



Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

# AUDITOR GENERAL'S REPORT ON THE GOVERNMENT'S ANNUAL FINANCIAL REPORT ON THE BUDGET OF THE REPUBLIC OF KOSOVO

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August 2021



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Prishtina, August 2021

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## List of abbreviations

<b>AC</b>	Audit Committee	<b>AFR/BRK</b>	Annual Financial Report of the Budget of the Republic of Kosovo
<b>AG</b>	Auditor General	<b>MESP</b>	Ministry of Environment and Spatial Planning
<b>BRK</b>	Budget of the Republic of Kosovo	<b>CHU/IA</b>	Central Harmonization Unit for Internal Audit
<b>CBK</b>	Central Bank of Kosovo	<b>IAU</b>	Internal Audit Unit
<b>CK</b>	Customs of Kosovo	<b>POE</b>	Publicly Owned Enterprises
<b>COPF</b>	Committee for Oversight of Public Finance	<b>KFMIS</b>	Kosovo Financial Management and Information System
<b>DDG</b>	Donors Designated Grants	<b>PRB</b>	Procurement Review Body
<b>EU</b>	European union	<b>MPA</b>	Ministry of Public Administration
<b>FMC</b>	Financial Management and Control	<b>MED</b>	Ministry of Economic Development
<b>GDP</b>	Gross Domestic Product	<b>HUCSK</b>	Hospital and University Clinic Services of Kosovo
<b>IFI</b>	International Financial Institutions	<b>AFS</b>	Annual Financial Statements
<b>IMF</b>	International Monetary Fund	<b>GFS</b>	IMF Government Finance Statistics
<b>KOSTT</b>	Transmission, System, and Market Operator of Kosovo	<b>ISSAI</b>	International Standards of Supreme Audit Institutions
<b>LCS</b>	Law on Civil Service	<b>IPSAS</b>	International Public Sector Accounting Standards
<b>LPFMA</b>	Law no. 03/L-048 on Public Finance Management and Accountability	<b>MF</b>	Ministry of Finance <sup>1</sup>
<b>LPP</b>	Law on Public Procurement	<b>AAR</b>	Annual Audit Report
<b>PAK</b>	Privatization Agency of Kosovo	<b>BO</b>	Budget Organization

<sup>1</sup> From 2021 this Ministry operates as the Ministry of Finance, Labour and Transfers (MFPT)

<b>PIFC</b>	Public Internal Financial Control	<b>MLGA</b>	Ministry of Local Government and Administration
<b>PPRC</b>	Public Procurement Regulatory Commission	<b>NAO</b>	National Audit Office
<b>SAD</b>	Single Administrative Document	<b>PFMA</b>	Public Finance Management and Accountability
<b>TAK</b>	Tax Administration of Kosovo	<b>MLGA</b>	Ministry of Local Government and Administration
<b>TSA</b>	Treasury Single Account	<b>NAO</b>	National Audit Office
<b>WB</b>	World Bank	<b>PFMA</b>	Public Finance Management and Accountability

## Word of the Auditor General



*Honoured Members of the Parliament,*

*I have the pleasure to submit the Annual Audit Report on Annual Financial Statements of the Budget of the Republic of Kosovo for year 2020. In my first formal address to you, in the capacity of the Auditor General of the Republic of Kosovo, allow me to first express my consideration for the trust you have put in me to lead such an important institution of our country. I commit myself to translate this trust of yours into accountability in and dedication to fulfilling my statutory and constitutional mandate.*

*During 2020/21, we have carried out 127 audits which include the annual financial report of the budget of the Republic of Kosovo of around €2.5 billion; 90 budget organisations; 12 publicly owned enterprises from various sectors; 11 performance audits; and 13 projects funded by World Bank and SIDA.*

*During this audit season, we also focused on assessing the effectiveness of internal control systems, compliance of entities' decisions with the legal framework, quality of financial reporting, and value for money related issues. In addition to recurring issues regarding budget planning, our audits have resulted in a number of findings in other areas, of which I would highlight the need to improve the way assets, public debt, outstanding liabilities, accounts receivable, etc. are managed in the first place.*

*The National Audit Office has carried out the information technology audit in Treasury, as part of the state budget audit, in order to assess whether this institution has established a safe environment so that the Kosovo Financial Management Information System could preserve its integrity, confidentiality and availability. Audit outcomes have shown that despite improvements made to this system, information security mechanisms still need to be strengthened in order for information systems to be more protected.*

*Unsatisfactory level of implementation of recommendations remains a matter of concern. Although NAO's coordinated efforts with the Assembly's standing committees to increase accountability of the heads of auditees have shown slightly positive signs (percentage of implemented recommendations has increased from 40 to 45%), further improvement in this area requires greater commitment from decision-makers.*

*Ultimately, allow me to extend my gratitude to the Assembly of the Republic of Kosovo and its standing committees for the support and honest cooperation during this audit season. I would also like to express my acknowledgment to all the auditees for the cooperative approach during the audit process.*

*A special thank you goes to the staff of NAO, who, in challenging circumstances of the pandemic, have given their best to successfully conclude this audit season, during which, the audit management electronic system was implemented for the first time as well as financial and compliance audits methodology was updated.*

*Auditor General  
Vlora Spanca*

*Prishtina, August 2021*



# INTRODUCTION

The Annual Audit Report (AAR) presents a summary of audit findings and conclusions, as well as recommendations given for fiscal year 2020 and gives the Audit Opinion (in accordance with ISSAI 200) for the Annual Financial Report of the Government of Kosovo for 2020. The report presents a summary of key matters on financial management and controls and enables the Assembly to initiate and implement the Government's financial accountability for the use of public resources.

This report's special area of review is the Annual Financial Report of the Government, but findings and conclusions from individual audit reports on budget organizations and other public authorities are also constituent part of this report. For the first time, this year's report includes the outcomes of information technology audit carried out in Kosovo Financial Management Information System. Thus, the report presents an expanded version and, in addition to financial and compliance audits, includes information on other types of audits performed during the audit season 2020/2021, such as performance, management, IT systems, projects, donors audits, etc.

The report contains three main parts:

- (a) the first part presents the outcomes of the audit of Government's Annual Financial Statements for 2020;
- (b) the second part presents important information on the reporting year, which is not directly related to and does not affect the Government's AFS; and
- (c) the third part presents information on COVID-19 management expenses as well as performance and publicly owned enterprises audits.

**The first part** contains ten main chapters that are an integral part of the BRK AFS: (1) Audit opinion; (2) Declaration on the allowed budget deficit ceiling; (3) Information security in KFMIS; (4) State Budget Analyses; (5) Analysis of Explanatory Notes; (6) Assets; (7) Accounts Receivable; (8) Outstanding and Contingent Liabilities; (9) Payments under section 39.2 of the LPFMA; and (10) Employment records.

**The second part** contains information on the following issues: (11) Implementation of prior years' recommendations; (12) Individual audit opinions; (13) Internal audit system; (14) Procurement; and (15) Applicability of laws and legal challenges;

**The third part** contains chapters: (16) Issues related to COVID-19 management expenses; (17) Performance audits; and (18) Publicly owned enterprises.

As well as three main parts, the report contains three Annexes regarding: (1) Progress in implementation of recommendations given in the 2019 AAR; (2) Explanation on types of opinions applied by NAO; and (3) Government's Financial Statements.

More detailed information on individual audit reports can be found on our website:

<https://www.zka-rks.org>

## EXECUTIVE SUMMARY

In accordance with the Annual Operations Plan, the National Audit Office has produced 127 reports during the 2020/21 audit season, of which: Report on Government's Financial Statements; 90 financial and compliance audits of budget organisations; 12 audits of publicly owned enterprises; 13 audits of World Bank's and other donors' projects; and 11 performance audits, including the Report on Government Financial Statements. The results of all these audits have been comprehensively summarised in this Report.

In Auditor General's opinion, except for the impact of matters described in the Basis for Qualified Opinion section of our report, Government's annual financial statements for 2020 give a true and fair view in all material respects.

*For more details, see Chapter 1.2*

The audits carried out in 2020 have identified a number of shortcomings and weaknesses in most of the budget organisations, which relate to poor management of budget funds and failure to achieve value for money. A systematic and more focused approach to solving and addressing the identified problems would be more than necessary, in order to pave the way for better management and better services for citizens. The main conclusions in the report highlight the need for increased attention of entities' senior executives on strengthening the measures and improving processes in the following identified areas:

- a. **Reporting Quality** - Annual Financial Report on the Budget of the Republic of Kosovo was prepared within the statutory deadlines. Treasury had submitted it on March 16<sup>th</sup> 2021 to the Government for approval, whilst the same was officially submitted to NAO on March 22<sup>nd</sup> 2021 for auditing. Following analytical reviews, NAO has identified shortcomings regarding presentation of data in the Report and the same were discussed with officers in the Ministry of Finance. Following the deliberations and corrections suggested by the audit team, certain parts of the Report, that of disclosures in particular, were completed with additional information. The Annual Financial Report was reapproved by the Government on April 13<sup>th</sup> 2021 and resubmitted to the Auditor General on April 14<sup>th</sup> 2021. As a result of some new corrections made, the Government reapproved the corrected AFR/BRK on July 28<sup>th</sup> 2021 and submitted a copy of it to the Auditor General on July 30<sup>th</sup> 2021, which was then considered as the basis for this report.

