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National Audit Office

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AUDIT REPORT

ON THE ANNUAL FINANCIAL STATEMENTS OF THE KOSOVO LANDFILL MANAGEMENT COMPANY J.S.C 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.

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 Kosovo Landfill Management Company JSC in consultation with the Acting Assistant Auditor General, Vlora Spanca, who supervised the audit.

The report issued is a result of the audit carried out by Senver Morina and Ernes Beka under the management of the Head of Audit Department Enver Boqolli.

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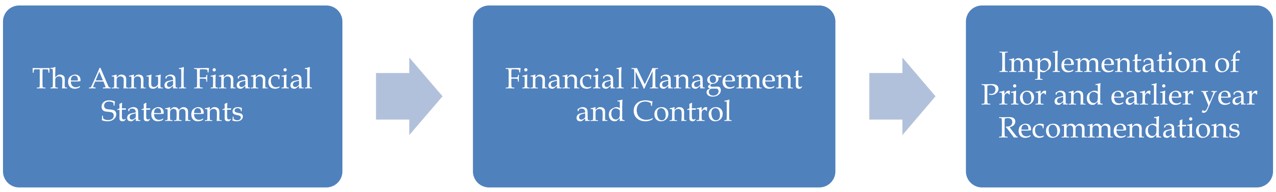
Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Statements of the Kosovo Landfill Management Company (KLMC), 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 13/11/2017.

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 and effectiveness of internal control implemented by the Management of the KLMC.

The National Audit Office acknowledges the Kosovo Landfill Management Company's Senior Management and Staff for cooperation during the audit process.

Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

The Annual Financial Statements for 2017, apart from the effects of the issues described in the paragraph on Basis for the Qualified Opinion, 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.

Key Conclusions and Recommendations

In the absence of a general statement from TAK, we can not make sure that the accounts payable on taxes and contributions are accurate.	The Chairman of the Board should analyse the reasons for the Qualification of the Opinion in 2017 and provide the auditor with necessary evidence to allow fair presentation of the 2018 AFS (see issues on the basis of the opinion).
Weaknesses in financial management and control, especially: on planning and executionof the annual financial plan, lack of regulation for asset management, disregard of procurement procedures.	The Chairman of the Board should apply a detailed assessment of the areas highlighted in this Report to identify the reasons for the weaknesses as well as the actions needed to address them (see issues 2 to 7).
Despite the progress in implementing the recommendations, some of the recommendations given in the previous year have remained unimplemented.	The Chairman of the Board should ensure that he has taken all necessary measures to fully implement the recommendations from the previous year (see issue 8).
Governance arrangements related to accountability, management reporting and risk management have not been achieved yet.	The Chairman of the Board should ensure that the governance and accountability process has been improved (see issues 10 and 11).

The Chairman of the Board agreed with the audit findings and conclusions, and committed to address all 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 KLMC. We have analysed the KLMC'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's General (AG'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 AFS considers both compliance with the reporting framework and the quality and accuracy of information recorded in the AFS. AFS have been prepared and signed by the Chief Financial Officer and Treasury (CFOT) and the Chief Executive Officer (CEO) and submitted for approval to the Board of Directors (BoD).

Authorisation 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 Shareholder and wider public 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 with Emphasis of Matter

We have audited the AFS of the KLMC for the year ended on 31st of December 2017 which include: Balance Sheet, Statement of Incomes, Cash Flow Statement, Statement of Changes in Equity and the Explanatory Notes.

In our opinion, apart from the effects laid down in the paragraph of the Basis for Qualified Opinion, the Annual Financial Statements of the KLMC for the year ended on 31st of December 2017 present a true and fair view in all material respects, in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and Kosovo Laws. The Annual Financial Statements have been prepared under the accrual[1] basis of accounting, Law no.03/L-048 on Public Financial Management and Accountability (as amended and supplemented) and Law no.04/L-087 on Publicly Owned Enterprises (as amended and supplemented).

Basis for the qualified opinion

The payable accounts for taxes and contributions presented in the AFS were in the amount of €191,706. We were not able to confirm the value of this calculation in absence of a report or situation[2] from the Kosovo Tax Administration.

[1] Accrual Principle - Recognised Transactions and Events are reported when they occur and not when cash is received or paid

[2] The report on general statement of taxpayer's declarations and transactions is generated by the TAK system.

