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AUDIT REPORT

ON THE ANNUAL FINANCIAL STATEMENTS OF THE REGIONAL WATER COMPANY PRISHTINA JSC FOR THE YEAR ENDED 31 DECEMBER 2017

Prishtina, July 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 Assistant Auditor General *Vlora Spanca* has decided on the audit opinion on the Annual Financial Statements of the Publicly Owned Enterprise Regional Water Company Prishtina JSC.

The report issued is a result of the audit carried out by Team Leader *Bahri Statovci and team member Valbona Pllana* 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 Regional Water Company Prishtina JSC, 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 17/11/2017.

Our audit focus has been on:

Annual Financial Statements → Financial Management and Control → Prior and earlier year Recommendations

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 controls implemented by the Management of the Regional Water Company Prishtina.

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

Opinion of the Auditor General

<u>Qualified Opinion</u>

the Annual Financial Statements for 2017, except for the effects of the issue described in the Basis for Qualified Opinion paragraph, 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

The financial statements contain material misstatements in the presentation of expenditures, collections, lack of asset reassessment and lack of adequate disclosures have affected the qualification of the Opinion.	The Chairman of the Board should analyse the reasons for the Qualification of the Opinion in 2017 and identify the actions required to enable a fair and true presentation of revenues, expenditures and assets in the AFS of 2018 (see issues within basis for opinion).
Financial Management and Control process was followed with shortcomings. Particular emphasis is With particular emphasis is on management of employee recruitment, high water losses, increased receivables, contract management and uncalibrated metering tools as well as expired fuel tankers for fuel.	The Chairman of the Board should analyse the causes of weaknesses in the FMC area and take action in order to eliminate them (see issues 2 to 15).
The response to previous year's recommendations is not monitored at the appropriate level, the progress on implementing the recommendations is poor. As a result, weaknesses in internal controls continue to be evident.	The Chairman of the Board should strengthen the internal control system to ensure that previous year's recommendations are being implemented (see issue 16).
Governance arrangements related to accountability, mangement reporting and risk management, and update of website are not adequate.	The Chairman of the Board should ensure that issues arising from the area of overall governance need to be addressed with increased responsibility and care (see issues 17 to 20).

Management response to audit for 2017

The Chairman of the Board did not agree with some of the audit findings and conclusions. The comments of the Chairman of the Board on issues that we did not agree upon, are detailed in Annex III.

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 of Regional Water Company Prishtina JSC. We have analysed the RWC Prishtina 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 (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. Management's responses to our findings can be found in Annex III.

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. 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).

Approval 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

We have audited the AFS of the RWC Prishtina for the year ended on 31st of December 2017 which comprise of the Statement of Financial Position (Balance Sheet), Statement of Incomes, Cash Flow Statement, Statement of Changes in Equity and the Explanatory Notes.

In 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 Accounting Standards (IAS), International Financial Reporting Standards (IFRSs) and Kosovo Laws. The financial statements are prepared based on accrual accounting principles, 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 Qualified Opinion

- RWC Pristina did not revaluate non-current assets since 2007, although with IAS 16 - revaluation required once for 3 to 5 years;
- Collections for purchasers' services in the accounting records were overstated by €67,180 compared to the data of invoicing service for the collected value; and
- AFS explanatory notes are deficient in presenting general information, company policies and explanatory notes for some items in the statement of financial position and the income statement had uncertainties and differences in financial value. Differences in financial values an explanatory notes were €316,990. For more details see sub-chapter 3.6

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, in accordance with the ethical requirements that are relevant to our audit of the annual financial statements of Publicly Owned Enterprises 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.

Key Audit Matters

According to the annual report of the Water Regulatory Authority (WRA) for 2017, un-invoiced water or otherwise called water loss at RWC Prishtina is 57%, while for 2016 water loss in this company was 53%. Water losses according to the WRA are due to technical losses (leaks), commercial losses (illegal connections, inaccurate reading by water meters, invoicing without water meters, etc.) and an amount of authorized losses (cult facilities, fire-fighters, public fountains, etc.).Furthermore, RWC Pristina does not have a written methodology for calculating the cost of water produced per m^3.

Other Issues

The Annual Financial Statements of the RWC Prishtina for the year ended on 31st of December 2016 were audited by a private audit company which had given a **qualified opinion** because the analysis by the company's professional staff was not sufficient to convince the Auditor regarding the costs of interest for bad debts, presented in the amount of €1,648,731.

Responsibility of Management and Persons Charged with Governance for AFS

The Chief Executive and the Chief Financial Officer and the Treasury are responsible for the preparation and fair presentation of financial statements based on accrual principle in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and Laws of Kosovo, as well as is responsible for internal controls that management determines as necessary to enable the preparation of financial statements without any material misstatement whether caused by fraud or error. This includes the implementation 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 (supplemented and amended).

The Chairman of the Board is responsible to ensure oversight of the RWC Prishtina's financial reporting process.

Auditor General's Responsibility for the Audit of the AFS

Our responsibility is to express an opinion on the AFS based on our audit. We conducted our audit in accordance with ISSAIs. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will detect any material misstatement that might exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

An audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in 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

POEs are 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.

Some financial adjustments in the statement of financial position, income statement, statement of changes in equity, cash flow statement and explanatory notes were needed in draft AFS that were followed by material errors. After our suggestions to make the necessary adjustments, RWC Pristina undertook some adjustments, but failed to eliminate the mistakes as a whole. As a consequence, we have identified the findings that we have presented to the basis for the opinion.

Given the above, the AFS prepared by the CEO and the CFOT when submitted to the BoD may be considered as accurate except for the issues referred to in the basis for the opinion.

In the context of other external reporting requirements, we identified non-compliance as follows:

- Reports of the first two quarters of 2017 of the RWC Prishtina contain only a review of the financial performance of the respective quarter and considerable number of transactions for the Company, t meeting only two of the five legal requirements related to the content of the quarterly reports as required by Article 31 of the Law on Publicly Owned Enterprises. Consequently, they do not contain: 1) an overview of the organizational structure for the POE, including all significant changes that have been made during the respective quarter; 2) a summary of all court proceedings that may include the POE or that POE is expected to initiate during the current quarter; and 3) suggestions and proposals for changes that are reasonably expected to enhance the performance of the POE.
- There is a difference between invoicing service reports and accounting service for the value of the collection; and
- The Business Plan approved by BoD was not designed according to the company’s realistic possibilities.

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 factors that have led to qualification 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 2018 AFS production plan formally addresses all compliance issues, quarterly reports, invoicing service reports and accounting. This should also include Management review of the draft AFS with specific focus on high risk areas and areas where errors have been identified in previous years. The Declarations should not be signed by the CEO and CFOT unless all necessary checks have been applied before the same are submitted to the BoD.

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 RWC Prishtina. Specifically, the focus of the audit was Budget management, Procurement issues, Human Resources as well as Assets and Liabilities.