Notwithstanding the corrections made, the final Annual Financial Report on Budget of the Republic of Kosovo, contained some errors which have had an impact on the Audit Opinion. Identified issues relate to: overstatement of receipts in the final budget; transaction recorded as payment while there was no cash outflow; misclassifications in different categories; overstatement of capital assets above and below €1,000 and overstatement of stocks; understatement of outstanding and contingent liabilities; and understatement of accounts receivable.

In regard to capital assets above and below € 1,000, stocks, outstanding liabilities, contingent liabilities and receivables, the consolidation process in AFR/BRK has become accurate and complete. The above mentioned shortcomings have been identified by the audits of the annual financial statements of individual budget organizations

More details regarding the AFS preparation process and quality of information presented are provided in the chapters of this report.

b. **Budget Planning and Execution** – Variations between the initial and final budget are evidenced with an increase when it comes to both planning of receipts and payments. According to the initial Law on Budget, receipts were planned at around €2.5 billion or €21 million (1%) less than payments. Whilst, according to the final budget in KFMIS, payments were planned to be higher than receipts, by €205 million. Differences between initial and final budget projections are so noticeable because of the COVID-19 pandemic impact. The government had taken measures to review tax and non-tax revenues by reducing them, whilst the projections for financing from borrowing increased following budget review. Based on Government decisions, budgetary moves were made amongst various budget organisations, wherewith the budget was increased in certain economic categories and projects and reduced in some others. Various shortcomings have been identified in this year's budget outturn as well. Cutting of funds by the Government has resulted in a considerable amount of outstanding liabilities and unimplemented projects, which are carried forward to the following years. Another reason for the low level of budget execution was the inadequate process of planning, implementation, and monitoring of capital projects. We have identified BOs with low percentages of budget execution at the level of capital projects, while the same BOs at the end of the year reported high values for outstanding liabilities Receipts were at 83.5% of the final budget, a symbolic increase of 0.73% compared to the previous year's. Payments outturn for 2020 was at 82% of the final budget, and increase of 8.47% compared to the previous year's.

c. **Budget Deficit** - LPFMA, Article 22A.1, stipulates that no law on budget appropriations shall include an overall deficit exceeding 2% of the forecasted Gross Domestic Product (GDP). However, upon Government's request, the Assembly of the Republic of Kosovo has set a temporary increase of the deficit ceiling up to 6.5%, whilst usable bank balance ceiling has been temporarily reduced to 3% of GDP. According to MF estimates, the overall deficit under the reviewed budget, according to the temporary increase in the allowed ceiling, was €-451,199,000. Whilst, according to our audit, it happens to be €-493,199,000 (or 7.09%), an excess of €40,734,000 (or 0.59% of the allowed percentage). Our examinations have shown that an excess of the allowed budget deficit ceiling has been existed in the initial budget as well. According to MF estimates, the deficit was presented in the amount of €-146,761,000. Whilst according to our audit, it happens to be €-168,761,000 (or 2.26%). This indicates that the planned deficit in the initial budget exceeded the percentage allowed in the fiscal rule by 0.26%.

d. **KFMIS** - The audit results have shown that Treasury, having identified shortcomings in control levels of the Kosovo Financial Management Information System, has taken a number of actions to strengthen the security of this system. However, information security mechanisms need to be further strengthened in order for information systems to be more protected. In addition, controls over validity of data in KFMIS should be strengthened so that this system would accept the data as stipulated by the rules and output data would be accurate and complete.

e. **Misclassification of expenses** - this continues to be the most problematic are when it comes to reporting. This year as well, high amounts of misclassifications of expenses in different economic categories have been identified, amounting to €17,808,180. The vast majority of these misclassifications occur for three reasons: **first**, errors made while planning through budget process (€9,222,677); **second**, execution of mandatory payments (court and enforcement decisions, direct payments as authorised in LPFMA, article 39.2, by Treasury, from inadequate categories, and mainly due to lack of budget funds in the respective category (€7,626,198)); and **third**, BOs make payments from inadequate categories during the year out of various reasons (€959,305). The category most affected by misclassifications was Capital Investments, from which wages, salaries, goods, services, subsidies, and transfers were paid in the amount of €9,122,056. Following many recommendations given in previous audits, this situation has started to improve, but has not been fully resolved yet. This situation is continuing because during budget reviews in the Assembly, budget changes

are intervened to through various amendments wherein appropriations are not considered under adequate categories thus leading to legitimisation of misclassifications in the budget law and to budget organisations erroneously processing them during the year. Payments from the category of capital investments to other categories leads to failure to implement capital projects as planned, consequently to delays in putting them to operation.

f. **Public Debt** - in addition to regular revenues, Kosovo Budget is also funded by domestic and external borrowing which at the end of 2020 amounted to €1,487.7 million, without calculating €31.6 million of state guarantees. Of the total debts, €525.8 million are external debts and €961.9 are domestic ones. By the end of 2020, the level of public debt was 21.83% of Gross Domestic Product (€6,961 million). The overall debt increased during 2020 (including guarantees) was €275.6 million. This increase was as a result of the loan taken for financing and managing the COVID-19 pandemic, given that demands were higher than the available resources. The total budget for 2020 for financing capital projects from borrowing was €153,1 million, of which €37,1 or 24.2% was spent.

The main problem behind these debts is inefficient spending of funds from external borrowing. This was because budget organisations have been facing: problems with expropriations in infrastructure projects, budget allocations not in line with project dynamics, uncertainties with procurement procedures, consolidation of projects implementation units have faced difficulties in recruiting and retaining staff, budgeting for some projects the loans for which had not been ratified by the Assembly, and the effects of the COVID-19 pandemic. In some projects the pandemic situation has led to interruption of works, whilst in other cases it has caused administrative delays.

g. **Outstanding and contingent liabilities** - Outstanding liabilities of budget organisations towards suppliers and other economic operators at the end of 2020 were around €363 million (€329 million of central level and €34 million of local level).

In addition to these financial liabilities, there are also some contingent liabilities resulting from lawsuits filed against budget organisations and are expected to receive judicial epilogue in the future. The amount of these contingent liabilities is around €217 million (€126 million of central level and €91 million of local level), an increase of 10.25% compared to the previous year, showing a deterioration of this category.

h. **Accounts receivable** – citizens and businesses amount of debts towards the Government is around €692 million, or €57 million higher than the previous year's. The vast majority of these uncollected debts (€478 million at central level and €214 million at local level) relate to TAK and Kosovo Customs, at an aggregate amount to €408 million or about 59% of the total amount.

The impact of these two accounts (payable and receivable) on budget planning is of critical importance for both revenues and budget spending which have an ultimate impact on macrofiscal sustainability. The government should develop a special strategy on how to approach the collection of debts and payment of liabilities, in order to prevent budget imbalances in the future years.

i. **Assets** - asset registration in government accounting still remains an unfinished process. According to officers, the main reason behind this is resolved ownership issues. Total of net assets by the yearend was around €9 billion. As a result of new registrations during the year, the balance of capital assets (with the value over €1.000) has increased by €94 million compared to the previous year. Assets with the value under €1,000 have increased by €4 million compared to last year.

Another problem identified in a large number of budget organisations is stocktaking of assets and stocks at the end of the year. Stocktaking commissions are established in delays, as a result, either stocktaking reports are produced in delays or reconciliations are not made between records and accounting balances at all. The lack of stocktaking at the yearend prevents a complete overview on the existence of assets and leads to mismanagement, misuse or even theft of assets. Failure to give a true presentation of asset values has affected the Audit Opinion in the Annual Audit Report and some opinions in individual budget organizations' reports.

j. **Liquidity of Budget Organisations** – Lack of financial discipline often leads BOs to become subject to court proceedings or execution of direct payments from Treasury in addition to having numerous outstanding liabilities. During 2020, Treasury has executed payments of around €30 million based on court and execution decisions, or over €4 million more than last year. Direct payments made as authorised by Article 39.2 of LPFMA have significantly decreased this year compared to last year. During the year, €190,698 were paid, whilst in the previous year these payments were in the amount of over €1.5 million. The main reasons behind these payments were: non remuneration of employees with jubilee wages, expropriation complaints, delays in payment of invoices, etc.

k. **Publicly Owned Enterprises** - audit results have revealed that financial reporting of 12 audited enterprises is incomplete and inaccurate. As a result, 10 out of 12 audited enterprises have been given a modified opinion and two of them have been given an unmodified opinion. The same shortcomings as in previous years have been found in publicly enterprises this year as well. The most common shortcomings relate to corporate governance (including inadequate segregation of duties), ineffectiveness of internal audit, errors in the AFS (overstatement/understatement), etc. All these indicate the need for reforms and restructuring in the audited publicly owned enterprises.

l. **Implementation of recommendations** - Although more than half of the recommendations given in the previous year's individual audit reports have been either fully or partly implemented, the level of unimplemented recommendations, or of those implementation of which has not started yet, remains high. While the lowest level of fully implemented recommendations remains for those in the Government's Annual Financial Report for 2019. Only 8 out of 43 have been fully implemented, whilst 20 were under implementation.

*Part one:*

*Annual  
Financial  
Statements*



# 1 AUDIT OF ANNUAL FINANCIAL REPORT 2020

The role of the Auditor General is to provide a basis for closing the accountability process between the Assembly and the Government for the execution of the state budget during the year. This is achieved by applying the principles of managerial accountability at all levels of government, including ministries, municipalities, independent institutions and publicly owned enterprises.

The Auditor General, based on his constitutional and legal mandate, once a year conducts the audit of the Government's Annual Financial Report for the execution of the budget and accompanying reports.

