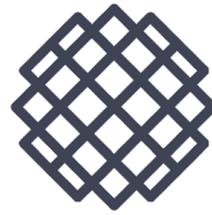




Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

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AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF TRUST FUNDS
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 Trust Funds 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 Trust Funds, 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. 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 25/10/2017.

Our audit focus has been on:



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

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

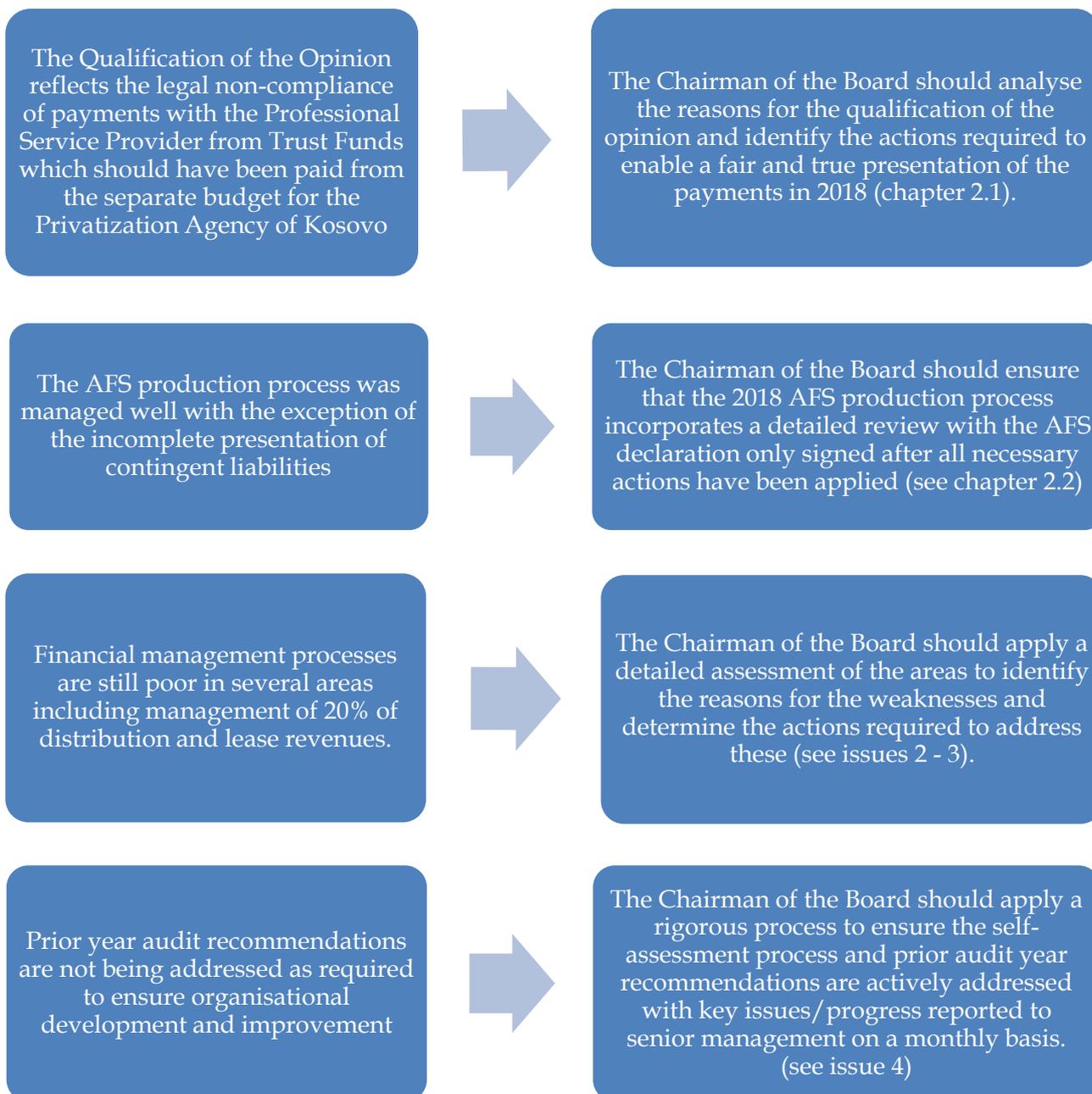
Qualified Opinion

In our opinion, except the effects of the issue of Expenditures for Professional Service Providers described in the paragraph on the Basis for Qualified Opinion, the Annual Financial Statements for the year ended on 31st of December 2017 present a true and fair view in all material respects.