Financial Management and Control Conclusion

Current controls of the RWC Prishtina need to be improved in almost all areas of Financial Management and Control. Although the Company has been operating with profit in the last three years, receivables have an increasing trend from year to year. it is concerning the fact that water losses in 2017 were around 57% of the quantity produced and distributed. Failure to collect revenues and water losses may affect the company's financial position.

The process of budget planning and expenditure management for Wages and Salaries and Goods and Services was followed with significant shortcomings. Failure to draft a business plan according to the company's realistic opportunities increases the risk that the company's intentions within the relevant period are not met.

The recruitment process did not secure that the most meritorious candidates have been employed, the shortcomings were evident both in the testing process and the evaluation of the candidates.

Further on, the company signed 14 contracts outside the procurement plan, there were major delays in project implementation and poor contract management.

Furthermore, the use of non-calibrated metering devices (Fuel) since 2008 and expired fuel tankers increase the risk of inaccurate measurements and loss or misuse of fuel.

3.1 Business Plan (Revenues and Expenditures)

The business plan, as a summarised and orientating document on the company's activities, has not been sufficiently substantiated and justified, as evidenced by the changes that occurred during 2017 from signing of unplanned contracts and the non-execution of planned activities. the business plan of RWC Prishtina was not based on sufficient and accurate analysis of the realistic needs of the company.

RWC Prishtina would have a better financial position as the invoicing level for the distributed water would be greater, and if losses and receivables would be smaller.

Total expenditures, excluding depreciation for the current year, were executed at €9,243,231 against €10,393,019 planned or approximately 89% of the annual plan, however, compared to 2016, total budget expenditures increased by 2017 by 6%.

The total revenues (invoicing) collected for 2017 were in the amount of €14,220,393 from €14,458,197 planned, respectively around 98% of the annual plan.

According to the invoicing service, from €12,347,175 invoiced for the current year, €13,320,442 were collected, resulting in an unpaid amount of €1,873,218 or 13% for invoicing of households, businesses and institutions.

We have considered the sources of revenues and expenditures planned with annual business plan for RWC Prishtina according to respective categories. This is highlighted in the following tables:

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

Description	Initial Planning	Final Planning	2017 Outturn	2016 Outturn
Total Revenues	**15,151,782**	**15,151,782**	**15,969,369**	**15,149,360**
Revenues from sale	14,458,196	14,458,196	14,220,393	13,791,274
Other Operating Revenues	693,586	693,586	181,927	297,298
Revenues from Grants			1,562,369	1,060,788
Revenues from Interest			4,680	0
Total Expenditures	**15,450,182**	**15,450,182**	**15,435,253**	14,208,719
Expenditures for salaries	5,025,567	5,025,567	5,036,900	4,975,485
Operating Expenditures	10,424,615	10,424,615	10,398,353	9,233,234

Explanations about changes in planning and collection of revenues and expenditures for items of higher significance are given as follows:

- Based on the above table it is noticed that the company planned losses for the current year of €298,400 but revenues during the year were higher compared with the planned ones by €817, 587 resulting in profit before tax amounting to €534,116. Out of this amount, expenses of profit tax were €53,412 and the profit for the year resulted in the amount of €480,705;
- Revenues from households were €9,158,089 from €9,215,545 as planned or 99% of the plan. Compared with the previous year, €324,568 or 4% more were collected;
- Revenues from small businesses amounted to €1,758,431 from €1,648,794 as planned or 7% more than planned. Compared with 2016, €175,363 or 11% more were collected;
- Revenues from large businesses were collected at €1,244,526 from €1,374,043 as planned or 91% against the annual plan. Compared with 2016, €29,750 or 2% less were collected;

- Revenues from institutions were collected at €2,059,343 from €2,219,814 as planned or 93% against the annual plan. Compared with 2016, €41,058 or 2% less were collected;
- The highest expenditures for the current year were the expenditures for Wages and Salaries of €5,036,900 representing 54% of the total expenditures incurred in 2017. The expenditures for Wages and salaries of the current year were €5,036,900 against €5,025,567 planned surpassing the planning for € 11,333. Compared to 2016, expenditures for wages and salaries in 2017 were € 61,415 or around 1% more; and;
- Expenditures for contracted Goods and Services for the current year were made in the amount of €4,206,331 from €5,367,452 planned or 78%. Compared with the same period of the previous year, they increased by €481,918 more or 12%.

Issue 2 – Inadequate planning and execution of the Business Plan

Finding We have handled the content of the business plan which contains the business and financial objectives which the Company aims to achieve during 2017 and the approach to achieving these goals. We have noticed non-compliance with the plan for the following issues:

- The business plan foresaw an investment for the installation of new water meters in 2017 and elimination of timely invoicing, but these investments were not completed by March 2018;
- health insurance for staff was not foreseen under the business plan, however the Company contracted out an Operator for this purpose; and
- the Company's business plan should foresee hiring employees. The company engaged 45 employees as water meter readers under a three (3) month employment contract and specific assignments during 2017, which were not planned in the business plan.

The content of this plan did not reflect all the activities carried out during 2017. This is due to inadequate analysis when drafting the business plan.

Risk Insufficient analysis have impacted the business plan resulting in shortcomings. Consequently, some of the planned activities have not been executed, while activities outside the initial planning have been carried out.

Recommendation 2 The Chairman of the Board should ensure that the business plan sets out clear and feasible objectives as well as required reviews to assess whether the annual objectives of plan are being met.

3.2 Statement of Financial position

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

Table 2: Statement of financial position of RWC Prishtina on 31st of December 2017

Assets	**2017**	**2016**	**Liabilities and Equity**	**2017**	**2016**
Current Account	5,224,092	7,569,616	Short-term liabilities	2,102,520[1]	2,918,952
Stocks	1,616,727	1,624,035	Long-term liabilities	58,165,476[2]	61,470,386
Receivables	13,621,326	12,362,911			
Land, buildings and equipment	89,219,181	53,390,565	Charter capital	25,000	25,000
Ongoing investments	9,527,043	47,562,345	Reserve capital	72,620,753	72,620,753
Other requirements	4,136,437	4,475,971	Retained profits/losses	(10,049,648)	(10,896,224)
			Profits of the year	480,705	846,577
Total assets	**123,344,806**	**126,985,443**	**Total of Liabilities and Equity**	**123,344,806**	**126,985,444**

Issue 3 – Evident shortcomings in managing receivables

Finding The table above clearly shows the increasing trend of receivables. In the current year, €13,621,326 compared with the previous year, receivables were €1,258,415 or 9% more.

Risk The high value of receivables accumulated from previous years increases the risk of aging and leads to failure to collect them.

Recommendation 3 The Chairman of the Board should ensure that he will continue to use all legal means in time to increase collections from the company's invoiced payments.

[1] Accounts payable in the amount of €1,425,046 and tax payable in the amount of €677,473 are included in short-term liabilities

[2] Deferred revenue from the KfW grant in the amount of € 26,654,802, KfW loan for phase II, €6,000,000, KfW credit for phase III 14,445,000, deferred revenue from the municipality and government €8,385,952, bank guarantee €2,671,961, advances received of €5,850 and others € 1,898.