The audit of the Government Annual Financial Statements 2020 is based on the following documents:

- Constitution of the Republic of Kosovo (Articles 137 and 138);
- Law no. 05/L-055 on the Auditor General and the National Audit Office of the Republic of Kosovo (Article 19);
- Law no. 03/L-048 on Public Financial Management and Accountability, amended and supplemented (Articles 47 and 48);
- Annual Audit Plan for the audit season 2020/2021;
- Financial and Compliance Audit Manual;
- Quality Control Manual;
- MF Regulation. No. 01/2017 on Annual Financial Reporting by Budget Organizations; and
- INTOSAI Framework for Professional Pronouncements, namely, International Standards on Supreme Audit Institutions (ISSAIs).

The audit has been planned and conducted based on the International Standards of Supreme Audit Institutions, in order to obtain reasonable assurance that the financial statements are free from financial misstatements and that government activities, financial transactions and the information presented are in accordance with the law, regulations and other acts. Risks, control environment, and internal controls have been identified and assessed at the preparatory stage. At the planning stage of the audit, the materiality level of 1% of the total amount of budget spending is determined, namely the extent to which errors in presentation of AFS data are tolerated, and are not considered to have a significant impact on the credibility of the statements.

Kosovo's accounting system and budget reporting is based on cash or on a modified cash basis, where all revenues and expenses are processed through the Treasury Single Account and recorded in the Kosovo Financial Management Information System (KFMS). In spite of this, budget organizations are also required to maintain separate accounting records and under the Regulation MF no. 01/2017 they are required to prepare their financial statements based on these records and report to the Ministry of Finance.

The Annual Audit Report is submitted to the Government and the Assembly. Whereas, the results of individual audits are sent to the Assembly of Kosovo, municipal assemblies, boards of directors and managements of the auditees.

Our analytical reviews have shown that none of 90<sup>2</sup> budget organizations had discrepancies with the requirements of Regulation No. 01/2017 on Annual Financial Reporting, in terms of format, structure, and reporting deadlines.

All BOs have submitted the financial statements within the statutory deadline of 31 January 2020. However, until the drafting of the Government Consolidated Financial Statements (March 31, 2020), 80 BOs have made corrections in their statements, whilst 12 BOs did not require any adjustments. Yet, during the audit, we found unadjusted errors in a considerable number of budget organisations.

The unadjusted errors were most frequently presented in individual reports relate to:

- Differences between the notes presented in KFMS and the Annual Financial Statements;
- Misclassification of expenses, or expenses not recorded under respective economic categories; and
- Incomplete presentation of assets in the Annual Financial Statements.

The issues raised above will be examined in detail in the following chapters of the report.

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2 This number does not include the National Audit Office and the Kosovo Intelligence Agency.

## 1.1 Audit Scope and Methodology

The Ministry of Finance, on behalf of the Government, is responsible for the preparation and fair presentation of the Annual Financial Statements in accordance with International Public Sector Accounting Standards (IPSAS) - financial reporting under the cash basis of accounting - as well as for the application of internal controls to enable the preparation of financial statements that are free of material misstatement caused by errors and fraud.

Treasury's Director General has, according to the format required by the Law on Public Finance Management and Accountability (LPFMA as amended and supplemented) and in accordance with IPSAS, submitted the Annual Financial Statements for 2021 to the Government for approval. On 2 April 2021, these were approved by the Government, and on 14 April 2021 a copy was submitted to the Auditor General. On 28 July 2021, the Government re-approved the revised AFS/BRK and submitted a copy to the Auditor General on 30 July 2021.

The National Audit Office (NAO) is responsible for carrying out regularity audits (financial and compliance) which include examination and evaluation of the Government's AFS. The audit was focused on three key statements and explanatory notes/disclosures:

- Statement of cash receipts and payments;
- Consolidated statement of budget comparison with execution;
- Consolidated statement of cash assets and funds balances; and
- Completeness and quality of information in the explanatory notes/disclosures of financial statements.

The audit objective was to provide reasonable assurance:

- Whether these financial statements give a true and fair view of the financial situation for the reporting period in all material respects;
- Whether the financial statements give a true and fair view of the financial accounts and transactions for the reporting period;
- On the effectiveness of internal controls applied during the preparation of the financial statements; and
- Whether the Government has taken appropriate measures to implement the audit recommendations for the previous year and earlier years.

The 2020 AFS/BRK examination has been taken in accordance with International Public Sector Auditing Standards (ISSAIs) and the NAO internal guidelines. Our

approach is based on a thorough understanding of the process through which the AFS have been produced. This understanding relates to the development of an audit strategy, which focuses on addressing the specific risks for an unmodified opinion, while providing an acceptable level of assurance for the statements obtained as a whole.

The approach taken also reflects the evaluation of the results from the audits of BOs consolidated in the AFS. It is worth mentioning that some of the items in the consolidated statements are taken from individual statements, such as: assets, liabilities, accounts receivable, public debts, and then are consolidated. Our procedures included an analytical review of the statements, assessment of the statements preparation process, verification of the value of the accounts in the general ledger and compliance with the values presented in the financial statements, assessment of the effect of unadjusted misstatements if the balance sheets are materially correct and where errors have been identified, adjustments have been made to the financial statements, confirmation that all audit assertions have been adequately addressed, review of internal management controls, accounting systems and a significant number of tests and procedures, which are considered necessary for the effective conduct of the audit.

The following sections of the Report provide a more detailed summary of the audit findings as a result of observations in each area of review. Audit findings should not be considered as a comprehensive overview of all the errors and weaknesses that may exist, or of any improvements that may be made to the government systems and procedures which have characterized 2020, but certainly provide an acceptable level of assurance.

## 1.2 Audit Opinion

NAO audited the AFR/BRK for the year ended 31 December 2020, which includes the Statement of cash receipts and payments, the Consolidated statement of comparison of budget with execution, the Consolidated statement of cash assets and funds balances as well as explanatory notes/ disclosures of financial statements.

In our opinion, except for the effects of the issues described in the Basis for Qualified Opinion paragraph, the Annual Financial Report of the Budget of the Republic of Kosovo gives a true and fair view in all material aspects for the year ended 31 December 2020, in accordance with International Public Sector Accounting Standards (according to cash based accounting) and Law no. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented).

### *Basis for Qualified Opinion*

During examinations of AFR/BRK, we found the following issues:

- In the Consolidated statement of budget comparison with execution, in the cash inflow under the final budget, we found that carried-forward own source revenues of €42,000,000 were included in the item of other revenues in the amount of €244,609,000. That value was part of Table 1, Fiscal forecasts of revenues and expenditures in the budget law, under part C - internal financing as receipts - which included own source revenues carried forward by municipalities. As a result, this amount had overstated the total of receipts presented in the final budget. Whereas, according to the initial law on budget, these carried-forward own source revenues were overstated in the amount of €22,000,000;
- During 2020 we have identified that expenses in the amount of €17,808,180 were classified under inadequate economic categories. This happened because expenses were planned and classified into inadequate economic categories ever since the approval of Annual Budget 2020, which then, were spent and recorded under the inadequate economic codes over the year. In addition, misclassifications were made through other payments based on court decisions for remuneration of jubilee salaries, farewell salaries, meals, and other costs of court proceedings, thus understating the category of Wages and Salaries;
- The total payments €2,334,943,000 presented in AFR/BRK include one payment of €270,000, for which there was no outflow of funds. The Ministry of Education, Science, Technology, and Innovation had certified the said payment for the Fulbright Program scholarships and this transaction was recorded in KFMIS as an executed payment. But, while testing the payment we confirmed that there was no cash outflow for this payment;
- In the statement of disclosures, Annex 7 of AFR/BRK for 2020, capital assets over €1,000, were presented in the amount of €9,041,518,666, whilst according to our audits it happened to be €8,943,588,684, an overstatement

of €97,929,982. This difference remains following deduction of balances, because some organisations have more assets than they have presented in the statements and others have presented incomplete data on assets balance;

- In the statement of disclosures, Annex 8 in AFR/BRK for 2020, assets under €1,000 were in the amount of €46,778,503, whilst according to individual audits, the value of assets is €44,927,697, an overstatement of €1,850,806;
- In the statement of disclosures, Annex 9 of AFR/BRK for 2020, stocks were presented in the amount of €33,529,602, whilst according to individual audits it is €33,364,454, an overstatement of €165,148;
- In the statement of disclosures, Annex 12 of AFR/BRK for 2020, country-wise outstanding liabilities were presented in the amount of €361,418,958, whilst according to our audit, the value of outstanding liabilities was €362,982,078, an understatement of €1,563,120;
- In the statement of disclosures, Annex 13 of AFR/BRK for 2020, the balance of contingent liabilities were presented in the amount of €211,972,679, whilst according to our audit, the value of these liabilities was €217,358,083, an understatement of €5,385,4040; and
- In the statement of disclosures, Annex 10 of AFR/BRK for 2020, accounts receivable were presented in the amount of €693,332,925, whilst according to our audit, the value of these accounts was €692,228,120, an overstatement of €1,104,805.
- A more detailed description of issues mentioned in the Basis of Opinion is found in respective chapters of this report.

We conducted the audit in accordance with International Standards on Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are described in the “Auditor Responsibilities for Auditing Financial Statements” section. We believe that the evidence obtained during the audit is sufficient and appropriate to provide a basis for opinion.

### *Emphasis of Matter*

Due to the importance of this issue, we would like to draw your attention to the fact that the amount of €2,077,960 was withdrawn from the accounts of capital projects of the Ministry of Infrastructure through four payments made to the account of an EO on 09.10.2020. According to statement of disclosure no.11 in AFR of BRK, this spending was neither allowed nor authorised and the case is under legal proceedings. Information regarding this case is disclosed in the AFR/BRK and in the AFR of the Ministry of Infrastructure. By the end of our audit this amount was not returned to the Budget of the Republic of Kosovo.