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



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 Trust Funds for Privatisation Agency of Kosovo. 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.

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

Qualified Opinion

We have audited the AFS of the Trust Funds for the year ended on 31st of December 2017 which comprise of the Statement of Trust Funds Receipts and Payments, bank balance of receipts and expenditures, the balance of Trust Funds bank accounts, disclosures and other accompanying reports.

In our opinion, except for the effects of the issue described in the Basis for Qualified Opinion paragraph, 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 Finance Management and Accountability (as amended and supplemented) and Regulation MoF no.01/2017 on Annual Financial Reporting by Budget Organisations, Law no. 04/L-034 on Privatisation Agency of Kosovo and Rule on Financial Reporting Framework of Trust Funds, approved by the Board of Directors on 23rd of February 2011.

Basis for Qualified Opinion

Payments to Professional Service Providers for 2017 in the amount of €996,000 were committed by the Trust Fund, in violation of the applicable rules. Based on Article 16 of the Annex of Law no. 04/L-034 on Privatization Agency of Kosovo the remuneration for Professional Service Providers (Liquidation Authority) should be paid from funds allocated to the Agency from the budget of the Republic of Kosovo or by means provided by a donor. The opinion is qualified for this reason.

These funds were paid by the Trust Fund as funds had not been allocated to PAK from the Budget of the Republic of Kosovo, despite the continued requests by the management. PAK's management efforts were successful only after the end of the 2017 fiscal year when the Assembly of Kosovo amended the law on PAK¹. Among other things, the amendments included Article 16 of this law, according to which payments to Professional Service Providers are made by the respective Socially Owned Enterprise Liquidation Accounts, for which the opinion is also qualified. The Auditor General could not consider this fact when giving the opinion as the law does not have retroactive action and the opinion was given to the Financial Statements as of 31st of December 2017 but it deemed necessary to disclose this clarification as described here, so that the management of the organization, the Assembly of Kosovo and the public are informed about the recognition of the right to make payments from the Trust Fund from the day the new law entered into force, exactly as the management had done during the fiscal year 2017.

Our audit is 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. NAO is independent of the Privatisation Agency of Kosovo in accordance with the ethical requirements that are relevant to our audit of the annual financial statements of Budget Organisations in Kosovo and we have fulfilled other ethical responsibilities in accordance with these requirements. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the qualified opinion.

Responsibility of Management and Persons Charged with Governance for AFS

The Board of Directors and 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 are responsible to ensure the oversight of the Trust Fund'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.

¹ Law no. 06/L-023 on Amending and Supplementing the Law no. 04/L-034 on Privatisation Agency of Kosovo, Amended and Supplemented with Law no. 04/L-115 and the Law no. 05/L-080.

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 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);
- Requirements of Law no. 04/L-034 on Privatisation Agency of Kosovo;
- Compliance with the reporting framework of Trust Fund financial statements
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures; and
- Other reporting requirements for trust funds, such as quarterly reports, including nine-month financial statements.

In the context of AFS, we have no issue to raise:

- The present value of contingent liabilities to the Trust Funds was €5,432,014. This includes potential financial obligations expected from future developments. However, this value was not complete, as we tested nine samples, and five of them in the amount of €138,700 were not disclosed in the AFS. Further on, the KPA keeps records of court cases that have not yet been solved, but without potential financial value, therefore this resulted in uncertainty over the assessment of all contingent liabilities.
-

All external reporting requirements were met with 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 all expenditures are budgeted, executed and reported in accordance with the applicable legislation.

The Chairman of the Board should ensure fair and complete presentation of information into the financial statements including the disclosures of contingent 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 Management of Trust Fund, Receipts in Bank Accounts, Payments/Distributions from Bank Accounts of Socially owned Enterprises (SOEs) that the Agency manages and administers in the Central Bank of Kosovo, and liabilities.

Financial Management and Control Conclusion

In the context of financial systems, receipts and payment controls in general are appropriate and are being implemented, however, some areas require further improvement.

In 2017, the Agency had a satisfactory performance from the fact that the sale of SOE assets started after almost two years. Sales have taken place by monthly periods, totalling to 12 waves of sales executed by completing the work plan for 2017.

