term of longer than three months

Finding  The Law on Civil Service (no. 03/L-149), respectively Article 30.4 specifies that for covering a vacant position within the civil service, the Acting Officer cannot be appointed for more than three months. In addition to the two positions for which recruitment procedures have been developed, there are 15 positions in the Agency managed by Acting, who have exceeded the legal deadline. Among them there is an Acting Officer since 2015, and most of them are management positions.

Risk  Management with acting beyond legal deadlines, in addition to being in violation of applicable laws, increases the risk that positions may be managed by persons who do not meet the requires criteria. Such management implies that responsibility and accountability at work are not at the expected level reflecting on the operational performance and ineffective management of the organization.

Recommendation 3  The Chairman of the Board should undertake additional actions to terminate covering management positions with Acting. Duration of the function as Acting cannot be longer than the defined legal period, as it has a decisive influence on the functioning of the controls and achievement of the objectives.

3.5 Goods and Services and Utilities

The final budget for goods and services including Utilities in 2017 was €3,029,904. Out of these, €2,430,596 were spent. They relate to other contracting services, leasing costs, spending on public information, remunerations to board members, etc.

Recommendations

We have no recommendations in this area.

3.6 Subsidies and Transfers

The final budget for subsidies and transfers was €50,000. Out of them, €41,379 were spent in 2017. They relate to supporting the function of Managing with Socially Owned Enterprises under the direct administration of the Agency.

Recommendations

We have no recommendations in this area.
### 3.7 Capital Investments

The final budget for Capital Investments was €100,000. Out of them, only €13,910 was spent in 2017. They relate to implementing a project for Information Technology equipment.

**Recommendations**

We have no recommendations in this area.

### 3.8 Common Issues on Goods and Services and Capital Investments

The following common issues relate to Goods and Services and Capital Investments:

<table>
<thead>
<tr>
<th>Issue 4 – Shortcomings in procurement planning</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Finding</strong></td>
</tr>
<tr>
<td>To carry out a good planning, the procurement manager will need to have close cooperation with the budget department and other departments.</td>
</tr>
<tr>
<td>Based on the ascertained situation, it is clear that the Agency did not make good procurement planning for 2017. This was proved by the fact that out of the 35 contracts executed, 13 of them were not included in the procurement plan.</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
</tr>
<tr>
<td>Planning, which is not based on the real needs of the requesting units and the execution of contracts outside the procurement plan, increases the risk that the planned projects remain unexecuted as a result of deviations in procurement.</td>
</tr>
<tr>
<td><strong>Recommendation 4</strong></td>
</tr>
<tr>
<td>The Chairman of the Board should ensure effective cooperation between the units that process the requests and the procurement department during the planning process. This should include the time needed when procurement processes related to the budget allocated to the Agency are developed.</td>
</tr>
</tbody>
</table>
Issue 5 - Contract management plan is missing

Finding  In two procurement samples\(^5\), we noticed that the contract management plan is missing, which is a requirement of the public procurement operating guidelines.

Risk  Failure to prepare a contract management plan increases the risk that the Agency will not have sufficient controls in contract execution and as a result there will be shortcomings or obstacles in contract execution.

Recommendation 5  The Chairman of the Board should ensure that contract execution should precede a detailed contract management plan in order to avoid project implementation shortcomings.

3.9  Capital and Non-Capital Assets

The net asset value of the Agency was €326,445. Out of them the value of capital assets (above €1,000) was €229,559, non-capital assets (under €1,000) were €56,978, and the value of the stocks was €39,908.

We have reviewed whether the registration process and the manner of keeping the records complied with the requirements of MoF-no. 02/2013 on the management of non-financial assets, inventory process, depreciation and physical existence of assets. In order to overcome the shortcomings in the e-assets system related to the devaluation of non-cash assets, the Agency established its own records in Excel and calculated the depreciation in the proper manner according to the Regulation for the management of non-financial assets.

Issue 6 – Weaknesses in stock management and reporting

Finding  Stocks are non-financial assets that are held as reserve equipment or redistributed office material to personnel for use. For recording of stocks, the Agency applies the e-assets system. According to the e-assets register, the stock in warehouse on December 31, 2017 was in the amount of €64,668, while we verified that the stock at the end of the year was €39,908 with a difference of €24,760. The difference is due to not updating the registry.