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 Financial Statements'. NAO is independent of the KLMC and other ethical requirements are fulfilled in accordance with these requirements. 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:

- **Failure to extend licence on waste management.** KLMC manages the Waste Landfills in about 70% of Kosovo's territory. Law on Waste no. 04/L-60 (Article 16, point 1) requires to "Collect, gather, shipment, treat, elaborate, recycle and deposit the wastes perform only licensed person ". Despite the efforts to secure the license (and our recommendation from the previous year), the company still continues to operate with a temporary license from 2012 due to non-response by the Ministry of Environment and Spatial Planning; and

- **Failure to set fees on waste disposal**. Article 14, point 2 of the Law on Waste no. 04/L-60 stipulates "According to the provisions of the Law on Public Enterprises and this law, the Ministry of Economic Development, in accordance with the relevant municipalities set out the fees for the disposal of municipal waste in landfills designated". KLMC had failed to secure the tariff according to this request and still continues to charge its services on the basis of the tariff inherited from WWRO[3] in 2012. This (expired) tariff covers only the collection of household waste worth €5.31/ton. The company continues to accept other types of waste for which there was no license or tariff, such as: disposal of glass, rubber, soil and stone waste, animal waste and disposal of customs waste. For these types of waste, the Board of Directors of the Company in January 2016 had set a fee in the amount of €50/ton. This action was taken by the company, because the competent fee setting authority, namely the MED failed to respond.

Responsibility of Management and Persons Charged with Governance for AFS

The Chairman of the KLMC Board is responsible for the preparation and fair presentation of financial statements in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and Kosovo Laws, as AFS have been prepared under the accrual basis of 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) and Law no.04/L-087 on Publicly Owned Enterprises (as amended and supplemented).

[3] WWRO– Water and Waste Regulatory Office

The Chairman of the Board is responsible to ensure oversight of the KLMC'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 statements.

2.2 Compliance with AFS and other reporting requirements

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

- Requirements of Law no.03/L-048 on Public Financial Management and Accountability (as amended and supplemented);
- Requirements of the Law no.02/L-123 on Business Organisations;
- Requirements of the Law no.04/L-087 on Publicly Owned Enterprises (as amended and supplemented);
- Requirements of the Law no.04/L-104 on Accounting, Financial Reporting and Auditing;
- Requirements of the Law on Public Procurement (as amended and supplemented);
- Requirements of the Instruction no.2/2013/MF on the Structure and Content of Annual Financial Reports

POEs are also required to prepare the following reports:

- POE Charter;
- Business Plan;
- Quarterly reports;
- Annual reports;
- Consumer satisfaction Report; and
- Draft plan and final procurement plan in time.

In the draft AFS dated 02/02/2018, some financial adjustments were required in the balance sheet, income statement, and explanatory notes that were followed by errors. Based on our suggestions, they are mostly adjusted in the AFS's dated 22/03/2018.

Given the above, the Annual Financial Statements prepared by the EC and the CFOT, when the AFS's are submitted to the BoD, apart from the effects mentioned in the basis of the opinion, the AFS's present a true and fair view.

In the context of other external reporting requirements, we have identified that the company did not prepare the annual report for 2017 till 16.03.2018).

2.3 Recommendations related to Annual Financial Statements

Recommendation 1 The Chairman of the Board should ensure that a comprehensive analysis is undertaken to determine the causes of the qualification and emphasis of matter in the audit opinion and actions are undertaken that issues which have affected the modification of the opinion are adjusted and not repeated.

Further on, the Chairman of the Board should ensure that effective processes are in place to confirm that the 2017 AFS production plan formally addresses all compliance issues related to the AFS and includes Management review of the draft AFS with specific focus on high risk areas and/or areas where errors have been identified in previous years. The Statements should not be signed by the CEO and CFOT unless all necessary checks have been applied before the same are submitted to the Managing Board.

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 KLMC. Specifically, the focus of the audit was Budget management, expenditures, assets, liabilities and account receivables.

Financial Management and Control Conclusion

Compared to the last year, KLMC has shown significant progress in terms of strengthening controls in the overall management of the company. However, there are still some areas that require further improvements. With particular emphasis, existing budget planning processes need to be improved in order to reflect changes during the year.

Expenditures for the purchase of goods should be planned in order to avoid non application of open procedures. Moreover, the lack of an Asset Management Regulation risks that assets are not properly managed and thus resulting with incorrect presentation of assets in the financial statements.

These and other weaknesses presented in this report should be taken into account by BoD to improve financial management and control in the KLMC.