## *Recommendations on Financial Statements*

### *Recommendations to the Assembly of Kosovo*

The Assembly should strengthen oversight controls over the Government, before the Law on annual budget appropriations for the following year is adopted, in order to ensure that all expenses are planned under adequate economic categories, as required by the financial reporting requirements.

### *Recommendations to the Ministry of Finance, Labour, and Transfers*

- The Ministry of Finance should ensure that requirements for true and fair reporting in disclosures statements are fulfilled;
- Continue strengthening budgetary controls, in order to prevent budget misclassifications from occurring; and
- Treasury should ask from the municipalities to send the cash flow plan for carried-forward own source revenues as well, in order to enable a balanced budget funding, always respecting the municipalities' right to allocate these funds on certain projects and time.

## 2 DECLARATION ON THE ALLOWED BUDGET DEFICIT CEILING

According to Law no.04/L-194 amending and supplementing the Law on Public Finance Management and Accountability (LPFMA), Article 46, the Minister shall submit to the Government the final report on budget, revenues, and expenses, which provides comparative data over the years regarding adherence to the deficit ceiling, including: the causes behind deviations and funding of deficits if any, or the causes of budget surpluses and investment of these surpluses if any.

Financing of budget deficits according to fiscal rules is made from borrowing funds, one-off revenues of PAK, and the unused bank balance from previous years. The government has complied with the above requirements and planned to borrow €596,200,000 for the same purposes. This amount was planned to cover payments/expenses which were higher than receipts/revenues. The aggregate amount of the deficit under to the fiscal rule at the end of the year was €364,111,000 or about 5.3% of the current GDP.

When it comes to disclosure of data in the 2020 budget deficit table, while calculating it, we have identified discrepancies in the presentation of planned revenues or expenses, which are presented in a cumulative form as follows:

*Table 1 - Differences in budget deficit estimates*

*(in € '000)*

Budgetary items	Deficit according to initial budget - AFR	Estimated deficit according to audit	Law on budget following revision	Estimated deficit according to audit	Outturn in AFR	Outturn according to audit
Budget revenues	2,020,394	2,020,394	1,788,494	1,788,494	1,722,214	1,722,214
Budget expenses	2,357,000	2,357,000	2,620,203	2,620,203	2,234,942	2,234,942
Expenses exempted under the fiscal rule	189,845	167,845	380,510	338,510	148,617	148,617
Overall deficit under the fiscal rule	-146,761	-168,761	-451,199	-493,199	-364,111	-364,111
Deficit as % of GDP	-1.97%	-2.26%	-6.48%	-7.09%	-5.30%	-5.30%

As shown in the table above, the total deficit under the initial budget estimated by the Ministry of Finance, Labour, and Transfers was €-146,761,000, whilst according to our calculations it should be €-168,761,000, a difference of €22,000,000 higher than the estimate. Whereas the deficit estimated in accordance with the revised Law on Budget was €-451,199,000, according to the Ministry of Finance, whilst according to our calculations it should be €-493,199,000, with a difference of €42,000,000 higher than the estimate (these two amounts belong to own source revenues carried forward from previous years). Given it is recorded as planning in the Budget Law, it should have also been recorded during the estimation of the budget deficit as such. This was due to the fact that that value was part of Table 1. Fiscal forecasts of revenues and expenditures in the budget law, under part C - internal financing as receipts, which included own source revenues carried forward by municipalities.

**Table 2 - Budget deficit estimates for year 2020**

*(in € '000)*

No.	Revenues/Budget expenses	Original Law on Budget	Revised Law on Budget	Outturn AFR
1.	Receipts/Total of budget revenues (1.1-1.6)	2,020,394	1,788,494	1,722,214
1.1	Tax revenues	1,832,917	1,604,802	1,539,982
1.1a	Direct taxes	311,917	282,000	267,247
1.1b	Indirect taxes	1,521,000	1,322,802	1,272,735
1.2	Returns	-49,510	-39,631	-32,999
1.3	Non-tax revenues	226,487	188,913	181,201
1.4	Grants for budgetary support	10,500	34,410	34,030
2.	Total payments/expenses (2.1-2.6)	2,357,000	2,620,203	2,234,942
2.1	Salaries expenses	619,000	634,263	660,768
2.2	Goods, services, and utilities expenses	357,000	328,805	299,162
2.3	Subsidies expenses	633,000	863,135	867,794
2.4	Capital investments expenses	672,000	730,000	379,713
2.5	Reserves	44,000	34,000	0
2.6	Payment of interest	32,000	30,000	27,505
3.	Overall deficit	(336,606)	(831,709)	(512,728)
4.	Expenses exempted under the fiscal rule (4.1-4.4)	189,845	380,510	148,617
4.1	Payments from own source revenues	22,000	42,000	30,101
4.2	PAK expenses	6,000	6,000	
4.3	Investments clause	76,845	147,510	47,065
4.4	One-off revenue from PAK	85,000	185,000	71,451
5.	Overall deficit under the fiscal rule	(146,761)	(451,199)	(364,111)
6.	GDP			6,820,683
7.	Deficit as % of GDP (definition under the fiscal rule)	1.97%	6.48%	-5.30%

LPFMA, Article 22A.1, stipulates that no law on budget appropriations shall include an overall deficit exceeding 2% of the forecasted GDP, which in this case is €7,464,000,000 according to the initial budget.

Pursuant to the same law, Article 22.A.3, with a view to maintaining a total debt significantly below the debt ceiling laid down in Law on Public Debt, every fifth fiscal year, the Assembly shall review and if needed it may adjust:

- (a) the deficit ceiling consistent with the debt ceiling and the medium-term GDP growth forecasted in the most recent MTEF, and
- (b) the enforcement procedures and key parameters underlying the deficit ceiling.

According to Government's decision no.03/02 dated 05.06.2020, section 1, the Assembly of the Republic of Kosovo is required to change and temporary exceed the fiscal rule of the deficit and usable bank balance ceiling, as stipulated in Article 22B of LPFMA no.03/048 amended and supplemented by Law no.03/L-221; Law no.04/L-116 amended and supplemented by Law no.04/L-194, by Law no.05/L-063 and by Law no.05 / L-007.

This Decision, section 2, defines a temporary increase of the deficit ceiling to 6.5%, whilst the usable bank balance ceiling has been temporarily reduced to 3% of GDP.

### *Reasons behind fluctuation of budget deficit and bank balance norms, according to the Government*

Given that some macro-fiscal parameters presented in Table no.1 of Law no.07/L-001 on Budget Appropriations for 2020 have been affected by the global Covid-19 pandemic situation, it has been deemed necessary to temporarily change some of the fiscal rules set out in the Law no.03/L-048 on Public Financial Management and Accountability (supplemented and amended), namely Article 22B on temporary Increasing the Deficit Ceiling.

To cover the increase in deficit as proposed, MF has identified additional sources for financing the deficit which has been planned to be financed from internal and external sources of financing, through securities, international loans and one-off revenues of PAK.

According to Article 22A.4 of the same Law, the deficit ceiling may be adjusted earlier if such adjustment shall aim to stabilize the forecasted total debt level significantly below the debt ceiling in the following cases:

- LPFMA no.03/L-048 (amended and supplemented) includes a compliance assessment for the budget deficit ceiling which should not exceed 2% of the GDP<sup>3</sup>. According to Law no.07/L-001 on Budget Appropriations for year 2020, the estimated GDP was €7,464,000,000. According to revised Law no.07/L-014 the estimated GDP was €6,961,000,000, whilst the current GDP by the yearend turned out to be €6,820,683,000.
- Law no.05/L-063 amending and supplementing LPFMA no.03/L-048, Article 7, stipulates that for the purposes of compliance with the deficit ceiling, expenditures for capital projects financed from the investment clause shall not be taken into account (from international financial institutions, the European Union or its institutions, foreign governments or their development agencies). Thus, the total of expenditures exempted from the fiscal rule is required to include all expenditures from the investment clause and carried-forward revenues, expenditures from PAK designated revenues, PAK one-off expenditures, return of Government loans issued earlier, and payments from donors designated grants.

We carried out an assessment of processes in MF aimed at ensuring that requirements from respective laws regarding budget deficit ceiling and the current ceiling by the end of 2020 are fulfilled. The Law on Budget for year 2020 adopted by the Assembly of the Republic of Kosovo has been approved consisting of a budget deficit of -1.97% of GDP. Meanwhile, the revised Law no.07/L-014 amending and supplementing Law no.07/L-001 on Budget appropriations for BRK has been approved consisting of a budget deficit of -6.48%, whilst the current deficit by the year end was -5.30%.

We have analysed the amounts presented in Table 1 – fiscal estimates for 2020-2022 – of the Law no.07/L-001 on Budget appropriations for BRK of 2020, the amounts presented in Table 1 – fiscal estimates 2020-2022 – of the Law no.07/L-014, and the Annex 1 of Annual Financial Report of BRK, table of budget deficit for 2020.

In Table 1 – fiscal estimates for 2020-2022 – of the Law no.07/L-001 on Budget appropriations for BRK of 2020 and in Annex 1 of Annual Financial Report of BRK, table of budget deficit for 2020, expenditures exempted from the fiscal rule were presented in the a total amount of €189,845,000. To our estimates, these expenditures

<sup>3</sup> According to Law no.07/L-001 on budget appropriations for the BRK, Table 1, fiscal estimates 2020-2022, additional notes, the estimated GDP was €7,464,000,000. According to revised Law no.07/L-014 amending and supplementing Law no.01/L-014 on budget appropriations for year 2020, the planned GDP was €6,961,000,000, whilst the current GDP according to KAS records was €6,820,683,000.

should have been calculated to a total of €167,845,000. Carried-forward revenues of central and local levels, amounting to €22,000,000, should have not been included in the amount of expenditures exempted from the fiscal rule.