Risk  The unlisted stock records understate/overstate the financial position of the organization’s assets and may result in decision-making being made on incorrect information.

Recommendation 6  The Chairman of the Board should ensure that the stock records are regularly updated, including accurate records for all purchases and outflows so that their records are complete and accurate at any time. Exact stock records, in addition to the reporting needs for the annual financial statements, are also needed for the internal management needs.

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\(^5\) Kontrata “Dan Graf Doo” – Shërbimet e publikimeve në një gazete në Serbi; dhe dy Kontrata – “AXA ShPK” dhe “Infocom” – Furnizim me toner për nevoja të AKP-së
3.10 Receivables

The value of accounts receivable at the end of 2017 was €2,265. They relate to landline and mobile phone costs.

Recommendations

We have no recommendations in this area.

3.11 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2017 was €62,490, out of which €55,742 were outstanding liabilities from the category of goods and services, while €6,748 for utilities. These liabilities were carried forward to be paid in 2018.

The management and reporting of outstanding liabilities was made in accordance with the regulation for their management.

Recommendations

We have no recommendations in this area.
4 Progress in implementing recommendations

Our Audit Report on the 2016 AFS resulted in 10 key recommendations. The Agency prepared an Action Plan stating how all recommendations given will be implemented.

By the end of our 2017 audit, four have been implemented and six were in process. Also, from the year 2015, 12 recommendations were carried forward in 2017, out of which six have been implemented and six are in process of implementation.

For a more thorough description of the recommendations and how they are addressed, see Annex II.

<table>
<thead>
<tr>
<th>Issue 7 – Implementing Prior and Earlier Year Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Finding</strong></td>
</tr>
<tr>
<td><strong>Risk</strong></td>
</tr>
<tr>
<td><strong>Recommendation 7</strong></td>
</tr>
</tbody>
</table>
5 Good Governance

Introduction

Good Governance implies basic principles of accountability, effectiveness of controls, risk management, independence of internal audit, coordination of NAO with internal audit and good governance with public assets.

A key tool supporting effective governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. The level of compliance with FMC requirements by Budget Organizations is monitored by the self-assessment checklists completed by all BOs, which are submitted at the end of the year to the Ministry of Finance.

Specific areas of our governance-related reviews have been the accountability and risk management process, while the other components are handled within the chapters or subchapters above.

Overall Governance Conclusion

Some aspects of governance within the PAK require improvements, particularly when it comes to updating the risk register. Effective response to audit recommendations and functioning of a quality internal audit system are considered to be established. The PAK had met the requirement of the MoF regarding the submission of the self-assessment questionnaire.

The Board of Directors is the highest body of the Agency, consisting of eight members. The mandate of six board members ended on 17th of December, 2017. Until new board members are selected, the audit committee remains inactive.

5.1 Internal Audit System

The Internal Audit Unit (IAU) operates with four members of staff - the Director of IAU, two auditors and one Administrative Officer. An effective audit requires a comprehensive work programme that reflects financial and other risks to Auditee and provides sufficient assurance over the effectiveness of internal control. The impact of Internal Audit output should be judged by the importance that management places on addressing recommendations and the support and challenge provided by an effective Audit Committee.

The annual work plan was drafted in accordance with the strategic plan, where several audit areas for 2017 were set. IAU for this year planned eight audits, out of which six were final and two in process of completion. In addition to timely completion of a significant number of reports, they were quite substantial. Audit reports contain conclusions and recommendations that identify some of the shortcomings in the PAK’s internal control system.
**Recommendations**

We have no recommendations in this area.

### 5.2 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 regular reports. Accountability as a process is the acceptance of responsibilities, holding persons into account for their actions and disclosing results in a transparent way. Whereas, risk management is a process related to identification, analysis, evaluation and actions/measures taken by the Management to control and respond to risks threatening the Organization.

Although, a range of internal controls are applied by Management to ensure that systems and operate as intended, we have noticed that the measures applied are weak and ineffective and therefore do not provide an effective and timely response to the identified operational problems.

The PAK established a functional internal control system that includes regular reporting to management to enable timely information and opportunities to respond to the challenges and problems reported in terms of meeting the objectives. Accountability and communication lines were functional through regular reports and meetings.
Issue 8 - Weaknesses in Risk Management

Finding According to the FMC rules, the Agency established formal and documented risk assessment and risk management procedures. However, even though the risk register has been compiled, we have not found any evidence that this registry is being actively managed in terms of updating and ensuring that actions are taken to prevent and mitigate the risks.