3.1 Business Plan (Revenues and Expenditures)

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

Table 1. Table on Revenues and Expenditure according to annual plan for 2017 (in €)

Description	**Initial Planning**	**Final Planning**	**2017 Outturn**	**2016 Outturn**
Revenues from sales/services	**1,556,358**	**1,591,008**	**1,557,553**	**1,559,119**
Revenues from subsidies	0	0	114,583	200,000
Revenues from deferred grants	0	0	463,344	79,721
Other revenues	0	0	71,034	12,575
Total Revenues	1,556,358	1,591,008	2,206,514	1,851,415
Expenditures for salaries	782,389	775,226	705,346	601,366
Operating Expenditures[4]	670,760	712,760	694,598	701,847
Depreciation Expenditures			595,879	871,980
Total Expenditures	**1,453,149**	**1,487,986**	**1,995,823**	**2,175,193**

Explanations for changes in planning revenues and expenditures on principal items are given below:

- Revenues collected from sales/services were in the amount of €1,557,553 out of planned €1,591,008, or 98% of the annual plan. Compared with the previous year, collected revenues were lower by €1,566.
- Revenues collected from subsidies were in the amount of €114,583 although they were not planned with a business plan. Compared with the previous year, collected revenues were lower by €85,417.
- Revenues collected from deferred grants were in the amount of €463,344 although they were not planned with the business plan. Compared to the previous year, they received an amount increased by €383,623, which resulted from adjustments in assets (sanitary landfills and equipment) received as donations.
- Other collected revenues were in the amount of €71,034 which was not planned in the business plan. Compared with the previous year, collected revenues were higher by €58,459.
- Expenditures for wages and salaries were €705,346 from €775,225 planned or 91%. Compared with the previous year they were higher for €103,980 or 17%.

[4] Operating expenditures consist of: maintenance, fuel, consulting, insurance, rent, telephone, administrative, utility expenditures etc.

- Out of the €712,760 planned operating expenditures, €694,598 or 97% were spent. Compared with the previous year we have a decrease of expenditures by 7,249 or 1%.
- Depreciation expense of 2017 was €595,879, compared to the previous year's €871,980. In 2017, depreciation expenditures decreased by €276,101 or 46%, this was due to the re-evaluation of the sanitary landfills lifespan.

Issue 2 – Poor planning of the Business Plan

Finding	We have analysed the content of the business plan which contains the business and financial goals of the company to achieve during 2017 as well as the approach to achieving these goals. The company in the business plan make revaluation of assets. The revaluation made by the company reflected on the length of the sanitary landfill (which is deferred revenue by government guarantors and donations) recognised in accordance with their depreciated share reflecting the lifespan of the sanitary landfill. This is due to inadequate internal controls during drafting and review of the business plan.
Risk	The drafting of the business plan without foreseeing the need for asset reassessment that had re-assessed the company made the plan not inclusive and not real, increasing the risk that all its intentions will not be realized in the relevant period.
Recommendation 2	The Chairman of the Board should ensure that when drafting the business plan to include all of its activities that may occur during the year.

Issue 3 - Failure to pay allowance for work experience

Finding	Article 48.1 of the General Collective Contract of Kosovo foresees that employees should be entitled to the allowance for work experience, 0.5% of the basic salary, for each full year of working experience. Although the company had foreseen this in the business plan, it had failed to fulfil this obligation to the employees. This is due to inadequate controls in budget planning and execution.
Risk	Failure to meet obligations to employees may expose the company to the risks of paying penalties and interest.
Recommendation 3	The Chairman of the Board should ensure that the necessary actions are undertaken to carry out the employees' obligations for payment of the allowance for work experience.

3.2 Balance Sheet[5] (Statement of Financial Position)

We have audited the Balance Sheet by testing the account balances as well as the transactions occurring during the year within these accounts. In addition to examining the accounting balance of accounts, we have also addressed aspects of compliance with laws and regulations and we have provided the following recommendations.

Table 2: Balance Sheet of KLMC on 31st of December 2017

Assets	**2017**	**2016**	**Liabilities and Equity**	**2017**	**2016**
Cash box and bank account	67,655	55,065	Payables	292,924	421,402
Stocks[6]	23,306	20,562	Other Payable Accounts	3,044	1,855
Accounts Receivables	878,692	1,204,315	Taxes and Contribution Liabilities	191,706	267,432
Other Accounts Receivables	38,213	5,248	Revenues from deferred grants and donations	1,593,336	2,056,679
Construction Objects	1,703,951	2,047,143	Charter Capital	25,000	25,000
Equipment and Machinery	744,794	425,349	Reserve Capital	1,440,299	1,262,299
			Carried Forward Losses/Profits	-277,046	46,732
			Profit/Loss of the year	187,348	(323,778)
Total	**3,456,611**	**3,757,682**	**Total of Liabilities and Equity**	**3,456,611**	**3,757,682**

[5] IAS has changed the term "Balance Sheet" has been changed into "Statement of Financial Position" according to IAS, but as long as the company has named it the Balance Sheet, we have referred to this designation in order to be consistent with the designation in AFS we are auditing.