The total deficit calculated by MF according to the fiscal rule, based on initial budget, was €146,761,000. Based on our audit, it turns out to be €-168,761,000. This shows that the deficit planned with the initial budget exceeded the percentage allowed in the fiscal rule by 0.26%.

These expenditures did not include expenditures from PAK one-off revenues in the amount of €85,000,000, expenditures financed from the investments clause in the amount of €76,845,000, expenditures from carried-forward revenues in the amount of €22,000,000 (which instead should have been included given that they were calculated in the budget tables) and expenditures from PAK designated receipts in the amount of €6,000,000.

In the table on fiscal estimates for 2020-2022 of the Law no.07/L-014 and in Annex 1 of AFR/BRK under the budget deficit, expenditures exempted from the fiscal rule were presented in the a total amount of €380,510,000. To our estimates, these expenditures should have been calculated to a total of €338,510,000. Thus, carried-forward revenues of local level, amounting to €42,000,000, should have not been included in the planned amount of the exempted expenditures.

According to MF estimates, the total deficit based on the revised budget and according to the amended fiscal rule which defined a temporary increase in the allowed ceiling from 2% to 6.5 of the GDP, was €-451,199,000. Whilst, based on our audit, it turns out to be €-493,199,000 (or 7.09%), an excess of €40,734,000 (or 0.59% from the allowed percentage).

It is worth noting that during the preparation of the draft Law no.07/L-001 on Budget Appropriations for 2020 and budget Law no.07/L-014 amending and supplementing Law no.07/L-001, the Government did not make sure that the planned deficit was within the ceiling allowed by LPFMA and the Government Decision, approved by the Assembly of the Republic of Kosovo. Based on audit assessment, the Law on Budget Appropriations was sent to the Assembly for adoption without adhering to the allowed budget deficit ceiling.

### *Conclusion*

According to LPFMA, Article 46, the Minister shall submit to the Government the final report on budget, revenues, and expenses, which provides comparative data

over the years regarding adherence to the deficit ceiling, including: the causes behind deviations and funding of deficits if any, or the causes of budget surpluses and investment of these surpluses if any.

In its annual financial report for 2020, Treasury has disclosed the statement of budget deficit calculation according to the records presented in the statement of budget deficit. It is noticed that the Government did not adhere to the budget deficit ceiling under original Law on Budget, which was -1.97%, whilst according to our audit it should have been -2.26%. Consequently, with the revised Law on Budget it was -6.48%, whilst it should have been 7.09%. Whereas, according to the current outturn, the new deficit ceiling has been adhered to by -5.30%.

### *Recommendation to the Assembly of Kosovo*

The Assembly should ensure that the Government adheres to the budget deficit ceiling during preparation of the budget law.

## **3 INFORMATION SECURITY IN KFMIS.**

Treasury of Kosovo (Treasury) operates and manages the electronic system named Kosovo Financial Management Information System (KFMIS). This system reflects a detailed accounting plan for public finances in the Republic of Kosovo, which enables the codification of and control over all financial transactions. KFMIS is centralised for all public finance processes of the Government of Kosovo and is used by all budget organisations at all levels, both central and local.

Considering that this system plays a key role in public finance management, the National Audit Office has carried out the audit of information technology in Treasury, in order to assess whether this institution has established a safe environment so that the Kosovo Financial Management Information System could preserve its integrity, confidentiality and availability. This audit covers the 2020 period for the records made in the database and current configurations of security systems in general. This audit has not assessed the developments occurred before 2020.

By the end of 2020, Treasury has increased the levels of control over execution of transactions and has made several configurations in IT application and infrastructure which have led to increased security of KFMIS. Despite these configurations, the need to establish additional mechanisms that would enable the management of risks related to information security and to make additional configurations in KFMIS modules for meeting all regulatory requirements and increasing the performance efficiency for its users has been identified.

### **3.1 Information Security Controls**

Information security is one of the fundamental aspects of IT governance to ensure data availability, confidentiality and integrity. For better management of information security, the institution should establish mechanisms to enable the management of security-related risks, take appropriate measures and assurance that information is available, usable, complete and uncompromised.

Findings regarding the lack of information security controls are presented as follows.

### *The structure and organization of tasks and responsibilities in the Treasury is not in line with its regulations and procedures*

*The duties and responsibilities of IT Division should be harmonized and in compliance with the internal regulation for internal organization and systematization of jobs in Treasury.*

The Treasury has not harmonised the roles and responsibilities of the officials of the IT Division in Treasury and KFMIS Division in accordance with the duties and responsibilities defined by the regulation on internal organization:

- According to Regulation 06/2014, the IT Division should administer KFMIS. But, KFMIS is administered by KFMIS Management Division, which according to this regulation, is in charge of managing the system controls and the structure of functional classes in KFMIS. This happens because, with the KFMIS access management procedure, this task is assigned to KFMIS Management Division.
- According to Regulation 06/2014, the IT Division should administer KFMIS clients and the help desk, But the help desk of KFMIS operates under KFMIS Management Division. The tasks of this help desk are assigned according to KFMIS access management procedure.
- IT Division does not administer the database, but in the absence of the database administrator, the consultants from the contracted company do it although database administration is not part of the contract.

This is because the old regulation has not been revised to harmonize with the needs of the institution since 2014 and the lack of human resource capacity to perform tasks, as the regulation provides less staff for the IT Division.

As a result, duties and responsibilities have been given to officials in non-compliance with the regulation and a procedure has been established without harmonization with this regulation, as well as company consultants have been given duties and responsibilities without including the performance of those duties in the contract.

### *MF and Treasury have failed to establish the information security structure*

*The institution should ensure that information security and IT activities are coordinated by the appropriate structure of the organization, with relevant roles and responsibilities. The process of authorization by management for information systems should be defined and implemented, when business processes involve external parties, prior controls should be identified and implemented before access is allowed.<sup>4</sup>*

<sup>4</sup> ISO 27001: Controls and objectives: Information Security Policy & Information Security Organization; Regulation no.17/2017 on the internal organization and systematization of jobs in the Ministry of Finance, Labour and Transfers

The organizational structure of the Ministry of Finance and Treasury does not define the organization of information security, there is a lack of information security officer, standard information security policies and procedures.

This happened because the MF and the Treasury have the old regulations and failed to revise them. However, now in the process of drafting new regulations, security policies and procedures, these institutions have established a working group to draft new IT regulations, policies and procedures, which will also provide the security structure of information. Also, in 2019, a penetration test was performed only once, for protection against unauthorized intrusions, for systems located in the MF network.

Lack of information security staff and lack of information security structure in the organization chart of the Treasury and MFLT reduces the ability to protect IT resource and information included in IT systems.

### *There were shortcomings in organizing the internal security of the network in Treasury*

*Networks must be managed and controlled in order to protect against threats and maintain security for systems and applications that use the internal network, including information in transit, whether these are provided as internal or external services.<sup>5</sup> Network operation standards and protocols should be documented and made available and also, should be periodically reviewed to ensure compliance.<sup>6</sup>*

Treasury could not manage to implement the necessary configurations in all their end-user equipment for the implementation of internal network security implemented by the Ministry of Finance, implementing the policy management platform “Clearpass” for Network Access Control (NAC) ) through the SWITCH 7. Out of 80 Treasury users only 10 end-user devices from Treasury have been configured, while the others still operate outside the “NAC”. It is worth noting that all end-user equipment of Treasury in NAC have been configured following the recommendations of the audit team.

Out of a list of 16 Treasury users who have access via VPN (remotely), 7 of them did not have approved request forms. However, the Treasury IT Division had established a checklist for these approaches, although they did not have a formal requirement.

5 ISO 27001: Controls and objectives: Information Security Policy & Information Security Organization.

6 ISACA: CISA Handbook 27th Edition: Network Infrastructure Security

7 SWITCHs coordinate the communication channels between the user and the service they require

Remote user access in some cases has been enabled through the completion of the remote access form after the approval of IT management and staff. But there were cases when access has been granted without any procedure because the remote access form had started to be used from August 2020. Therefore officials who had access to VPN before this date have not filled out forms.

Incomplete implementation of the remote access procedure increases the possibility of unauthorized remote access.

### *The MF network has not been documented*

*Network operation standards and protocols should be documented and made available as well as should be periodically reviewed to ensure compliance.<sup>8</sup>*

The IT department in MF failed to document the network. They have started to do the documentation and are in the process of creating the documentation, so far they have managed to do an initial documentation.

Due to the lack of human resource capacities, regulatory infrastructure and network management software tools, the implementation of such processes is slower.

Lack of network documentation jeopardizes the sustainable and effective operation of systems for new staff or resource change and can be critical to systems recovery in the event of a natural disaster or other external factors for business continuity.

Information security awareness for users in the MF and Treasury has not been sufficiently raised, nor has the password complexity policy been implemented in Active Directory

*Staff must understand and maintain information security. All employees of the organization and when necessary, contractors and third party users should receive appropriate awareness training and regular updates of organizational policies and procedures relevant to their job function.<sup>9</sup> Password management systems need to be interactive and provide quality passwords. Also, the application and devices must be closed after a certain period of inactivity.<sup>10</sup>*

Treasury has not organized trainings and campaigns on the importance and awareness of information security for its employees and users of KFMIS.