Issue 4 – Non-reconciliations between the Physical Condition with Accounting Evidence

Finding By comparing the physical condition of fuel reservoirs with accounting register we have identified margin for 33,436 litres of diesel or around 25,057 euros less in reservoir. Furthermore, at the request of the RWC Prishtina of date 06.02.2018 for verification of metering device (calibration) for fuel water reservoir, the Ministry of Trade and Industry has cancelled the calibration because the metering device for fuel does not meet the "technical-metrological" requirements. The weaknesses identified by MTI for the measuring tool were as follows:

- The measuring tool is unverified since 2008, there is leakage in the system, the printing stamps on the measuring device are damaged, damaged and out of function is also the counters of the litres; and
- 50,000 and 30,000-liter fuel tanks have the calibration deadline expired in 2012, and have not been re-calibrated. The quantity in the reservoir is measured with a non-ruler measurement metal pipe, i.e. not with the corresponding measuring tool (ruler type measuring device in millimetres, serial number).

Risk Using non-calibrated metering devices and expired reservoirs increases the risk of inaccurate measurements and loss of fuel. Further on, this represents inaccuracies in reporting the factual situation of fuel in the reservoir and increases the risk of loss or misuse of fuel, also affecting incorrect presentation in the accounting records.

Recommendation 4 The Chairman of the Board should ensure that are identified the reasons that have led to fuel differences between the accounting registers and fuel reservoirs, and ensure that equipment for measuring fuel is according to the technical metrology standards to avoid the identified shortcomings.

Issue 5 – Failure to timely record timely and failure to conduct inventory for the Water Company in Shkabaj

Finding The new water factory in Shakabaj had become operational in March 2017, yet RWC Pristina had done recordings for this factory with delay after the end of the year in March of 2018, which was then presented in the in the AFS of 2017. Furthermore, the company at the end of the year had assigned a commission to carry out the inventory assets at the end of the year but we were not provided with any inventory report for the new factory in Shkabaj.

Risk Failure to record in time in the accounting assets registers of and lack of asset revaluation present non-compliance with legal obligations for asset recording and are a result of applying poor controls. This increases the risk of damage, loss, misuse and improper presentation of assets.

Recommendation 5 The Chairman of the Board should ensure that necessary actions are undertaken for recording and revaluation of assets in time and ensure full inventory of assets.

3.3 Statement of Income and Expenditures

Publicly Owned Enterprise RWC Prishtina 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

Revenues	**2017**	**2016**
Revenues from sales/services	14,220,393	13,791,274
Revenues from Grant	1,562,369	1,060,788
Other revenues	186,607	297,298
Total of revenues	**15,969,369**	**15,149,360**
Wages and Salaries	5,036,900	4,975,485
Depreciation and Amortisation Costs	5,305,904	3,860,091
Electricity costs	2,472,201	2,332,814
Other operating costs	2,620,248	3,040,329
Total of Expenditures	15,435,253	14,208,719
Profit before taxes	**534,117**	**940,641**
Profit tax	53,412	94,064
Net Profit	**480,705**	**864,577**

Issue 6 - Low level of invoicing

Finding	Despite the efforts to increase invoicing service, RWC Pristina, for 2017 had managed to receive only €12,347,175 from €14,220,393 invoiced, respectively only 87% of the invoiced value. From invoicing and collection data for 2016 and 2017, there is a decreasing[3] trend of 3% of collection in relation to invoicing. This reflects inadequate treatment of this issue by the company's management.
Risk	The low level of collection of invoices over the years continuously increases the amounts of receivables, and as a consequence increases the risk of aging and repaying them as bad debts.
Recommendation 6	The Chairman of the Board should ensure that he has analysed the causes of low collection and strengthens internal controls by ensuring that all legal means are used to increase the collection from the company's invoicing.

Issue 7 –Keeping and paying managers without a contract

Finding	According to articles 10 and 11 of Law no. 03/L-212, the employment contract is concluded in writing and signed by the employer and the employee. The contract includes the following elements: the starting date, the duration of the contract and the termination of the employment relationship. Nine (9) managers had expired contracts at the end of December 2016, but the same had continued to work and be paid throughout 2017 without having contracts extended. Their contracts were extended from 01.01.2018. This is due to inefficient management and poor functioning of internal controls and the lack of managerial accountability.
Risk	Continuing to pay managers with expired contract, besides having legal contradictions, impacts on irregular payments and mismanagement of public money. This also poses a risk for effective decision-making.
Recommendation 7	The Chairman of the Board should ensure that such cases are not repeated in the future in order to avoid payment of employees without valid contracts. Also, stability in contract management should be secured.

[3] In 2016 the law on public debt was still in force and this had impacted in higher collection in 2016.

Issue 8 - Shortcomings in the employee recruitment process

Finding

According to Article 5 of the Labour Law, discrimination is prohibited in employment and occupation when it comes to recruitment in employment.

In the advertisement for two positions, cashier and readers/invoice delivery dated 27.04.2017, we identified the following shortcomings: Written test was not prepared in accordance with Administrative Instruction no. 14/2011 on regulating the procedures for establishment of the employment relationship in public sector, Articles 5.5 and 6 for the test to consist of three parts: the part of the general knowledge with 25 points; the part of questions of general skills with 35 points and the third part related to the job positions with 40 points. The test was not divided into three parts according to the Instruction.

Furthermore, the evaluation committee over evaluated test points incorrectly for the staff in the reader/invoice delivery position. The inadequate evaluation of the candidates had directly affected the elimination of the most successful candidate.

Further on, the company engaged 45 employees as water metering readers for a period of three (3) months under an employment contract and specific tasks during 2017, however three of them were not engaged by merit. Despite the fact that in the priority list of the evaluation committee were listed candidates by scores, the company with the decision dated 06.10.2017 among the 45 employees had hired three candidates who had less than 81 points while eliminating candidates who had over 81 points. For the advertisement dated 11.08.2017 for the position of technical director we have identified that one of the five members of the Evaluation Committee for the selection of the technical director did not make the evaluation with points in the written test or interview for the candidates who had submitted the test in writing and interviews, but only signed the final evaluation report.

Cause for these shortcomings was the lack of proper functioning of internal controls for the selection of the most successful candidates.

Risk

Failure to select the most successful candidates according to the applicable legislation avoids fair competition and increases the risk of reducing the company’s performance.

Recommendation 8

The Chairman of the Board should ensure that additional actions have been taken to strengthen internal control in recruitment processes securing that they are fully in compliance with applicable legal acts in order to employ the most successful candidates.

Issue 9 - Delay in executing projects funded by German bank loan

Finding

According to the agreement for the project "Municipal Water Supply and Sewage in Prishtina Phase II" (Badovc factory financed through loan between German Development Bank KfW Frankfurt am Main (KFW)[4] and Republic of Kosovo, represented by the Ministry of Finance (Borrower) and RWC Prishtina for €6,000,000, the company had signed a contract for the execution of the works on 15th of August 2013 with a deadline of 600 days for the finalization of the works. The certificate for acceptance of the final delivery of the project was issued on 12.06.2017, respectively the project had a delay of 2 years and 4 months Further on, the final acceptance/delivery certificate was issued with a list of unpaid work. For the remaining works, the company has secured the guarantee for execution of the works by the operator, which were finalised by 22.06.2018. These delays were due to changes in the project during the execution of the works due to the lack of proper identification of needs and drafting of improper project specifications.