[6] Stocks have included deposited fuel and oil reserves.

Issue 4 – Lack of a Regulation on Management of non-current assets

Finding	According to articles 7.2 and 7.3 of the Charter, KLMC should produce regulations containing provisions on the administration and functioning of the company. We have noticed that the company did not have an asset management regulation that should be tailored to the needs and requirements of the company, based on applicable standards and rules. This resulted from non- acknowledgment of the significance of the regulation on management of non-current assets.
Risk	Lack of an asset management regulation may lead to mismanagement of the assets and may provide incorrect presentation of assets in the financial statements.
Recommendation 4	The Chairman of the Board should as soon as possible draft an internal regulation on asset management, describing all procedures for the use of assets (staff rights and responsibilities).

3.3 Statement of Income and Expenditures

KLMC has all types of revenues it has generated during the year, expenses, and financial outcome presented in the following statement.

Table 3: Statement of Income and Expenditures as of 31st of December 2017

Description	2017	2016
Revenues from sales/services	1,557,553	1,559,119
Revenues from subsidies- MED	114,583	200,000
Deferred Revenues	463,344	79,721
Revenues from executed liabilities according to the decisions of the BOD	70,924	0
Other Revenues	110	12,575
Total Revenues	2,206,514	1,851,415
Wages and Salaries	705,346	601,366
Other Operating Expenditures	642,254	670,957
Provision on bad debts according to the decisions of the BOD	34,760	0
Settlement of pre-payments according to the BoD[7] decisions	17,584	30,890
Depreciation Expenditures for 2017	595,879	871,980
Profit/Loss before taxes	**210,691**	**(323,778)**
Profit tax	(23,343)	0
Net Profit/ Loss	**187,348**	**(323,778)**

The company this year had attained a profit as a result of the adjustments made to the recognition of deferred revenues from previous years and due to reducing depreciation expenditures from extended lifespan of sanitary landfills after re-evaluation.

Our audit examinations in relation to the statement of revenues and expenditures have resulted in the following findings:

[7] These settlements (payments) are recorded as expenses since the prepayments that had been recorded and recognized earlier years have been settled.

Issue 5 – Misclassification of payment orders based on waste type

Finding	In 6 payment orders KLMC did not respect the set codes for classification of different types of waste such as: household waste, glass waste, soil and solid waste, rubber and waste disposal (bones, custom waste). This has provided that the same type of waste is classified and organized n sanitary landfills as other types, instead of an adequate classification. This is due to errors during the measurement process.
Risk	Failure to classify waste by its type can produce inaccurate invoicing when each type of waste has different prices than the other types, and this directly affects the company's revenues.
Recommendation 5	The Chairman of the Board should ensure that deposited waste is recorded by its type and category. Further on, to strengthen internal controls to eliminate errors in its classification by type.

Issue 6 – Purchase of Goods and Services without procurement procedures

Finding	Article 16.3 of the Law on Public Procurement (LPP) foresees that: The value of each contract should be foreseen and the procurement procedure is determined according to the value. The CA will not split the procurement request for a certain quantity of products in order to reduce the value of the supply contract below the limit set in Article 19 of this law. Any public contract whose estimated value is equal to or greater than, or reasonably expected to be equal to or greater than one thousand (€1,000) but less than ten thousand (€10,000) are considered "small value contracts, as well as any public contract whose estimated value is less than or is reasonably expected to be less than one thousand (€1,000) is considered as a "minimal value contract". From the tested payments we noticed that in 5 (five) cases the company had made direct purchases from economic operators, disregarding the procurement procedures.

The reasons according to the company were: because they were of small value and furthermore had signed the Memorandums of Understanding for Mutual Services with economic operators, which is not in compliance with LPP. In our analysis of the company's expenditures we have observed that there were some purchases of goods or services with the same economic operator where some of them were made with petty cash under €100. The total value of the payments exceeds the set limit and the Contracting Authority had to use one of the types of contracts of the abovementioned article of the LPP. These purchases have occurred as a result of the lack of proper functioning of internal controls. The identified cases are presented as follows:

- 20 payments for Servicing of containers and doors, the total value of which was €1,871;
- 18 Payments for Machinery wash, the total value of which was €1,503;
- 15 payments for Wastewater Disposal, the total value of which was €1,425;
- 15 payments for Skip work, the total value of which was €9,186;
- five payment for Supply with fuel, total value of €22,650 (for this supply procurement procedures were developed but it was under appealing procedure in the Procurement Review Body).