8 ISACA CISA Handbook 27th Edition: Network Infrastructure Security

9 ISO 27001: Human resource security - Awareness, awareness and training on information security

10 ISO 27001: Operating system access controls - Password management system

According to them, this happened because the security officer and the organization of the information security structure were not defined. However, with the new reorganization this position is planned. There were also no information security campaigns, but during the training of users on the use of KFMIS, they were advised on how to protect and handle the password.

In addition, MFLT has not organized trainings or awareness campaigns on information security for all users. However, if users have any problems or suspicious emails, they treat them as special cases. It has not implemented the password complexity policy for user accounts (MFLT and Treasury) in Active Directory<sup>11</sup>, that they manage either.

According to them, it has been a challenge to implement the complexity of user passwords due to unwilling users, therefore they have not managed to make a complex password. With the development of a "moodle"<sup>12</sup> to hold trainings, information security trainings would be included. As for the IT staff, one of them has attended training on cyber security, organised by MIA at government level (ARC-CERT).

Lack of information security awareness training and non-implementation of password complexity policies (Active Directory) may reduce the ability to protect information contained in IT systems.

### *General accounts are used for administrative access to information systems.*

*All users of information systems must have unique and personalized accounts (user IDs), which are used only for individual use. The administrator account password should only be known by an individual, stored in a secure environment, and be able to use the system when the administrator is not available. Full access accounts need to be monitored on an ongoing basis.<sup>13</sup>*

Only full-access/administrator accounts, which are not personalised, are used to access the database. The credentials of the administrators' accounts for KFMIS system are not stored in a secure environment. These are used by more than one user including external consultants who are responsible for application maintenance. However, authorized persons using the administrator account have

11 Active Directory is a Microsoft service for authorizing and authenticating users and IT devices on the organization's network domain.

12 Moodle is a learning platform designed to provide users with a single, secure, and integrated system for creating personalized learning environments.

13 ISO 27001: Access Controls - User Access Management / Application Access Control

a reserved IP and leave a trace of their activities Furthermore these accounts are not monitored. Also, officials who have full access to the database, have full access to the data/tables of audit trails.

Since full access accounts are opened during the installation of the database, no initiative was taken to deactivate these accounts and open personalized accounts. Also, the lack of an officer to monitor the activities of users and the lack of a tool to monitor audit trails had affected that their monitoring is not done so far.

Furthermore, IT Department of MF also uses general accounts for access to network equipment interfaces. This is because they have not found it necessary to use personalized accounts, as most of the time only a network administrator can access them.

The use of one account by more than one official affects the lack of accountability in case of eventual data corruption. Using general accounts in the system may expose the information system to intentional or accidental risks.

### *Shortcomings in the management of access to the KFMIS application*

*Information security policies and procedures should be reviewed and approved at scheduled intervals (at least annually) or when significant changes occur in the organization, its business operations or in the event of a material security risk, to ensure its continued suitability. Mechanisms should also be in place to ensure that these policies and procedures are followed.<sup>14</sup>*

Treasury had identified shortcomings in the control over users' accounts and in November 2020 took the decision and actions to increase the security of access and transactions in KFMIS as a preventive measure. It also changed the procedure for Management of User Access to KFMIS, which was not approved until the completion of the audit. This procedure was approved in August 2021 with some changes.

*All users of information systems must have a unique account (user ID). For security reason , Treasury had opened two accounts per user for cases when budget organisations would have an agency or subordinate unit. It had also opened two accounts per user, although according to the procedure, two functional classes can be opened for budget organizations which have a certain number of workers and are unable to appoint an official for each functional class. From the analysis of user*

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14 ISACA: CISA Handbook 27th Edition: 2.3 IT Standards, Policies and Procedures

accounts in KFMIS application, including the accounts of external consultants, a total of 3,425 were registered, of which there were 1,994 passive accounts and 1,431 active accounts with a total of 1259 users, thus there are 172 users with more than one active account.

In addition, users accounts did not have a set standard for naming. This can lead to difficulties in identifying and monitoring them.

The Decision no.34-2020 stipulate that the user who has not been connected to KFMIS for over 45 days, will become inactive. From the active accounts, we have identified 139 accounts the last access date of which had exceeded 45 days. 12 of these active accounts had never been accessed from the day they were opened. However, these accounts cannot be used without an official request to change the password.

Although according to Kosovo Treasury officials, the procedure for managing user access was being implemented. This was due to its non-implementation and lack of continuous monitoring of accounts if their deactivation in KFMIS is being done according to the procedure.

Opening more than one account per user makes users monitoring difficult, thus increasing the risk of failure to timely identify any harmful events for the organisation.

## **3.2 Controls of Information Technology Applications**

Application controls are specific controls, specific to each computer application. When the institution's processes are automated in IT applications, its rules are also built into the applications. They apply to application segments and relate to transactions and consistent data. Application controls are built to ensure and protect the accuracy, integrity, feasibility and confidentiality of information. They ensure the initiation of properly authorized transactions, the processing of valid data, complete recording and accurate reporting.

Findings regarding the lack of controls over information technology applications are presented as follows.

*In some modules of the application KFMIS has areas in which the validity rules are not applied.*

*The application must have validity rules applied to the interaction of incoming data. Invalid data must be properly identified and rejected by the application.<sup>15</sup>*

During the testing in the KFMIS application it was identified that in the fields where the personal identification number, business unique identification number (UIN) and bank account number were placed, there was no control over the validity of the input data. In these fields it was possible to enter the number with more or less characters/numbers than is specified in the personal number (10 characters), UIN (9 characters), bank account (16 characters) and the system accepted the bank account which did not belong to the respective bank. Also, in its interfaces, fields dedicated to certain information were used for other information that did not correspond to that field.

The invalidity of these fields in KFMIS was due to the fact that in this system the relevant algorithms for data validity were not implemented and it was not related to the information systems of ARC, KBRA and CBK which will enable only accurate data to be registered in the system.

Treasury has started with the initiation of the project for the interconnection of KFMIS with the central information systems in order to increase the quality of data.

Lack of implementation of appropriate algorithms for data validity in KFMIS, as well as the interconnection with the central information systems through which it would receive accurate data has affected the opening of many codes for the same natural person and business and as a consequence it may affect poor data quality.

*In KFMIS one supplier is registered more than once*

*Based on the procedure for registering suppliers in KFMIS, a supplier should be registered only once and will be considered for any payment to be made by any budget organization.<sup>16</sup>*

In the list of active suppliers registered in KFMIS we have identified that there are cases when the same supplier is registered in the system more than once, but with different bank accounts.

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15 Information technology audit manual - Audit matrix on application controls

16 Procedure for registration of suppliers in KFMIS, March 2018.

Treasury registered suppliers in KFMIS at the request of the budget organization. But, according to the procedure for registration of the supplier in cases when a supplier has more than one bank account, then for each new bank account a new supplier is opened with the same supplier code distinguishing it from the other account with one letter (A, B, etc.).

While testing supplier registration in KFMIS, we found that the system has applied the field for cases when a supplier has more than one bank account, so more than one bank account can be registered in the same supplier code.

However, this opportunity was not used by Treasury, as the old version of KFMIS did not have the possibility to add new bank accounts to the same supplier code. Even after the development of the new version of KFMIS they continued with the same practice of registering suppliers, although they had the opportunity to add more bank accounts to one supplier.

Creating a new supplier for each new bank account registered in KFMIS creates difficulties for accurate verification of transactions performed for that supplier. It can also cause delays in completing the registration of the supplier and may cause delays in verifying the supplier code to determine which bank account that code is linked to.

### *In KFMIS improvements to existing non-financial assets are recorded as new capital assets*

*Improvements in non-financial capital assets in KFMIS should be recorded in the relevant registers as an increase in the value of assets.<sup>17</sup>*

Budget organizations record in KFMIS, as new non-financial assets, the expenditure incurred to improve a capital asset in order to change or modernize it, which significantly extends the period of use of the item or improve its functionality. Thus, KFMIS does not enable the implementation of Regulation 02/2013 on the Management of Non-Financial Assets, so that this expense is recorded in the relevant registers as an increase in the value of capital assets, but is registered as new asset.

Treasury has practiced this methodology of recording expenses for the improvement of an asset in KFMIS as new capital assets, and has not made any

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<sup>17</sup> Regulation MF - No. 02/2013 - On the Management of Non-Financial Assets in Budget Organizations, Article 15.

attempt to change the methodology of recording these expenses in order to be in line with the implementation of the Regulation.

The recording of expenses which is made for the improvement of capital assets as new assets leads to untrue presentation of non-financial assets data, as well as untrue reporting of financial statements.

### *Not all asset class codes are registered in KFMIS*

*Every budget organization should create and update the register of non-financial assets it has in its management. The register should be kept separately for each asset and in aggregate form according to the categories classified based on the chart of accounts.<sup>18</sup>*

Ministry of Finance publishes on its website the list of economic codes that should be used by BOs for the registration of capital (non-financial) assets. However, the Treasury which is responsible for the management of KFMIS has not registered all the codes of asset classes in the system according to the list published on the website. As a result, BOs when registering non-financial assets in KFMIS, in cases where the appropriate asset class code is not listed, then the asset registration officers are obliged to classify that asset in the code with the most appropriate designation or in the “Other Capital” asset class. Treasury did not attempt to record all asset class codes in KFMIS to be consistent with the list of published chart class codes.