Under the agreement for the project "Municipal Water Supply and Departure ii Sewerage in Prishtina Phase III "(Construction of new factory in Shkabaj) in the amount of €20,000,000 funded through the German Government Bank KfW Frankfurt am Main (KFW)[5] and Republic of Kosovo, represented by the Ministry of Finance (Borrower)[6] and Regional RWC Prishtina, the company signed a contract (divided into two components[7]) in the amount of €28,181,575. The deadline for finalizing the project was until 01.10.2016. However, the final acceptance of the project was made on 01.06.2017 respectively with 8 months of delay. This was due to failure to finalise expropriations in time by the Ministry of Environment and Spatial Planning which consequently caused delays in the execution of works, while the company did not assess the risk of possible expropriation delays to reflect on the plan of Contract implementation.

[4] The loan repayment period by the RWC according to the agreement was divided into 18 instalments starting from 30.06.2015 until 30.06.2024, for the first 16 instalments, the instalment value was from €1,111,000 while the last two instalments were from € 1,112,000 by the end of 2017 were paid 5 instalments in the amount of €5,555,000 the remaining value is €14,445,000, the RWC is respecting all the terms of the loan agreement.

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[6] The term of loan repayment under the agreement by RWC was allocated in 30 instalments respectively 60 instalments and the value for instalments was by €100,000 starting from 30.12.2020 until 30.06.2050.

[7] The Contract for Component 1 was signed in the amount of €13,866,013. The starting date of the works was 2nd of December 2014 and the date for completion of the works was 1st of October 2016, contract for Component 2 was signed in the amount of € 12,890,000. The period of commencement of works was 21st of November 2014. The date for completion of the works was 21st of September 2016, the consultancy contract was signed on 25th of April, 2013 in the amount of €1,425,562.

Risk Failure to consider other circumstances such as difficulty in property expropriation and accurate design of project specifications prior to commencement of execution of works create space for delays, additional costs and increases the risk for the company to be subject to penalties for delays.

Recommendation 9 The Chairman of the Board should ensure that all necessary expropriation procedures and accurate design of project specifics have been completed prior to the signing of the contracts for executing works and comply with the contract termination deadlines.

Issue 10 - Identification of needs by requesting units for procurement planning was not according to the realistic needs of the Company

Finding Each Contracting Authority shall prepare a final written planning that identifies reasonable details of all supplies, services and works of the Contracting Authority which it intends to procure during the year fiscal.

RWC Prishtina for 2017 compiled a procurement plan in which it foreseen 64 procurement activities with a total estimated value of €2,852,000. For 2017, a total of 56 contracts were signed in the amount of €1,830,708, among which 14 contracts were signed which were not foreseen as activities in the procurement plan (their common value was around €21,000). Procurement procedures were not developed for 22 activities foreseen in the procurement plan on the grounds that the requests from the requesting units for initiation of procurement procedures were not submitted.

Risk Signing of contracts that are not foreseen in the procurement plan and failure to develop the planned ones reflects poor planning and increases the risk for the effective and efficient performance of the company's objectives.

Recommendation 10 The Chairman of the Board should ensure that the requesting units submit the requests in time allowing the Procurement Office to plan and initiate procurement activities and procedures in a timely manner.

Issue 11 - Poor Contract Management

Finding

Pursuant to Article 81.2 of the LPP no. 04/L-042 The management plan should be agreed between the parties involved in the contract and be signed by them before initiating the implementation of the contract. And Section 81.3 point (iii) stipulates that a time limit should be set for contract management activities including the duration of the contract. The identified cases for breach of contract execution deadlines are as follows:

- For contracts (with 4 Lots) signed on 09.06.2017 in the amount of €364,138 for "Rehabilitation of water supply systems", deadline for their implementation was 45 calendar days. Until the end of the audit, (28.03.2018) the installation of households water metering devices was not completed;

- In the contract for the supply of "SW, HW, additional ERP developments, Redesign and maintenance of the LAN network" dated 28.03.2017 in the amount of €138,231, we identified the following weaknesses:

  - The deadline for supply, installation and testing of required modules cannot be longer than two months. Until the end of the audit (28.03.2018), the installation of the Offline module – Cash Box and the Offline module - the consolidation of banks was not done; and

  - according to the IT expert, Human Resources and Procurement Modules report that were part of the software available to the company were not being fully applied under the terms of the contract and the specifications.

On the project of working on zone manholes and the installation of fittings and pressure valves and valves, the Company signed a contract in the amount of €89,424 on 02.10.2017. The deadline for implementation of the contract was 120 days. However, the work were not completed up to June 2018.

Risk

Insufficient contract management affects the company's poor performance for delivering services efficiently to consumers. This may also cause delays in projects or other related activities.

Recommendation 11

The Chairman of the Board should ensure good management of contracts and in cases where operators do not comply with the time limits specified in the contracts, penalties for non-compliance with contract terms apply.

Issue 12 - Failure to Confiscate Performance Security for Terminated Contract

Finding According to Article 63 of the LPP no. 04/L-042 "The Contracting Authority shall require from the economic operator to whom a contract is awarded to lodge a performance security as a prerequisite for signing and entry into force of such contract if: (iii) there is a risk that such contract will cause substantial damage to the contracting authority ", confiscation of performance security shall be enforced. In one case, RWC Prishtina on 01.06.2017 made a decision to terminate the contract "Health Insurance of Personnel of RWC Prishtina" because of non-fulfilment of the terms stipulated in the contract by the Economic Operator but there was no evidence for seizure of performance security.:

- For the Decision dated 02.08.2017 termination of the contract "Physical Security for the Premises of RWC Prishtina"; and
- For the Decision dated 01.06.2017 on termination of the contract "Health Insurance of Personnel within RWC Prishtina".

The company did not use all the possibilities for confiscating the performance security of these terminated contracts, despite the efforts made but still without success.

Risk Failure to confiscate performance security after contracts with economic operators are terminated causes financial damage to the contracting authority.

Recommendation 12 The Chairman of the Board should ensure that all necessary measures are taken in order to confiscate performance security for contracts terminated due to non-fulfilment by the Economic Operators.

Issue 13 - Servicing IVECO Vehicle without Procurement Procedures

Finding Publicly Owned Enterprises when purchasing goods and services have an obligation to adhere to all procedures arising from the Law on Public Procurement (LPP). Pursuant to Article 6.1 of the LPP "all Contracting Authorities are obliged to ensure that funds and public resources are used economically, while taking into consideration the scope and subject matter of the procurement". The fee for servicing the IVECO vehicle on 4.10.2017 in the amount of €770 was made without procurement procedures. This occurred due to the failure of the procurement procedure for vehicle servicing and lack of internal controls.

Risk Payment for services provided avoiding procurement procedures increases the risk that public funds are used in a non-transparent, economical and efficient manner.