The identified weaknesses had resulted from insufficient operation of internal controls.

Risk Purchase of goods and services without procurement procedures risks the budget of the company by not achieving the value for money spent and restriction of competition.

Recommendation 6 The Chairman of the Board should ensure that all actions are undertaken to strengthen internal controls in order to perform an assessment and planning of company's needs, to ensure grouping of similar products, and to apply procurement procedures according to the LPP requirements, not allowing splitting the same purchase contracts into several of them.

3.4 Statement of Changes in Equity

In the Annual Financial Statements of the company, capital is presented under the following structure:

Table 4: Capital of the KLMC on 31.12.2017

Description	**31 December 2017**	**31 December 2016**
CAPITAL	**1,375,601**	**1,010,252**
Charter Capital	25,000	25,000
Reserve Capital	1,262,299	1,262,298
Revaluation of non-current assets	178,000	0
Profits/Losses carried forward	-277,046	46,732
Current Year Profits/Loss	187,348	-323,778

During 2017, the company performed a re-evaluation of sanitary landfills by a BoD set committee for their re-evaluation and due to this outcome has recognized a new value of these assets, which was increased by €178,000.

Recommendations

We have no recommendations in this area.

3.5 Cash Flow Statement

Cash Flow Statement provides data on changes in cash during the reporting periods presented and classifies the cash flow that is attained through business, financial and investment activities. Information about cash flow of the enterprise is useful to the users of the financial statements because it provides them with an approximation of the cash flow.

Table 5: Cash Receipts and Spending

Description	**31 December 2017**	**31 December 2016**
Net cash from operating activities	**292,137**	**24,504**
Revenues from sales/services	1,953,336	1,990,346
Payment to suppliers	(820,087)	(1,219,233)
Salaries of employees	(673,706)	(579,860)
Interest Payments	(969)	(2,417)
Tax Payments	(108,537)	(102,694)
Other cash payments for operating activities	(57,900)	(61,638)
Net cash from investing activities	**(394,130)**	**(184,370)**
Purchase of equipment/machinery/plant	(394,130)	(184,370)
Net cash from financing activities	**114,583**	**200,000**
Receipts from financial activities (Subsidies from MED)	114,583	200,000
Increase/decrease of cash during 2017	**12,590**	**40,134**
Cash at the beginning of 2017	55,065	14,931
Cash at the end of 2017	**67,655**	**55,056**

Cash outflow for investment activity is related to the purchase of a bulldozer, one vehicle for Operations, investment in Sanitary Depot, supply and servicing of containers , investment in spare parts, etc.

Recommendations

We have no recommendations in this area.

3.6 Handling of Explanatory Notes

Explanatory notes provide information on the basis of preparing the financial statements and accounting policies required by the IFRS and provide additional information that is not disclosed in the Balance Sheet, Income Statement, Cash Flow Statement or Statement of Changes in Equity, but are important to understand each one of them. The company has provided the necessary presentations in the AFS explanatory notes, presenting the policies applied by the company and explaining the items that have accumulated sums/amounts in one parts of the AFSs.

Issue 7 - Incomplete disclosure of explanatory notes for some items

Finding

Under IAS 1, explanatory notes should be disclosed systematically as long as this is possible. Each item of the financial statements, Statement of Income, statement on changes to equity or cash flow statements should be reverend to the relevant information in the explanatory notes.

When analysing the notes, the following weaknesses were identified:

- There were no explanatory information related to the cash, available bank cash and box cash, but only the aggregate amount is presented in the explanatory notes similar to the value in balance sheet of the AFS status; and
- Stocks did not have explanation of what they contain, their types and quantities, but only a sum accumulated and not specified were presented in the explanatory notes, same as with the AFS balance sheet.

This was due to the lack of consulting IAS, and insufficient internal control.

Risk

Presentation of the same sum in the explanatory notes and in the balance sheet items will not provide clear and comprehensive explanatory notes and this will increase the risk for the reader may not be able to correctly understand the AFS.

Recommendation 7

The Chairman of the Board should ensure when preparing draft AFS, that the explanatory notes will present detailed, and complete information for each AFS item.

4 Progress in implementing recommendations

Our Audit Report on the 2016 AFS of KLMC resulted in 16 key recommendations. The Company prepared an Action Plan stating how given recommendations will be implemented, setting timeframe and responsible officials. Out of 16 recommendations given, 6 (six) of them have been implemented, 8 (eight) are in process of implementation, and 2 (two) recommendations have not been implemented. As for the five issues that affected the previous year opinion, four of them have been implemented and one has not yet been implemented.