Risk Lack of effective and comprehensive risk management will weaken the quality of service to citizens if internal and external issues affecting this are not timely addressed. This is because proactive actions needed to prevent or avoid the impact of such issues are not undertaken in a planned and systematic manner.

Recommendation 8 The Chairman of the Board should ensure that direct responsibility for risk management in the relevant sectors is delegated and ensure effective monitoring and quarterly reporting on the implementation of requirements in this area.

*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 1705 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: Progress in implementing two Earlier Year Recommendations

<table>
<thead>
<tr>
<th>Audit Component</th>
<th>Recommendation carried forward from 2015</th>
<th>Implemented during 2017</th>
<th>Under implementation during 2017</th>
<th>Not implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.4 Compliance with AFS requirements and other reporting requirements</td>
<td>The Chairman of BoD should ensure that effective processes are in place to confirm that the 2016 AFS production plan formally addresses all compliance. This should also include a management review of the draft account with specific focus on high risk areas and/or areas where errors have been identified in previous years. The Declaration made by the CEO and CFO should not be submitted unless all necessary checks have been applied to the draft AFS.</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.4 Self-assessment checklist</td>
<td>The Chairman of BoD should ensure that a review of the processes for completing the self-assessment checklist and proactively addressing areas of weaknesses is implemented. A revised mechanism to confirm the accuracy of the return and to ensure supporting documentation supports the submission should be applied.</td>
<td>Yes</td>
<td></td>
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</tr>
<tr>
<td>2.5.1 Designing strategic objectives</td>
<td>The Chairman of the Board should ensure that the required actions are taken to follow strategic objectives and implementing a strategic plan.</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.5.3 Management reporting</td>
<td>The Chairman of the Board should consider the causes of not applying the controls effectively and ensure their elimination in order to improve the weaknesses in the expenditure process.</td>
<td></td>
<td></td>
<td>Regarding the services and supplies received we have not encountered any issues. While we encountered unprocessed bills.</td>
</tr>
<tr>
<td>2.5.3 Management reporting</td>
<td>The Chairman of the Board should ensure that staff is recruited in time to minimize the period of acting.</td>
<td>The recruitment process for the vacant positions held by the acting party has begun, but has not yet been completed.</td>
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<td>2.6 Internal Audit System</td>
<td>To gain maximum benefit from Internal Audit activity the Minister should ensure that an Audit Committee is introduced. The Audit Committee should critically review Internal Audit plans (to confirm that they are risk based and provide the required assurance to management) and Internal Audit outputs. It should also review actions taken by management on Internal Audit recommendations.</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.3 Budget planning</td>
<td>The Chairman of the Board should ensure that the reasons for not executing the budget have been analysed and determine the practical actions to adjust the deficiencies. Furthermore, it has a greater impact on all participants in budget planning, to create the most realistic financial budget and in line with the organization’s objectives.</td>
<td>There was an increase in the level of budget execution, with the exception of capital investments with the above reasons.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.4 Procurement</td>
<td>The Chairman of the Board shall ensure the follow-up of the procedures in chronological order as set out in the Regulatory Framework.</td>
<td>In the process, we encountered delays in the realization of payments.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.5.1 Remunerations (wages &amp; salaries)</td>
<td>The Chairman of the Board shall ensure that the implementation of the procedures is in accordance with the law and regulations in force for civil servants.</td>
<td>There was a litigation on this issue.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.6 Assets and liabilities</td>
<td>The Chairman of the Board shall ensure that assets are recorded in asset groups according to the criteria for their registration.</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Component</td>
<td>Recommendation carried forward from 2016</td>
<td>Yes</td>
<td>Implemented</td>
<td>Under implementation</td>
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<tr>
<td>4.6.2 Handling of receivables</td>
<td>The Chairman of the Board should strengthen the level of controls over the management of mobile phone expenses and establish a system for collecting the liabilities created as a result of exceeded defined limits.</td>
<td>Yes</td>
<td>Implemented</td>
<td>Under implementation</td>
</tr>
<tr>
<td>4.6.3 Handling of debts</td>