Recommendation 13 The Chairman of the Board should ensure that goods and services are purchased according to the requirements of the Law on Procurement to avoid deviation from legal requirements.

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 Publicly Owned Enterprise on 31.12.2017

Description	31 December 2017	31 December 2016
CAPITAL	**63,076,810**	**62,596,106**
Charter Capital	25,000	25,000
Reserve Capital	72,620,753	72,620,753
Profits/Losses carried forward	(10,049,648)	(10,896,224)
Current Year Profits/Loss	480,705	846,577

Based on the above table, it is noticed that the Company despite the accumulated losses from previous years, in last three years has operated with profit. Further on, the Company is in credit for the construction of the new water plant in Shkabaj and it meeting its obligations within deadlines. This shows that the Company is solvent.

Issue 14 – Failure to revaluate the reserve capital since 2007

Finding The reserve capital presented in the Equity Statement was in the amount of €72,620,753, where this amount was evaluated and inherited at the time of incorporation of the Company from 01.01.2007 which resulted from positive differences of assets (equipment, buildings, water supply network and land) and carried forward losses, respectively undisturbed profits at the moment of incorporation. This amount is the same since that time, without any revaluation or depreciation of this item which could now be otherwise it if had been revaluated.

Risk This amount presented from 2007 and not re-evaluated until today, increases the risk that the value of reserve capital presented in the Company's in financial statements do not reflect the correct situation.

Recommendation 14 The Chairman of the Board should take the necessary measures to re-evaluate the reserve capital to verify its true value.

3.5 Cash Flow Statement

Cash Flow Statement provides data on changes in cash during the reporting periods presented and classifies cash flow achieved through business, financial and investment activities. Information regarding the cash flow of the Company is useful to give the financial statement user a cash flow evaluation.

Table 5: Cash Receipts and Spending

Description	31 December 2017	31 December 2016
Net cash from operating activities	**3,419,590**	**3,875,209**
Cash Increase	7,056,806	7,254,880
Cash Decrease	(3,637,216)	3,379,670
Net cash from investing activities	**(4,961,558)**	**19,155,012**
Cash Increase	0	0
Cash Decrease	(4,961,558)	19,155,012
Net cash from financing activities	**(803,556)**	**20,945,402**
Cash Increase	1,418,444	23,167,402
Cash Decrease	(2,222,000)	(2,222,000)
Cash increase/decrease during 2017	(2,345,524)	43,975,623
Cash in the beginning of 2017	7,569,616	1,904,017
Increase in cash at end of 2017	**5,224,092**	**45,879,640**

Recommendation

We have no recommendation 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.

Issue 15 - Incomplete disclosure of explanatory notes

Under IAS 1, explanatory notes should be disclosed systematically as long as this is possible. Each item of the Balance Sheet, Income Statement, Statement of Changes in Equity or Cash Flow Statement, should be referred to the relevant information in the notes. When analysing the explanatory notes, the following weaknesses were identified:

- The Company's general information were not disclosure, such as: the time and legal basis of the establishment, its main activity, address, type of currency it uses, the Company's ownership, etc.;
- The basis of financial reporting standards that has applied and adapted to the way of recognizing revenues, expenditures, assets, liabilities and other items in the AFS;
- The significant accounting policies of the Company, hot it recognizes the effects of foreign transactions. Financial instruments, tangible and intangible assets, what methods and rates of depreciation use, how it recognizes revenues, deferred incomes, when and how it knows the provisions, etc.;
- Explanation to Note 1, non-current asset, is unclear what that asset represents: land, factories, objects, various machinery, technology or licenses;
- Explanation to Note 2, stocks of materials in warehouse, does not mention what these materials are, what types and the values of these materials, etc.;
- Explanation to Note 8, profit or accumulated loss, there is no relation what is explained in the explanatory notes to that presented in the statement of financial position;
- Explanation to Note 10, grants – deferred incomes, discloses only the value of the grant recognized for this year in the amount of €1,562,369, while in the statement of financial position at note 10, the title of this is called "payables and other liabilities" and at a value of €1,425,046, with a discrepancy of €137,323;
- Explanation to Notes 11 and 12, in the disclosure, refer to other items and amounts other than those in the statement of financial position;
- Explanation to Note 23, bad debt expenditures, are presented in the amount of € 696,929 while in the income statement €869,929, with a difference of €173,000; and

- Explanation to Note 24, of the financial statement and the transfer of financial result, were presented in the amount of €16,577 while in the income statement €23,244, with a difference of €6,667.

These have occurred because of the lack of IAS consultation and the functioning of the internal control system to timely identify errors for the necessary corrections.

Risk Failure to present Company policies, applied standards and discrepancies between explanatory notes and financial position and income statement, represent an incomplete presentation of AFS according to the requirements of the reporting standards.

Recommendation 15 The Chairman of the Board of Directors should ensure that during the preparation of the Financial Statements, the explanatory notes include sufficient information about the Company and its policies and complete and accurate notes on each item of financial statements, eliminating all differences of the explanatory notes to the amounts presented in the statement of financial position and income statement.

4 Progress in implementing recommendations

The External Audit Report on the 2016 AFS of the RWC Prishtina was carried out from a private audit company which had given qualified opinion, due to the lack of sufficient analysis from the professional staff of the Company for determining the amount of bad debts. Whereas, 13 key recommendations were presented in the Management Letter. RWC Prishtina had prepared the Action Plan for implementing the recommendations. By the end of our audit for 2017, four recommendations were implemented; one is in process and eight are not yet implemented.

Further on, from 2015, eight unimplemented recommendations were carried forward. Out of these recommendations during 2017 one was fully implemented, one was in process and six were unimplemented. The implementation of recommendations from last year as a key tool for improving processes was not taken into consideration by management.

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

Issue 16 – Low implementing of prior and earlier year recommendations

Finding	Due to the improper management of the process and the lack of a formal monitoring of how external audit recommendations have been implemented, only a portion prior year's recommendations and those previously carried forward have been implemented. We have not noticed that RWC Prishtina has updated the action plan or has taken administrative action for non-implementation of the recommendations.
Risk	Failure to implement recommendations from previous years increases the risk of the continuous presence of the same deficiencies which are related with AFS and with financial management and internal controls.
Recommendation 16	The Chairman of the Board should ensure that an action plan is implemented which clearly sets out the actions, a timetable and responsible staff, and that it is updated every three months.

5 Good 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 in RWC Prishtina particularly related to accountability, risk management and the quality of management reporting. Other arrangements that would support governance development, such as the operation of an effective internal audit system, were not taken into account by the management.

The above conclusions show that RWC Prishtina has no significant improvements in existing processes and internal controls in many areas. RWC Prishtina had approved the business plan for 2017, but it does not contain timetables for the implementation of business and financial objectives. The lack of timetables for the implementation of business and financial objectives complicates monitoring of the degree of their fulfilment in terms of timetable. Internal Audit has continuously supervised the functioning of internal controls and gave recommendation for their improvement. However, the recommendations of internal audit, the management had not given sufficient attention. Failure to identify financial errors in the audit of financial reports of 2016 has resulted that these errors being carried even in the financial statements of 2017.