Further on, the audit of the 2015 AFS has resulted in 3 (three) recommendations for which the company has not prepared an action plan on how to address them. However, one of them has been implemented, one was in process of implementation, and one has not been implemented.

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

Issue 8 – Implementing Prior and Earlier Year Recommendations

Finding	Despite the progress in implementing the recommendations, a number of recommendations have not been addressed yet. This resulted from the lack of a formal monitoring on how the recommendations given by the audit are implemented. We have not observed that KLMC applies accountability measures for non-implementation of recommendations.
Risk	Failure to address recommendations from previous years increases the risk of constant presence of the same weaknesses related to AFS and internal controls.
Recommendation 8	The Chairman of the Board should ensure undertaking of specific actions for full implementation of all audit recommendations given in 2016 and in 2015.

5 Governance

Introduction

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

Overall Governance Conclusion

There is a number of governance weaknesses within KLMC particularly related to the lack of a plan on risk management, low level of internal audit impact in increase of the internal controls, and poor quality of quarterly reports. These weaknesses may affect the company in achieving its objectives.

5.1 Internal Audit System

The Internal Audit Unit (IAU) operates with one staff that is the Director of IAU at the same time. To carry out an effective audit requires a comprehensive work program that reflects the financial and other risks of the KLMC, and provides sufficient assurance on the effectiveness of internal control. The effect of Internal Audit outcomes should be judged by the importance which is given by management to the implementation of audit recommendations.

IAU's reports were mainly related to the analysis of revenues, expenditures, procurement, specific projects and different quarterly (Q) projects, most of which did not contain any findings or recommendations to the Management.

Issue 9 – Poor functioning of IAU

Finding	The Internal Audit Unit (IAU) for 2017 had planned seven regular audits and an ad-hoc audit by not setting the timeframe for the beginning and the end of audits. IAU for 2017 had managed to conclude 12 audits by giving 5 recommendations. Despite the number of IA audit reports, their quality was not at the proper level as they were excessively descriptive without any impact on improving internal controls. Protocoling/archiving of audit reports was not performed and the internal auditor is not in possession of audit files for completed reports in order to support with evidence the findings and recommendations given. These results reflect the lack of Management's attention in recognizing and maximizing the benefit of internal audit to seek assurance of the effective functioning of internal controls or good governance.
Risk	Poor quality of internal auditor work, failure to document and, coming out with inadequate recommendations by IAU increases the risk for non-improvement of the existing weaknesses.
Recommendation 9	The Chairman of the Board should ensure achievement of the maximal benefit from the internal audit activity. The Audit Committee should ensure proper functioning of the IAU by critically reviewing internal audit plans to confirm that they are risk based, provide quality assurance and reporting to management. Further on, should ensure that IAU has prepared the audit dossier to prove that the findings are supported by evidence.

5.2 Management Reporting, Accountability and Risk Management

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, the Management have implemented a number of internal controls to ensure that our systems operates as intended, we have noticed that the measures applied are poor and ineffective and do not provide an effective and timely response to the identified operational problems.

Issue 10 – Controls in management of financial, operational and environmental risk

Finding

As a result of poor management controls, some of the objectives from the plan have not been met. The company faces financial risks and operating risks, out-dated technologies, high service expenditures, low tariffs and external risks such as infrastructure, environmental and disaster.

As far as it concerns the environmental and ecological risks, especially the Sanitary Depot, the company is imposed to the high risk of wastewater running into underground waters, contaminating them, rivers and areas around them. This is very likely to occur and the impact is huge as in endangering the staff working there, the surrounding population, water and air pollution.

Management does not have a register that identifies the various financial, operational and environmental risks that may threaten its activities in order to identify and reduce them at an acceptable level. The company has planned the amount of € 28,380 for unforeseen expenses in the business plan, for the purpose of covering these risks. This amount allocated for these purposes is very low in relation to the risks the company faces from its activity. This is due to underestimation of risks and lack of funds.

Risk

Poor requests for internal control diminish management's ability to respond to the challenges in time. Further on, lack of a potential risk register and response activities may lead to inability to respond in time, and achievement of company's objectives.

Recommendation 10

The Chairman of the Board should ensure that an operational and financial risk management plan is drafted to assess their impact in case they occur, to determine preventive measures against them, and to allocate a sufficient provision for covering potential damages caused to the environment.