Shortcomings have been identified in several financial management and control processes where, as the most priority areas requiring more improvements are: payments to professional service providers, management process of full distribution of 20% for SOE employees, and monitoring the terms of rent contracts.

3.1 Receipts and Payments of Trust Funds

We have considered receipts in bank accounts, payments/distributions as well as banking balance of receipts and expenses. This is presented in the following tables:

Table 1. Statement of Trust Fund Bank Accounts (in €uro)

Description	Balance of accounts on 31 December 2016	Receipts/ Expenditures January - December 2017	Balance of accounts on 31 December 2017
Pranimet			
Total Receipts	742,851,594	39,866,192	782,717,786
Revenues from sales	666,082,049	31,087,867	697,169,916
Revenues from rent	26,034,444	6,528,207	32,562,651
Interest earned	34,844,700	0.00	34,844,700
Fee for sale tenders and confiscation of BID deposits	7,577,564	652,400	8,229,964
BID deposits of bidders	592,320	1,438,500	2,030,820
Other revenues	6,707,317	159,218	6,866,535
The Charter Capital of the Agency	1,013,200	0.00	1,013,200
Payments / Distributions			
Total Expenditures/Distribution	281,890,244	29,528,661	311,418,904
20% of employees transferred to UITUK	109,973,567	9,283,737	119,257,304
Professional Service Provider (Liquidation Authority)	14,423,930	996,000	15,419,930
Goods and Services	12,186,335	2,194,849	14,381,184
Public services	1,262,807	731,503	1,994,309
Taxes	3,288,605	1,723,361	5,011,966
Courts/Enforcement Decisions	1,774,806	33,405	1,808,211
Transfer of 5% funds to cover the PAK activities	32,148,000	6,100,000	38,248,000
Other costs	715,255	34,286	749,541
Payments to SOE creditors	15,872,028	8,105,856	23,977,884
Funds transferred to Kosovo Budget	90,244,911	325,664	90,570,575
Banking Receipts and Payments Balance	460,961,349	10,337,531	471,298,882

From the table we noticed that the banking balance of receipts and expenditures is at the highest level as a result of sales through privatisation and liquidation waves. 211 contracts for sale of assets were signed during 2017 in the amount of €26,851,569.

Up to date, there are a total of 501 Socially Owned Enterprises for which the liquidation process has begun. During 2017, remaining funds in the amount of €325,664 from the bank account of SOE MIT046 "Den Des" have been transferred to the Government of Kosovo, as the liquidation process for this SOE has been completed and this Enterprise has been closed under a decision of the court.

Issues related to the use of funds from the Trust Fund for the expenses of Professional Service Providers are presented in the Audit Opinion subchapter.

Recommendations

We have no recommendations in this area.

3.2 Revenues

3.2.1 Revenues from rents

PAK applies two ways of renting assets: ordinary rents (SOE in transition and SOE in liquidation) and commercial leases during the transition period of SOEs. However, during 2017, revenues from ordinary rents were collected, while commercialization revenues did not exist because these SOE assets were either sold or are in liquidation.

Issue 2 - Collecting revenues from rents with expired contracts

Finding In two cases we have noticed that rented facilities provided by PAK have been used by tenants even after the contract have expired and PAK did not extend or renew these contracts.

One contract expired in 2014² while the rent was still being collected based on the initial contract and the other expired in September 2016 while the rent was collected until May 2017 without a valid contract.

Risk The use of rented premises without a valid contract increases the risk of not collecting the rent from the tenant. Further on, the market value of lease rates may have increased and non-renewal of lease contracts may damage the amount of revenue collected.

Recommendation 2 The Chairman of the Board should ensure that contracts are renewed in order to use the assets of SOEs in line with valid contracts and on the basis of the internal rules on lease.

² Company 21, SOE Rilindja Printing House

3.3 Payments/Distributions of 20% of employees transferred to UITUK

PAK, transfers 20% of SOE sales to UITUK³ bank accounts for distribution to eligible employees. Then UITUK distributes it according to the approved list. For the year 2017, the total balance of payments for distribution amounted to €9,283,737.

Out of this value, 10,231 employees of 73 Socially Owned Enterprises have benefited. While in cases of complaints, they are held on the account of the trust funds administered by the PAK. The bank balance in trust until these litigations are solved is €15,400,400.