In this aspect, we encourage the Management of RWC Prishtina, to take into consideration the recommendations given by IAU, to increase the level of controls in areas where deficiencies have been identified.

5.1 Internal Audit System

The Internal Audit Unit (IAU) operates with four members of staff - the Head of IAU and three auditors. An effective audit requires a comprehensive work program that reflects financial and other risks of RWC Prishtina, and provides sufficient assurance over the effectiveness of internal control. The impact of Internal Audit output should be judged by the importance that management gives on implementing the audit recommendations.

The Internal Audit Unit (IAU) had prepared the annual audit plan for 2017. The drafting of plan was prepared based on the level of risk for the systems and processes involved in audit. IAU had planned and completed nine audits for 2017. Out of these, four audits related to the 2017 activities. In the Internal Audit review scope were: (a) revenue process, (b) job security process, (c) receivables, (d) financial statements for 2016, (e) the management process of IT system, (f) the registering of basic assets, (g) human resources and wages, (h) the audit of the advertisement for a certain time of 45 readers and the advertisement for technical director, and (i) procurement.

Through these reports, IAU provided information to management on how effective the internal controls and their functioning are. The internal audit approach was based in risks and current events of the Company. The Audit Committee had kept regular meeting and reviewed all reports of IAU.

Issue 17 – Insufficient implementation of recommendations given by the internal audit

Finding	The internal audit recommendations were implemented at an insufficient level by the Company management. This has happened because of the insufficient importance that management has given to the implementation of internal audit recommendations to improve the internal control in the Company.
Risk	Failure to implement the internal audit recommendations increases the risk of the continuously repetition of deficiencies from year to year and could result in continued ineffectiveness controls and financial losses.
Recommendation 17	The Chairman of the Board through the Audit Committee should consider the reasons why the Company management has not taken into consideration the recommendations given by the IAU, as well as to increase the accountability measures to the appointed staff for the implementation of recommendations.

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 timely 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 18 – Weaknesses in Management Controls and Risk Management

Finding	Some of the objectives were not met. Weaknesses identified during the audit were: the lack of a financial and operational risks management plan, procurement procedures initiated with delays and out of schedule, poor evaluation of needs, insufficient oversight, inadequate segregation of duties, late registration of assets, high water losses were not timely and properly handled by the management side. The Management of RWC Prishtina drafted several risk management plans for 2018, however the 2017 risk management plan had not been drafted. These have occurred due to ineffective management and insufficient accountability.
Risk	Poor accountability requirements and low quality financial reporting reduce the effectiveness of financial management. This results with weakness in the budget process and reduces Management's ability to respond to financial challenges in time. Consequently, this may also result in providing poor quality services.
Recommendation 18	The Chairman of the Board should ensure that the necessary measures are taken to identify the managerial weaknesses and the potential operational and financial risks of the Company.

Issue 19 – Failure to update the Code of Ethics by the Company

Finding	According to article 35 of Law no. 03/L-087 for POEs, all POE should prepare, approve and implement a mandatory Code of Ethics and Corporate Governance. The Code of Ethics and Corporate Governance which obliges POE for the implementation of highest standards of conduct and business practices, should be detailed in order to offer clear guidance on the behaviour of directors, officers, employees and professional consultants of POE, and to create a program for the protection of persons who reveal to the public facts about misuses within the Company. RWC Pristina had a code of ethics approved in 2006 which was not up-to-date and tailored according to the requirements of the POE law and the Model of the Code of Ethics and Corporate Governance of POEs that MED has modelled to assist POEs in drafting their own Code of Ethics.
Risk	Failure to update and tailor the code of ethics with the law of POEs and the MED model risks applying high standards of conduct by the staff and management of the company.
Recommendation 19	The Chairman of the Board should ensure that the necessary measures are taken to draft and approve a Code of Ethics as per the requirements of the Law on POEs and the code of ethics that MED modeled to assist POEs.

Issue 20 – Failure to publish documents on website of the Company

Finding	Article 34.2 of the Law on Publicly Owned Enterprises requires that a full and current copy of all regulations of POE's will be published and maintained in a website publicly accessible, which is maintained by the POE. Further on, it is required to publish: business plan, quarterly reports, annual reports and other important information for the public. However, RWC Prishtina still (until the completion of audit 28.03.2018) has not published reports for last two quarters, the customer satisfaction report, or the annual report of the Company for transparency purposes.
Risk	Failure to publish different reports of the Company on a website creates non-compliance with the Law and lack of transparency required.
Recommendation 20	The Chairman of the Board should ensure that in website of the Company to be published all reports and documents required by the Law for Publicly Owned Enterprises, for the purpose of transparency to the public.

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 on Implementing prior and earlier years recommendations

Audit Component	Recommendations carried forward from 2015	Implemented during 2017	Under Implementation during 2017	Not Implemented
Category of Expenditures	Water processing and purchase costs should be classified as production costs as they relate to the processing of the product which is offered to customers and for which they are charged with sale invoices. Expenditures for work-attendance public transport, and those of official trips, should not be classified as material expenditures but as other operating expenditures.			The recommendation for calculation of water purchase and processing is not implemented.
Accounts Receivable	Bad Debt Expenses are foreseen by accounting standards and they have to be determined on the basis of thorough analysis made by company experts and documented in accordance with the legal requirements of the applicable laws.		RWU had prepared the list of bad debt expenditures.	
Cash	The decision to maximize the cash amount to the reasonable amount for the company's needs without endangering the security of the money. Make an ad-hoc counting of cash during the year, besides the end-of-year register.	Decision on determination of cash and cash advance payments starting from 01.12.2017		

Procurement	We recommend to the management to put pressure on relevant departments to perform procurement planning based on priority, in order to efficiently manage the company's financial resources, to prepare bill of quantity and pre - measurements of key positions, in order to avoid delays.			No actions taken to implement recommendation.
Supply without procurement procedures	We recommend to the management not to allow the purchase or supply without proper procurement procedures, which should be based on the company's internal regulations and Law on Public Procurement.			Even during 2017, purchases were done without procurement procedures.
Lump sum invoicing and water network leaks	The company's management should require the staff to minimize the number of Lump Sum invoices and take measures to reduce water losses			Lump Sum invoices were also made in 2017, and no measures were taken to reduce water losses.
Human Resources	During the employment, professional requirements shall be met, so that the selection of candidates is done based on their education level and previous experience.			The recruitment procedures were not conducted in accordance with the criteria set by the law and the applicable instruction.
Internal Audit	We recommend the management to implement recommendations arising from internal audit reports.			No measures taken for implementation of IAO recommendations.