The registration of non-financial assets in the code of inadequate class affects the unclear reflection of the classification of assets and there is a risk that that asset will not be depreciated in accordance with the rate set for that asset by class.

### *KFMIS does not prevent the recording of transactions with identical data*

*The information system should have the necessary controls for identifying and rejecting transactions with identical data.<sup>19</sup>*

In KFMIS an expenditure coupon can be created manually to record expenses and automatically through import functions. During the tests performed in KFMIS for the registration of expenses, it was found that the system did not make verifications to identify and reject identical data during the registration in different expenditure coupons by budget organizations. So, the system accepts the expense

<sup>18</sup> Regulation MF - No. 02/2013 - On the Management of Non-Financial Assets in Budget Organizations, Article 6.

<sup>19</sup> Information Technology Audit Manual - Application Controls - Processing

with the same data (supplier code, invoice number, invoice issuance date, BO name, invoice amount issued, etc.). Furthermore, in cases where there is a record of massive expenses (over 50 payments) and the possibility of errors exists during the manual entry of data, the system does not identify the payment which was imported earlier or if the import document has lines with identical data.

According to Treasury officers, failure to apply KFMIS operation of identifying the same expenditure/invoice was that BOs have different types of expenses without invoice.

As a result of failure to apply the control function for the identification and rejection of transaction with identical data, BOs have made such transactions and, when were identified, they had to return those funds. This shortcoming of the system can also affect the performance of BO officers.

### *Treasury does not use all the opportunities offered by KFMIS*

*The structures responsible for managing IT systems, ensure that the capacity of the system and its performance meets the current and future needs of the organization. The organization analyses, prioritizes and manages requests to ensure that users' needs are optimally met to increase the efficiency of their work<sup>20</sup>*

KFMIS provides opportunities for recording a lot of data which would be beneficial to users and increase efficiency at work, and in particular would affect the fuller presentation in the presentation of statistics and more efficient monitoring of transactions. However, many of the opportunities offered by the system are not intended to be mandatory for registration. The possibilities offered by the system, but which are not adapted according to the needs, among others, we single out:

- Every expense made with procurement has a unique contract number, this number in most cases is not entered in the system, because in the system this field is not mandatory to be completed. Setting the contract number can prevent overpayment for that contract and also increase its effectiveness in managing its performance.
- In cases where payment for a contract has to be made in more than one part, the system for each purchase order requires that the same contract be attached for each payment. Since the system has the ability to link these payment orders based on the contract number, attaching the same document causes additional work for users and affects the performance of the database.

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<sup>20</sup> Information Technology Audit Manual 3.1. Service Management & 3.2 Capacity Management

- The contract and invoice must be attached for each purchase order, but even if they are not attached, the system allows further processing even without it. After its processing, it is no longer possible to return and attach the necessary documents. As a result, the transaction is executed without being completed in the system.

Some of these changes were not originally intended to be made to the system, so according to officials each current change requires additional costs.

### *Incomplete reports for further analysis*

*The organization should have procedures in place to ensure that the completeness and accuracy of the output data/application reports are valid before the results are used for subsequent processing, including end-user processing.*

KFMIS has a large number of reports that end users can use for statistical purposes, verification of their work and whether the system is making calculations according to the rules in force. However, from the reports taken as samples it was noticed that there are shortcomings of some information that would complete the required information.

Asset evaluation reports lack the date of commencement of asset depreciation. In its absence, users do not have the opportunity to verify whether the registration of assets has been done properly or during the registration there were errors which may affect the value calculated for depreciation. Also, the reports that contain the contract number of a procurement procedure, although in cases when the contract number is registered in the obligations/purchase order, this number does not appear in the reports.

Also exporting to Excel format does not split the columns into columns, which affects the extra work for each report used for further calculations.

If the Albanian/Serbian language is chosen for use in KFMIS, there are cases where the report columns as well as the fields in the application modules are not all in Albanian/Serbian, but there are columns and fields that the name is still in English.

These shortcomings in reports are due to failure to carry out periodic assessment of the published reports, which may lead to minimum controls over the recorded data. In addition, if reports need to be processed manually after downloading, it causes waste of time and extra commitment and this makes the user inefficient. Translation into respective languages, according to the officers, was not done due

to the transition to a new version of KFMIS and the large volume of work, but they stated that translation is in process.

## Conclusions

### *Information security controls*

The Ministry of Finance, Labour and Transfers and the Treasury had continuously made configurations for protection against internal and external interference in information systems. However, they have not yet managed to establish a structure that provides complete information security; have not appointed the persons responsible for information security; there were shortcomings in procedures; shortcomings in the management of user access; and lack of sufficient awareness on information security.

These deficiencies may affect the operational security of IT processing equipment and may reduce the ability to protect the information contained in IT systems, making the security of infrastructure used by the Treasury and the Ministry of Finance, Labour, and Transfers vulnerable.

### *Application controls*

Notwithstanding the improvements made, there are shortcomings of application controls in KFMIS still. In the absence of interconnection of KFMIS with other central systems, it had not implemented checks on the validity of data on personal identification number, business number and bank account, and there were no checks to identify and reject duplicate data. As a result, it is allowed to create multiple supplier codes, with more than one bank account, and expense coupons with the same data.

Also, the Treasury did not meet all regulatory requirements in KFMIS, affecting the recording of expenses for asset improvements as new assets, and in the absence of complete asset class codes, BOs were forced to classify assets. in codes with more appropriate designations.

Some of the opportunities offered by the system are not intended to be necessary for registration by users, which would bring benefits to users and increase efficiency at work, and in particular would affect the fuller presentation in the presentation of statistics and more efficient monitoring of transactions.

*We recommend the Minister of Finance, Labour and Transfers:*

1. To harmonize IT positions and the Regulation on internal organization and systematization of jobs in relation to their privileges and access to IT systems and procedures by reviewing this Regulation and organizing the IT department in Treasury; In addition to provide for administration of databases only through database administrators who have the duty and responsibility to administer the database through a contractual obligation;
2. In organisational structure of MFLT and Treasury, to foresee and designate the information security officer by reviewing and approving internal regulations, IT and information security policies, in order to determine also their privileges and approaches respectively to the responsibilities of the position to which they belong. Through IT policies and procedures to foresee the implementation of the penetration test for protection against intrusions for systems located in the MFLT network on a regular time basis;
3. In addition to network configurations, to carry out network documentation to ensure the continuity of systems (IT Department in MFLT);
4. To continuously organize trainings and campaigns for their employees and all users of KFMIS on the importance and awareness of information security; and to implement the policy of password complexity for user accounts (MFLT and Treasury) in Active Directory (IT Department in MFLT);
5. To ensure that administrative access to information systems is done through accounts that identify the user and any changes he makes; To store the administrator password in a secure environment; and to establish the necessary mechanisms for continuous monitoring of audit trails (IT Department in MFLT);
6. To establish the necessary mechanisms for implementation management procedure of users access to KFMIS. To ensure that users have only one KFMIS account, duplicate accounts must be closed. And ensure that the system is deactivate users who do not use KFMIS. To continuously implement the procedures for access to network for teleworking (Treasury);

7. In KFMIS, to check for the validity of the field of personal identification number, unique identification number and bank account, as well as to connect the system with the information systems of ARC, KBRA and CBK (Treasury);
8. To review the procedure for registration of suppliers in KFMIS in case the new bank account must be added to the registered supplier, as well as in the KFMIS application a supplier to be registered only once and each new supplier bank account to be added in its existing code (Treasury);
9. To create the possibility in KFMIS that the costs of improving non-financial capital assets to be recorded in the relevant registers as an increase in the value of assets (Treasury);
10. To record all published asset class codes in KFMIS, to enable budget organizations to accurately classify assets during registration according to the Chart of Accounts (Treasury);
11. To implement in KFMIS the control function for the identification and rejection of transactions with identical data (Treasury);
12. To review the opportunities offered by KFMIS and use its advantages in order to further increase the efficiency of users' work (Treasury);
13. To make an assessment of users' needs for reports and ensure that it provides various reports according to their needs. Deficiencies identified in reports/modules to be corrected (Treasury).

## 4 STATE BUDGET ANALYSIS

The data presented in the AFR/BRK are a reflection of the initial and final budget projections for 2020, as well as the result of real receipts and payments against the respective budget allocations. During 2020, the Budget of the Republic of Kosovo was re-evaluated, because the Government had deemed it necessary to review the planning of revenues and expenses.

The Ministry of Finance has revised the Law no.07/L-001 on Budget Appropriations for 2020 (in July), which was characterized by the reduction of projections for tax and non-tax revenues, increased financing from borrowing and increases in some categories of expenses. This is to adapt the measures required as part of the Emergency Fiscal Package and Economic Recovery Program (ERP) to much lower revenue circumstances than planned in the initial budget.

In 2020 the Government due to the impact of the Covid-19 pandemic on the economy, had taken measures to change the fiscal forecasts for this year compared to the initial budget projections. Gross tax revenues with Law no. 07/L-001 on Budget Appropriations for 2020 were planned in the amount of €1,833,000,000. Whereas, with the budget review, the same were planned in the amount of €1,604,802,000, with a reduction of €228,198,000 or 12.45%.

Financing from borrowing according to Law no.07/L-001 on Budget Appropriations for 2020 were planned in the amount of €323,474,000. At its revision, the planning for borrowing financing was €596,200,000, with an increase of €272,726,000 or 84.3% of the initial plan.