Issue 3 - Incomplete distribution of 20% to employees

Finding PAK in the past has faced with much dissatisfaction by eligible⁴ employees due to the delays that occurred in transferring funds of 20% after each sale of SOE assets. Based on the Memorandum for the Board of Directors of May 2013, PAK is applying partial distribution, accounting for 90% of the funds by 20% to overcome this difficulty. While 10% of the remaining amount is retained in the trust fund for employees, cases of miscalculations, and cases of successful appeals against the SCSC's⁵ decision.

Further on, this fund includes a fund for cases for which there are complaints to the SCSC. For the period January - August 2017 we have noticed that there was no distribution of 10% and the rest of the disputed cases for all eligible employees. While for the end of the year, we have noticed improvements regarding the distribution of trust funds in disputed cases.

Risk Keeping a part of the assets indefinitely as pending, causes delays in allocating the funds to the potential beneficiaries and consequently increases the dissatisfaction of former SOE employees. As a result, the PAK may again face the pressure of complaints and court proceedings due to claims by beneficiaries of funds.

Recommendation 3 The Chairman of the Board should ensure that after the relevant complaints procedures are completed, a full distribution of 20% to employees is made after each sale of SOE assets.

³ Union of Independent Trade Unions of Kosovo

⁴ Eligible employees - are persons who have met all criteria for being beneficiaries of 20%.

⁵ Special Chamber of the Supreme Court of Kosovo

3.4 Receivables

The value of accounts receivable at the end of 2017 were €61,791,072. Out of these, €8,253,813 belong to 2017 whereas €53,537,259 are receivables carried forward from previous years as outstanding liabilities from economic operators to the Agency. They relate to unpaid parts of the privatization or liquidation waves, financial penalties for waves of “special spin offs” and rents or other revenues from SOE assets.

Increase of receivables in 2017 comes mainly as a result of a greater number of sales waves and signing of sales contracts in the end of the year, which were collected in the first quarter of the current year.

The KPA has begun to take measures to collect receivables through court, private bailiffs and financial penalties.

Recommendations

We have no recommendations in this area

3.5 Outstanding Liabilities

The amount of accounts payable at the end of 2017 was € 376,993, of which €304,950 were liabilities to creditors’ claims, whilst €72,043 were for service providers who are engaged in the respective SOEs. These liabilities were carried forward to be paid in 2018.

Recommendations

We have no recommendations in this area.

4 Progress in implementing recommendations

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

Out of nine recommendations given in the 2016 audit, one recommendation was implemented, whilst eight were in process of implementation. Further on, since 2005, six recommendations were carried forward to 2017, two were implemented and four are in process of implementation.

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

Issue 4 - Implementing Prior and Earlier Year Recommendations

Finding Despite the progress and commitment of management to implement the recommendations given, a number of them are still under implementation or not implemented. Recommendations that are in process of implementation relate to payments from the Fund for Professional Service Providers, lease revenues and the distribution of 20% to employees.

Risk Failure to fully address the recommendations increases the risk of repetition of the same shortcomings, and impacts that internal controls and key financial systems be continuously ineffective to meet the set objectives.

Recommendation 4 The Chairman of the Board should review and analyse the causes behind recommendations that are in process of implementation, and set a new deadline for implementing the remaining recommendations, including staff accountable. Implementation should be continuously monitored.

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

Although the PAK for Trust Fund has made a number of improvements in governance, there are still a number of areas where important developments are needed. A slight progress is noticed in addressing the recommendations from the previous audit. Further challenge is addressing of NAO recommendations fully.

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 non-operational.

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 finalised during 2017 and two were finalised in beginning of 2018. 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.

Recommendations

We have no recommendations 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 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 carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
1.4 Compliance with the Financial Statements	The Chairman of the Board reviews the possibility of including liquidation costs in the Agency's budget, so that trust funds are not reduced through transfers to support the Agency's expenses.		During 2017, PAK had taken action to amend its law. In May 2018 it was approved and published in the official gazette.	
2.3 Prior Year Recommendations	The Chairman of the Board ensures full and timely implementation of the revised plan for addressing the recommendations. This should be monitored on a regular basis and the reasons for not addressing prior year recommendations should be determined by relevant officials and reported to management.	Yes		
3.1.2 Revenue from rents	The Chairman of the Board shall ensure that all lease contracts are signed by the lessee.		Despite the improvements made, we have still identified weaknesses in the management of lease contracts.	
3.2.2 Professional Service Provider	The Chairman of the Board shall ensure that Professional Service Providers have increased the dynamics of performance of the works and the drafting of final liquidation reports so that the liquidation process is completed within the timeframe provided for in the contract. Also, ensure that in the forthcoming contract, it is foreseen that collective claims of the same nature are not treated as individuals in order to save time and financial means.		Measures have been taken, however there are delays in completing the liquidation process of SOEs.	