Audit Component	Recommendations given in 2016	Implemented	Under Implementation	Not Implemented
Understatement of Assets	We recommend the management to ask the Board that the abovementioned assets - the concrete panels be evaluated and recorded in the Company's books. Materials that are installed on the water supply network are classified as capital investments since we are dealing with underground assets whose value should increase depending on the amount of investments made.	Concrete Panels were registered on 27.03.2018 in Company's books.		
Classification of Expenditures	Water processing and purchase costs should be classified as production costs as they relate to the processing of the product which is offered to customers and for which they are charged with sale invoices. The costs of public-to-air public transport, as well as those of official trips, should not be classified as material expense but as other operating expenses.			Water processing and purchase costs related to processing of the product offered to the consumers were not included in production cost.
Cash	We recommend having a decision on the maximum amount of cash in the reasonable amount for the Company's needs without endangering the cash security. We recommend ad hoc counting of cash box during the year, besides the end-of-year registration. The property held in the balance of assets for stolen money must be erased from the Company's books by a decision of the competent body. In case of the return of such assets, it should be registered as outstanding income.	The decision on determining the maximum cash and cash payments is applicable from 01.12.2017.		

Accounts receivables	The provision of uncollectable receivables should be made on the basis of thorough analyses made by the Company's experts and documented in accordance with the standards. In cases where a deferred receivable is subsequently collected, the same should be accepted as income-revenue.			Not implemented yet.
Procurement – Planning from initiating units	We recommend the management to put pressure on the relevant departments to make procurement planning so that it is based on the real needs of the initiating units and is done based on priorities in order to manage better the Company's financial resources.			Not implemented yet. The company had not compiled the procurement planning based on its real needs.
Supply without procurement procedures	We recommend to the management to put pressure on initiating units not to allow the purchase or supply without proper procurement procedures, and that it should be based on the company's internal regulations and Law on Public Procurement.			Not implemented recommendation for not allowing purchase without procurement procedures.
Supply outside the procurement plan	We recommend to the management to put pressure on initiating units not to allow supply outside the procurement plan, and that it should be based on the company's internal regulations and Law on Public Procurement.			Recommendation not implemented in 2017. 15 activities conducted outside of procurement plan.
Exceeding the Value of Contract	We recommend to the management not to allow the initiating units to make purchases over the value of the signed contracts as they may damage the Company and are not in line with the Law On Public Procurement. The Contract Manager is held responsible for this matter.	In one case the company has terminated the contract with the operator because the funds allocated for that project were spent.		

Failure to respect contract deadline and prices	We recommend to the management to enhance internal control and not to allow delays in delivering contracted goods. The contract manager must control the invoiced prices so that they comply with the contract in order to prevent material damage to the Company.			The recommendation for not allowing the delays has not been implemented. Delays have been identified again during the implementation of the projects.
Lump sum invoicing and water network leaks	The Management of the Company should ask from staff to reduce to a minimum the Lump Sum invoices on consumed water. Water meters should be installed for water consumption for the Company's internal needs. We recommend to the Management to undertake necessary measures in order to reduce the amount of water lost from network, from illegal access to the network, from uncontrolled leakage and other losses.			The recommendation to reduce Lump Sum invoices to a minimum was not implemented. Instalment of water meters was not done according to the signed contracts and there were delays in the execution of the contracts. There were also uncontrolled water losses.
Non-deductible expenditures	We recommend that all accounting records be supported by valid documentation and applicable regulations.		Accounting registrations are in process, constant corrections are made to asset registers.	
Corporate Income Tax	We recommend that the necessary adjustments are made so that the amount paid on behalf of corporate income tax is not recorded as expenditure in the income statement.	Recommendation implemented.		

Stock and warehouse	We recommend that the corrected stocks (difference in price) be erased from the books by a decision of the competent body. Relocation of stocks should be properly adjusted in order prevent corrections in hand-outs. Each hand-out must be attached to the work order and the approval by the responsible person. Goods returned from the field are registered again in the warehouse with an recording document signed by authorized persons.			The accounting books are not reconciled with the current status of stocks at the end of the year.

Annex III: Management Response to OAG Findings

Findings/Issues	**Agree Yes/No**	**Comments from the BO in case of disagreement**	**NAO view**
Basis for opinion, point 2	No	Collection for purchasers' services that in the accounting records have been overstated for €67,180 was from the time that all the accounting records were not closed including the time when you have been auditing and received such documents but after the closing of the financial statements this balance is reconciled and consistent with all notes from the invoicing module to the accounting module and accounting records.	Collection for purchasers' services according to accounting records were €13,387,622 while according to the invoicing service was €13,320,442 which resulted with a difference of € 67,180. This was the situation when we received the final version of the AFS with adjustments. The account card provided with comments Collection for purchasers' services does not contain the date when this document was prepared and the documents we received from the invoicing service and the accounting records contain the date when they were printed from the program. Therefore, the findings and recommendations remain.

Issue 2 Inadequate planning and execution of the Business Plan	No	The project in question started in 2017, but due to weather conditions, knowing that the individual water meters are located outside the wells, it has been impossible to complete the project in question. On 21.11.2017 the data on the zone and other data were finalised, but at the request of the contractor and following the weather conditions, approval was granted for postponing the term of execution of this contract until the spring of 2018, when the atmospheric conditions allow to carry out works of this nature. This project has nothing to do with lump sum invoicing, since the installation of the first water meter is a customer's obligation, while these water meters have the purpose of verifying the reading and accuracy of the existing water meters in a pilot study area. This project has only been completed with the installation of these meters which is in the testing - monitoring phase. The other health insurance project is not foreseen in the business plan for 2017 based on the law that was underway by the Government of Kosovo, but with a review of the business plan and with the approval of BoD, is included in the procurement plan for the rest of 2017, as a result of the large demand of employees. Regarding the other finding in this issue, 45 readers are engaged as a result of staff and BoD analysis in order to lower water losses by reading, checking illegal and unlawful and unregistered customers on our database system. This project with the approval of BoD was introduced in business plan for 2017 in the second part after the review.	RWC Prishtina provides only clarifications and allegations why the business plan was not fulfilled by providing justifications and the causes of the situation ascertained by the audit. Therefore, finding and recommendation remains.
Issue 3 Evident shortcomings in managing receivables		The collection has marked an evident increase from year 2016 until today. As result of increased collection, the company secured financial stability and settled all obligations concerning the credit, operators and any other obligations that have arisen. Positive collection results have ranked RWC Pristina in the second place of public enterprises in Kosovo in the reports of the Ministry of	In the statement of financial position of the Company, accounts receivable for 2017 were presented in the amount of €13,621,326 while for the year 2016 they were in the amount of €12,362,911 resulting in an increase in accounts

		Economic Development, marking a positive trend of business. For more, see attach additional report with relevant evidence.	receivable at €1,258,415 or around 9% more compared to the previous year. From figures of 2016 compared to those of 2017 there is a decrease and not increase. Therefore, finding and recommendation remains.
Issue 5 Failure to timely record timely and failure to conduct inventory for the Water Company in Shkabaj	No	Recording for the Plant in Shkabaj respectively for phase III of the investments are all done within the fiscal year 2017. Based on Law no. 03/L-162 on Corporate Income, the data processing, completion and reporting of financial statements at TAK has a legal deadline until 31.03 of the following year. We have considered the deadline. We have also provided relevant evidence attached.	For the new plant in Shkabaj, according to the fixed asset card G-001370 and G-001283, their purchase is on 31.12.2017 and the depreciation for them started on 01.07.2017. Therefore, finding and recommendation remains.
Issue 6 Low level of invoicing	No	This finding is a repeated finding no. 3 because the collection is directly linked to the accounts receivable. Our comments are with finding no. 3. Collection has marked a record increase from year 2016 until today. Result of Cash Flow, the Company secured financial stability and performed all its obligations for the credit, to the operator and any other obligations that have arisen. Positive cash outcomes have ranked RWC Prishtina in second place of public enterprises in Kosovo, marking a positive trend of business. For more, see attach additional report with relevant evidence.	Your conclusion is that year-on-year there is an increase in receipts. Even according to the evidence provided with the comments of the draft, RWC Pristina in 2016 had collected 12,406,085 €, while in 2017 it had collected 12,347,175 €. As a result, the receipts were for € 58,910 lower compared to the previous year and against the highest billing. Therefore, finding and recommendation remains.