Issue 11 – Quarterly Reports not in compliance with legal requirements

Finding

According to Article 31 of the Law on POEs, within 30 days after the end of each calendar quarter, POE officials will prepare and submit to the BoD a report for the current completed quarter containing the following:

- an overview of the organizational structure of the POE, including all significant changes that have been made during the respective quarter;
- a review of business and financial performance over the current quarter;
- a summary of all court proceedings that may involve the POE or that POE is expected to initiate during the current quarter;
- significant transactions involving the POE or its subsidiary units; and
- suggestions and proposals for changes that are reasonably expected to increase the performance of the POE.

During the review of the first two quarters of the year we have observed that the company had failed to fully meet the legal requirements regarding the content of quarterly reports for 2017. These reports do not contain two of the top five requirements, respectively "significant transactions involving the POE or its subsidiary units" and "suggestions and proposals for changes that are reasonably expected to increase the performance of the POE ".

Risk

Failure to comply with the quarterly reporting requirements shows a lack of internal control over the accuracy and completeness of all reporting requirements, namely the weaknesses in operation of internal controls that leads to insufficient transparency of the company's activities.

Recommendation 11

The Chairman of the Board should ensure that the process of preparing quarterly reports has been designed in such a way that it fully complies with legal requirements, and it shall not be approved unless a comprehensive review of its content and quality is carried out by BoD.

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[19] 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 Prior and Earlier Year Recommendations

Audit Component	Recommendation carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
1.Property, carried forward in periods and storage	We are of the opinion that asset impairment testing should be carried out on a periodic basis, in order to determine the recoverable value of assets, or whether the company has the opportunity and whether there is an institution of the appraisal expert at the country level, to engage independent and professional appraisal experts which will determine the real value of the assets.		According to a BoD decision, a kind of re-evaluation of the landfills lifespan has been carried out, and the re-evaluation of Category III equipment.	
2. Provisions for court cases and contingent liabilities	The recognition of provisions on court cases (especially those with high risk and lost in litigation processes) is required in accordance with legal requirements and accounting standards. This would make the business to have more accurate information over the state of the company's liabilities.			Provisions for court cases and contingent liabilities have not been implemented.
3. Receivable accounts	We recommend to the management of the company to calculate on regular periodic and annual basis the damage of the receivable accounts and to present the receivables to their recoverable net value. We consider that these actions should be based on the legal regulation of Kosovo (the aforementioned laws), as well as rules and standards that regulate this area.	A regulation was issued by the BoD for recognizing provisions, bad debts. Therefore it is implemented.		

Audit Component	Recommendation given in 2016	Implemented	Under implementation	Not implemented
1.Annual Financial Statement	The Chairman of the Board should ensure that an analysis is undertaken to determine the causes of the Qualification Matter. Actions should be taken to address the underlying causes in a systematic and pragmatic manner to remove errors and ensure accurate evaluation of receivables, assets, liabilities and equity.		When drafting of the 2017 AFS, the company has addressed issues of errors in accounts receivable, liabilities and equity. However, in the AFS for 2017 we could not confirm accounts payable for taxes and pension contributions in the amount of €191,706 in the absence of relevant evidence from KTA.	
2.Other External Reporting Obligations	The Chairman of the Board should ensure that effective processes are in place to confirm that the 2017 AFS production plan addresses all issues related to compliance. This also should include the Management review of the draft AFS with specific focus on high risk areas and/or areas where errors have been identified in previous years. The Financial Statements should be approved once all necessary controls have been applied to AFS draft.	Other external reporting requirements were not addressed.		
3.Non implementation of Prior Year Recommendations	The Chairman of the Board should ensure the drafting and implementation of the action plan, if necessary, review the same plan, and setting out exact deadlines and assigning responsible staff for the implementation of the recommendation given by External Auditor, by giving priority to the most important areas.		The company has compiled the action plan. During the audit, it was observed that the recommendations of the previous year are in the process of implementation.	