3.3 Accounts receivable	The Chairman of the Board should ensure that clear deadlines are in place for collection of receivables and legal actions are taken to execute them.		Measures have been taken, but there is not yet a trend of increasing receipts compared to past periods.	
3.4 Accounts Payable	The Chairman of the Board should ensure that a reliable control system is established for the receipt of bills, their payment within the legal deadline and the presentation of liabilities in the AFS.	Yes		
Audit Component	Recommendation carried forward from 2016	Implemented	Under implementation	Not implemented
1.1 Audit Opinion	The Chairman of the Board should ensure that all necessary actions are taken to ensure that the payments of the Professional Services Provider are made from the budget allocated to the Agency.		During 2017, PAK had taken action to amend its law. In May 2018 it was approved and published in the official gazette	
1.2 Compliance with the requirements for PFVs and other reporting requirements	The Chairman of the Board should ensure that effective processes have been established to confirm that the AFS 2017 drafting plan addresses all issues pertaining to compliance. This should also include the revision of the draft of the FSMs by management, with particular focus on high risk areas and areas where errors have been identified in previous years. The statement made by the Managing Director and the Financial Manager should not be submitted unless all required controls are applied to the draft AFS.		Measures have been taken, monthly adjustments have been made with the sales department and other relevant departments, we have not noticed differences compared to the AFS. Exceptions to the disclosure of contingent liabilities were not complete.	
2.1 Progress in implementing the prior year's recommendations	The Chairman of the Board should ensure that a revised action plan is implemented that sets out the timelines for implementing the recommendations made by the AP with identified responsible staff, focusing primarily on the most important areas.		Measures have been taken, but some of the recommendations are only partially addressed.	

2.2.1 Management reporting and accountability	The Chairman of the Board shall ensure that the necessary actions are taken to improve the functioning of the internal control system to achieve the PAK's targeted objectives within a reasonable period of time.		Measures have been taken to prevent errors in collecting Accounts Receivable, Payable Accounts and Payments by the Professional Service Provider.	
3.2 Receipts/Revenues from Rents	The Chairman of the Board should ensure that concrete actions are taken to address, as an urgent matter, management of SOE assets and lease revenues in accordance with the leasing regulation.		We have not encountered any deficiencies regarding the approval of the list of proposals, with the exception of two cases where the tenant continues using facilities without having the contract signed.	
3.3.1 Professional Services Provider	The Chairman of the Board should ensure that necessary actions are taken to improve performance so that the liquidation process is finalized within the set timeframe.		Measures have been taken, however there are delays in completing the liquidation process of SOEs.	
3.3.2 Distributions of 20% to SOE employees sold	The Chairman of the Board should ensure that the distribution lists of 20% to employees include the data needed to allocate funds accurately and efficiently to the beneficiaries.		In the last part of the year we have noticed improvements regarding the distribution of trust funds for disputed cases.	
3.4 Accounts Receivable	The Chairman of the Board should ensure that all necessary actions are taken to develop proper and clear procedures for timely handling and collection of accounts receivable.		Measures have been taken, but there is not yet a trend of increasing receipts compared to earlier periods.	
3.5 Outstanding Liabilities	The Chairman of the Board should ensure that the Department of Finance within the regular monthly reporting to management also includes reporting of accounts payable.	Yes		

Annex III: Letter of confirmation



AGJENCIA KOSOVARE E PRIVATIZIMIT
KOSOVSKA AGENCIJA ZA PRIVATIZACIJU
PRIVATISATION AGENCY OF KOSOVO

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 **Fondeve në Mirëbesim**, për vitin e përfunduar më 31 dhjetor 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 zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Ekrem HAJDARI

Drejtor Menaxhues

Data: 18 qershor 2018, Prishtinë