Issue 11 Poor Contract Management	No	As far as part 4 of the Lotus project which is executed in cooperation with the Swiss office, this project is Component 1.2, Phase V RWSPP, where Drosch CDI is part of consultancy. This project foresaw the rehabilitation of existing rural systems and their transition to management by RWC in Kosovo. In this context, the installation of water meters should also be carried out, some of which has been followed by some problems. The water meter based on the memorandum signed with the RWC Prishtina and Drosch CDI, should supply the consulting company, but the consultancy has some problems with the procurement issue regarding the water supply project, which for several times cancelled the tender in question, with this there have been many delays in supply. All RWCs in Kosovo have the same delays when it comes to the installation of these water meters, only now that we are completing the installation of the major part, even though we have not supplied all water meters that we as a company have requested for execution of this project to the end. As far as the last point is concerned, this contract has been delayed until the consent of the institutions and other bodies such as the Municipality, KEDS, PTK, Termokos etc. Knowing that the project does not extend only in Prishtina, but also in other municipalities it took time until it was taken. Knowing the Climatic Conditions for Land Work - Construction Contractor has filed a request on 02.12.2017, to the Project Manager for postponement of the Execution Time through E-mail and Construction Journal, whereby the Project Manager in consultation with the RWC Prishtina Management has approved the request for extensions of the deadline, as evidenced in the construction journal on 07.12.2017 (Attached find copies as evidence). As far as installing the offline module is concerned – Cash Box does not stand because the company that developed the module has been developing and installing the module, but such modules require	RWC Prishtina provides only clarifications and justifications for the status ascertained by the audit. Therefore, finding and recommendation remains.

		more time for testing than development. We are still in the testing phase and the system we use until all the tests for each code error are done. The system is under test and this can be proved. As far as the Human Resources and Procurement Module is concerned, the system is OK, the modules are fully delivered and are functional and both these modules were installed in 2013. While the lack of professional staff has affected in inserting notes, checked and filtered, it shows that the records are enters around 20%. This delay was made with the purpose of processing accurate data of our employees because there was a change in personal data.	
Issue 12 Failure to Confiscate Performance Security for Terminated Contract	No	The Procurement Department, at the request of the respective contract managers and with prior approval of the Chief Executive Officer, has terminated the concerning Contracts, where the reasons were the non-execution of contracts under their terms. On the Health Insurance Contract, with EO Sigal, AK KRUP J.S.C, respectively Dept. The Financial Officer (after the request from the Procurement Department) made an effort by asking Elsig for its confiscation, but without success, then asked the Central Bank to assists on this issue, but the CBK had no readiness to do so. One thing can be ascertained, the Procurement Department and the Finance Department have fulfilled their obligations. The CBK's reasoning is attached. Attached you also have a response from our Legal Office regarding this issue.	RWC Prishtina provides only clarifications and justifications for the situation ascertained by the audit. Therefore, finding and recommendation remains.
Issue 13 Servicing IVECO Vehicle without Procurement Procedures	No	In this finding we notify you that the Iveco Cistern Truck with 01-182-HK Truck was serviced with CEO approval after tender initiation in the Procurement Department failed, which was initiated through procurement procedures with special Lot given the specifics that the vehicle has in carrying out works and operations on the ground. As a result of the great need for this vehicle to perform special services within the maintenance of the underground services we have been obliged to use accelerated procedure to carry out vehicle servicing	The request for servicing IVECO vehicle was made on 03.10.2017 and on 04.10.2017 was invoiced for servicing the same vehicle, which means that the service of this vehicle was carried out earlier. Therefore, no type of procurement nor emergency nor regular procurement was conducted for this

		servicing, which is fully in compliance with the rights and competences CEO of Small Company has concerning procedures up to € 1,000. This service or payment is in compliance with the procurement law and internal regulations in the company. Attached you have the relevant evidence for carrying out this activity that justify the action. Contract Notice, published for 7 Lot/ Lot of Vehicles; Contract Notice for Parts 1, 2 and 6, together with the notice/cancellation notice for lots 3, 4, 5 and 7. Lot 5 was for trucks and cisterns including Iveco. This is also allowed with the Public Procurement Guideline, article 50 where it is mentioned: 50. Emergency Procurement 50.1 Emergency cases are divided into two types of emergencies: a) Extreme emergency; and b) Emergency. ...... "Emergency basis" means that circumstances require procurement development on a more accelerated basis than even the accelerated time limits defined in article 46 of the LPP. .... "attached is the evidence for Emergency Procurements.	service. This is also confirmed by the e-mail that the procurement manager directs to the director of the administration, on 04.10.2017, "We inform you that as the service is done we will not proceed further with this procurement activity". Therefore, finding and recommendation remains..
Issue 17 Insufficient implementation of recommendation s given by the internal audit	No	IAU Recommendations have been considered on continuous basis and we have put utmost efforts in this matter starting with drafting of a plan as well as the fulfilment of this implementation plan for recommendation. All of the recommendations have not been addressed, but it is certain that most of them are carefully handled and implemented, and some of them are in process. (Refer to the evidence attached to Issue 18)	RWC Pristina only gives some clarification that has made efforts to improve control and increase accountability. Therefore, finding and recommendation remains.
Issue 18 Weaknesses in Management Controls and	No	This issue raised is very relative and general where it does not exactly specify timely and on-site limitations. Continuously RWC Prishtina has made efforts to improve and increase the level of internal control and accountability as in recent investments in advanced technology	RWC Pristina only gives some clarification that has made efforts to improve control and increase accountability.

Risk Management		but also through other forms of reporting in order to increase accountability where the work of RWC Prishtina staff is monitored continuously. One of the measures taken can be seen through the change of reporting due to increased accountability in the chain of hierarchical functioning. Then, another indicator of increased internal control is the reduction of cash purchases from €31,754 for 2016 to €9,428 for 2017. You have proof of the IAU report for 2017. Regarding accountability, efforts and measures have been undertaken by the Chief Executive Officer who has drastically raised the issue of accountability through strategic interventions at this point. As evidence see one of the e-mails on the demand for increased accountability at the hierarchical level.	Therefore, finding and recommendation remains.