<td>The Chairman of the Board should initiate an analysis of supplies/services received without covering the contract and ensure that CFO has increased the focus by providing a reliable control system for ordered services or supplies.</td>
<td>There are contingent liabilities for exceeding the value of the contract, presented in the AFS.</td>
<td>Implemented</td>
<td>Under implementation</td>
</tr>
<tr>
<td>1 Annual Financial Statements and Other Obligations for External Reporting</td>
<td>The Chairman of the Board should ensure that effective processes have been established to confirm that the Chairperson 2017 drafting plan addresses all compliance issues including the revision of the drafts of the AFS by management, with particular focus on the areas with high risk and areas where errors were identified in previous years. The Declaration made by the Managing Director and the Financial Manager should not be submitted unless all the necessary controls have been applied to the draft AFS.</td>
<td>Yes</td>
<td>Implemented</td>
<td>Under implementation</td>
</tr>
<tr>
<td>2.1 Progress in implementing the prior year’s recommendations</td>
<td>The Chairman of the Board should ensure that the necessary action is taken to implement the action plan within the set deadlines, focusing primarily on the most important issues.</td>
<td>Yes</td>
<td>Implemented</td>
<td>Under implementation</td>
</tr>
<tr>
<td>Section</td>
<td>Description</td>
<td>Notes</td>
<td></td>
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<td>2.2 Self-Assessment Questionnaire of FMC Components</td>
<td>The Chairman of the Board should ensure that the completion of the self-assessment checklist has been reviewed and proactive areas have been addressed for weaknesses. Also, a mechanism should be applied to confirm the accuracy of the checklist and to provide supporting documentation.</td>
<td>Yes</td>
<td></td>
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</tr>
<tr>
<td>2.3 Specific governance reviews</td>
<td>The Chairman of the Board should ensure that actions are undertaken to follow the strategic objectives and the implementation of the strategic plan.</td>
<td>Yes</td>
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</tr>
<tr>
<td>2.3.2 Management reporting and Accountability</td>
<td>The Chairman of the Board should ensure that the necessary actions are taken for full and accurate reporting of accounts payable and their payment within certain time limits.</td>
<td>The Agency reports monthly on outstanding liabilities, however, in the AFS of 2017, two invoices have not been presented.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1.1 Wages and Salaries</td>
<td>The Chairman of the Board should ensure that a systematic review of personnel files is undertaken to ensure compliance with the applicable legislation within a specified period of time.</td>
<td>The recruitment process for the vacant positions held by the acting party has started but is not fully completed.</td>
<td></td>
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</tr>
<tr>
<td>3.1.2 Goods and services, as well as utilities</td>
<td>The Chairman of the Board should ensure that the necessary actions are taken to better plan and execute procurement procedures in accordance with the legislation in force.</td>
<td>Despite improvements compared with the previous year, PAK still irregularities in procurement planning.</td>
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<td></td>
<td>The Chairman of the Board should ensure that the necessary actions are taken to properly manage the contracts by the responsible persons and eliminate irregular payments.</td>
<td>We have not encountered irregular payments, but we have still noticed some irregularities in contract management.</td>
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<tr>
<td>Section</td>
<td>Description</td>
<td>Details</td>
<td></td>
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<tr>
<td>3.2 Assets</td>
<td>The Chairman of the Board should ensure that the necessary actions are taken for the correct and accurate registration of all assets and the presentation in the AFS.</td>
<td>PAK has created its own Excel records for assets under 1000 €, but we have still identified differences in the inventory register.</td>
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</tr>
<tr>
<td>3.3 Unpaid Obligations</td>
<td>The Chairman of the Board should ensure that the necessary actions are taken to make payments of all invoices within the given time limits and the presentation of all obligations in the AFS.</td>
<td>In process, two invoices were not presented in AFS.</td>
<td></td>
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</tr>
</tbody>
</table>
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 rekombandimeve

Për: Zyrën Kombëtare të Auditimit
Të rderuar,
Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit/Pasqyrave Financiare të Agjencisë Kosome të Privatizimit, për vitin e përfojnduar më 31 dhjetor 2017 (në tekstin e mëtejme "Raport")

- pajtohem me të gjeturat dhe rekombandimet 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 veprimtit për zbatimin e rekombandimeve, i cili do të përshkjq atët kohore dhe stafin përgjigjës për implementimin e tyre.

Ekrem HAIDARI
Drejtor Menaxhues

Data: 18 qëmhor 2018; Prishtinë