4.Weaknesses in business plan	The Chairman of the Board should ensure that all mechanisms for addressing identified issues are used, and make efforts towards an appropriate risk management in order to reduce them to an acceptable level. This can be done through the drafting of an action plan on monitoring the achievement of objectives and by establishing effective oversight functions.		The company has made individual efforts to manage operational risk by foreseeing it in the business plan, which also foresees financial support from the shareholder, which is yet not achieved.	
5.Weaknesses in Management Controls	The Chairman of the Board should ensure that a detailed review has been carried out to determine the form of financial and operational reporting to senior management, which is required to support the effective management of the activity and to ensure that an appropriate solution is established.		Managerial controls over the activity towards better solution are in the process of implementation.	
6.Weaknesses in IAU functioning	The Chairman of the Board should ensure that the maximum benefit is achieved from the internal audit activity. The Audit Committee should ensure the proper functioning of IAU by reviewing in critical manner the internal audit plans in order to confirm that they are based on risk, provide assurance and quality reporting to the management.			Recommendation related to the functioning of IAU has not been implemented.
7.Budget Execution	The Chairman of the Board should ensure that budget performance is systematically monitored on a monthly basis, which will identify and address obstacles in order to execute the budget at the planned level.		Monitoring of budget execution is currently done only on a quarterly basis, but not on a monthly basis.	
8. Weaknesses in complying with laws	The Chairman of the Board should take additional steps towards granting licence and determining fees by the competent bodies.		Additional actions are undertaken in regard to securing a licence and to set fee/tariff, but without success, as this was not in the company's competence.	

9. Weaknesses in billing revenues	The Chairman of the Board should ensure functioning of an appropriate registration system to support the collection and management of revenues. This should reflect the complexity of the revenue system with which the Company operates. He should also ensure a review of audit findings at random level where processes have not been applied effectively, in order to determine why the failures have occurred and why an appropriate oversight was not applied.		Improvements are observed on revenue billing. So they are in the process of implementation	
10. Weaknesses in salary management	The Chairman of the Board should consider the reasons that have affected the failure of the controls and the repetition of errors in the staff management. He should demand from the Chief Executive to strengthen controls over human resource management and ensure timely treatment of all emerging needs and challenges.	Adequate measures have been taken and weaknesses in human resources have been addressed.		
11. Weaknesses in proceeding payments and meal allowances	The Chairman of the Board should ensure that internal controls are in place and monitor the reporting system with the purpose of complete payment and accurate presentation of wages and salaries.	Increased internal controls over monitoring system accuracy for wages and salaries have been implemented.		
12. Weaknesses in billing and payments for goods and services	The Chairman of the Board should provide more robust controls on initiating, approving, monitoring and payment from this category. In order to monitor the adequacy of these expenditures, additional rules should be introduced in order to establish controls over the spending of public money for this category.			Internal controls have not been strengthened to avoid purchases with the proper procedures.

13.Weaknesses in contracted services	The Chairman of the Board should ensure the establishment of adequate controls and respecting of contractual obligations on prices and quality of receiving contracted goods.		Actions have been taken but all the weaknesses have not yet been eliminated. It is in the process of implementation.	
14. Weaknesses in asset management	The Chairman of the Board should implement a detailed control plan by providing additional mechanisms for the identification and elimination of these errors towards accurate and full presentation of AFS.	The company has taken action to provide real asset value.		
15. Weaknesses in management of receivable accounts	The Chairman of the Board should ensure the harmonization of accounting notes for their fair presentation and in accordance with the standards of financial reporting. He should assess the issuance of an accounting policy based on applicable standards and rules on allowances and bad debts.	The company has taken action to provide real value of accounts receivable.		
16. Weaknesses in liability management	The Chairman of the Board should ensure undertaking of necessary measures towards real recognition of the liabilities according to accounting standard for the recognition of provisions for cases where the company is obliged to transfer economic benefits as a result of transactions or events from the past. In order to avoid mistakes, accounting harmonisations should be done with suppliers by addressing the accuracy and completeness of these accounts.	The company has taken action to provide real value of payable accounts.		

Annex III: Confirm Letter

REPUBLIKA E KOSOVËS - REPUBLIKA KOSOVO - REPUBLIC OF KOSOVO
ZYRA KOMBËTARE E AUDITIMIT
NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE
5. 06. 2018
05 | 401 | 992 | 1

KMDK SH.A
Dalëse / Hyrëse
Nr: 343/2018
Data: 05.06.18
Kompania për Menaxhimin e Deponive në Kosovë Sh.A
Kosovo Landfill Management Company J.S.C
Kompanija za Upravljanje Deponijama na Kosovu DD

KMDK

Kompania për Menaxhimin e Deponive në Kosovë SH.A
Kosovo Landfill Management Company J.S.C
Tel: 038 544 551, 544 552
Adresa: Rr. Musine Kokollari -1 Dardani
Prishtinë, Kosovë

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm 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) Financiar të Kompanisë për Menaxhimin e Deponive të Kosovës sh.a, për vitin 2017 (në tekstin e mëtejmë "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për zbatimin e tyre.

z. Lundrim Camaj,

Kryesues i Bordit të Drejtorëve,

Data: 05.06 Prishtinë,