Since some macro-fiscal parameters (tax and non-tax revenues) presented in Table No. 1 of Law No. 07/L-001 on Budget Appropriations for 2020 are affected by the situation of the global Covid-19 pandemic, there is a need to temporarily amend some of the fiscal rules set out in Law No. 03/L-048 on Public Financial Management and Accountability supplemented and amended, Article 22 B-temporary increasing the deficit.

According to the Government Decision No. 03/02 dated 05.06.2020, point 1, the Assembly of the Republic of Kosovo was requested to change and temporarily exceed the fiscal rules of the budget deficit and to limit the usable bank balance, which is defined in Article 22 B, Law No. 03/048 on Public Financial Management and Accountability supplemented and amended by Law no. 03/L-221, Law No.04/L-116, Law No.04/L-194, Law No.05/L-063, and Law No.05/L-007.

To cover the deficit increase, the Ministry of Finance has identified additional sources of deficit financing. This is planned to be financed from internal and external sources of financing, through securities, international loans and grants.

In accordance to this Decision, section 2, a temporary increase of the deficit ceiling to 6.5%, from 2%, has been approved, whilst the usable bank balance ceiling has been temporarily reduced to 3% of GDP, from 4.5%.

The Assembly has approved the temporary easing of these fiscal rules, and has allowed the expansion of fiscal space to the level forecasted by the Government. More specifically, the fiscal deficit was allowed to reach 6.5% of GDP (from 2% of GDP). Meanwhile, the bank balance was allowed to reach 3% of GDP (it was 4.5% of GDP).

Budget movements through Government Decisions have affected some budget organisations, where in certain economic categories and projects the budget was increased, whilst in some others it was reduced. The budget outturn has been accompanied by various shortcomings this year as well. Budget cuts made by the Government have led to significant amounts of liabilities remaining unpaid, and many projects not being implemented and carried over to subsequent years.

In terms of planning and outturn of receipts and payments, a downward trend has been observed compared to previous years. Receipts/planned revenues were collected in the amount of €2,206,647,000 or 83.5% in relation to the final budget, with a slight decrease compared to 2019, where the budget outturn for receipts was 89.9%.

Planned payments were made in the amount of €2,334,943,000 or 82% in relation to the final budget. If we compare with 2019, there is a slight decrease in payments as well, with a budget outturn of 85.5%. At the level of source funds, the lowest rate recorded in the execution of payments was from the source fund investment clause with €47,065,267 or 32% of the budget; PAK one-off revenues with €71,451,044 or 39%; own source revenues with €75,393,688 or 51%, and financing from borrowing with 68,575,947 or 74%.

More complete information on initial planning and final budget are presented in the following table.

*Table 3 - Consolidated overview of the budget comparison with the realization for the General Government (in '000 euros)*

No.	Budget Items	Realization	AFR According to the Final Budget Law	AFR According to the Budget Law no. 07/L-001 year 2020
1	Tax revenues	1,539,982	1,604,802	1,833,000
2	Non-tax revenues	181,201	188,913	226,487
3	Returns	-32,999	-39,631	-50,000
4	Receipts from donations	43,078	46,410	22,500
5	Borrowing financing	389,031	596,200	323,474
6	Other revenues	86,354	244,609	124,609
<b>Total receipts</b>		<b>2,206,647</b>	<b>2,641,303</b>	<b>2,480,070</b>
1	Wages and Salaries	661,343	665,782	619,204
2	Goods and Services	280,007	327,244	326,424
3	Utilities	22,168	24,773	30,545
4	Subsidies and Transfers	868,480	923,701	632,753
5	Capital expenses	384,471	720,416	671,808
6	Reserves	0	1,896	44,000
7	Debt payment	115,713	183,000	177,000
8	Return from the deposit fund	2,761	0,00	0,00
<b>Total Payments</b>		<b>2,334,943</b>	<b>2,846,812</b>	<b>2,501,734</b>
Increased/ decreased bank balance		-128,296	-205,510	-21,664

The Government had submitted to the Assembly for approval the Initial Budget Law, which predicted for receipts/revenues in total of €2,480,070,000 and payments/expenses in total of €2,501,734,000, with a reduction in the bank balance minus €21,664,000. The unallocated bank balance stock is €323,000,000, while the usable bank balance as a percentage of projected GDP is €7,464,000,000 or 4.32%.

According to the final budget, total receipts/revenues had the same value as planned with the revised budget, while payments/expenses in total were €2,846,813,812, with an increase of €73,254,000 or 2.65%. These increases were at the level of economic categories of expenses, preceded by Subsidies and Transfers by €60,566,000 or 7%, then Wages and Salaries by €31,251,000 or 4.9%; Goods and Services by €23,248,000 or 7.65%, while Capital Investments were reduced by €9,475,000 or 1%; Utilities by €232,000; and reserve category for €32,104,000 (was transferred for expenses in economic category).

More detailed explanations about budget movements, increases/cuts at the level of economic categories are presented in the chapter below.

We have analysed the tables in the Law no.07/L-001 and the revised Law on Budget Appropriations for BRK 2020 and found discrepancies between the budget tables regarding presentation of planned revenues for property tax and non-tax revenues for taxes and other charges at the local level.

### *Shortcomings identified in these tables are:*

- In table no.1 of the Budget Law no.07/L-001, fiscal forecasts 2020/2022- tax revenues- property and land tax, were planned in the amount of €31,000,000. Meanwhile, in table no.4.3- medium-term planning of total revenues- municipal budget, planned revenues for property and land tax are €33,144,016, with a discrepancy of 2,144,016€.
- In table no.1 of the Budget Law with revision no. 07/L-014, fiscal forecasts 2020/2022- tax revenues- property and land tax, were planned in the amount of €29,000,000. While in table no.4.3- medium-term planning of total revenues- municipal budget, planned revenues for property and land tax are €33,144,016, with a discrepancy of 4,144,016€.
- In table no.1 of the Budget Law with revision no. 07/L-014, fiscal forecasts 2020/2022- tax revenues - taxes and other charges at the local level, were planned in the amount of €47,000,000. Whereas according to table no.4.3- medium-term planning of total revenues- municipal budget, planned non-tax revenues for taxes and other charges are €49,972,562, with a discrepancy of 2,972,562€.

However, we have analysed the tables of the Budget Law no. 07/L-041 on budget appropriations for BRK for 2021, and we have not identified such discrepancies between the budget tables in the presentation of planned revenues for property tax and non-tax revenues on taxes and other charges at the local level. On this occasion we have noticed that this issue has been settled for this year.

### *Analysis of expenses by categories*

The inaccuracies identified in the consolidated Statement of budget comparison with execution are presented in the Basis for the Opinion section.

We conclude that own source revenues carried forward from previous years should not be included as receipts - a source of funding for expenses in the budget law, because they are funds carried forward for specific purposes which have been received in the single treasury account from previous years.

LPFMA and the Law on Budget determine the way balance of unspent funds of own source revenues are carried forward. They are initially allocated by increasing the budget of budget organizations, and after that they can be spent. For this purpose they should not be planned as receipts and expenses in the tables of the budget law, nor are they included as a source of spending in the budget of budget organizations when submitted as a draft budget for approval to the Assembly.

It is worth mentioning that the Government had sent for approval to the Assembly the Budget Law No. 07/L-041 on Budget Appropriations for the Budget of the Republic of Kosovo for 2021, where in Table No.1- Fiscal Forecasts (revenues and expenses) in section C- Internal financing, allocations for expenses from own source revenues carried forward (local level) were presented at zero value. From this we estimate that for 2021 this issue has been addressed, which during the audit of the BRK/AFS, by the National Audit Office it was raised and treated as an issue that should be addressed by the MF.

## 4.1 Analysis of Total Budget Revenues and Expenses

Payments under Budget Law no. 07/L-001 are planned to be higher than regular receipts by €22,000,000. This amount is planned to be financed by the reducing the bank balance accumulated from previous years.

The data presented in the AFS/BRK are a reflection of actual receipts and payments, as well as the respective budget allocations. The budget of the Republic of Kosovo for 2020 by the Government was sent to the Assembly for review, where various adjustments were made to the initial budget allocations. These adjustments are based on legal authorizations provided through the Law on Public Financial Management and Accountability (LPFMA).

Receipts/revenues according to the initial budget were planned in the amount of €2,480,070,000, whilst according to the final budget they were €2,641,303,000, an increase of €161,233,000. The increase is planned from the following sources of financing: borrowing by €272,726,000; other receipts by €120,000,000; grants and assistances by €23,910,000; returns by €10,000,000, as well as the reduction of tax revenues in the amount of €228,198,000 and non-tax revenues by €37,205,000.

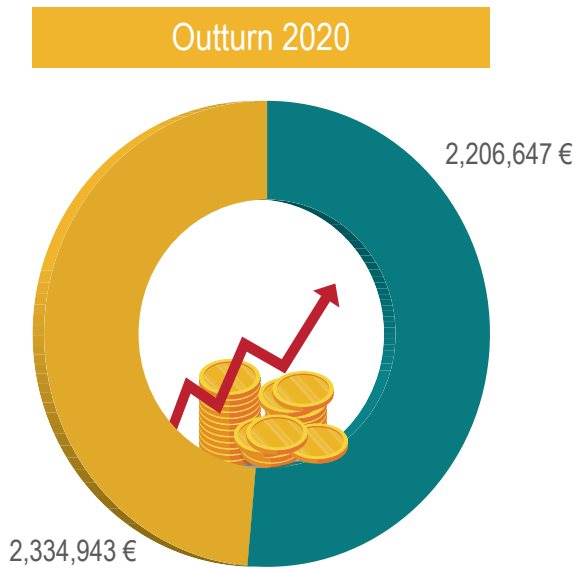
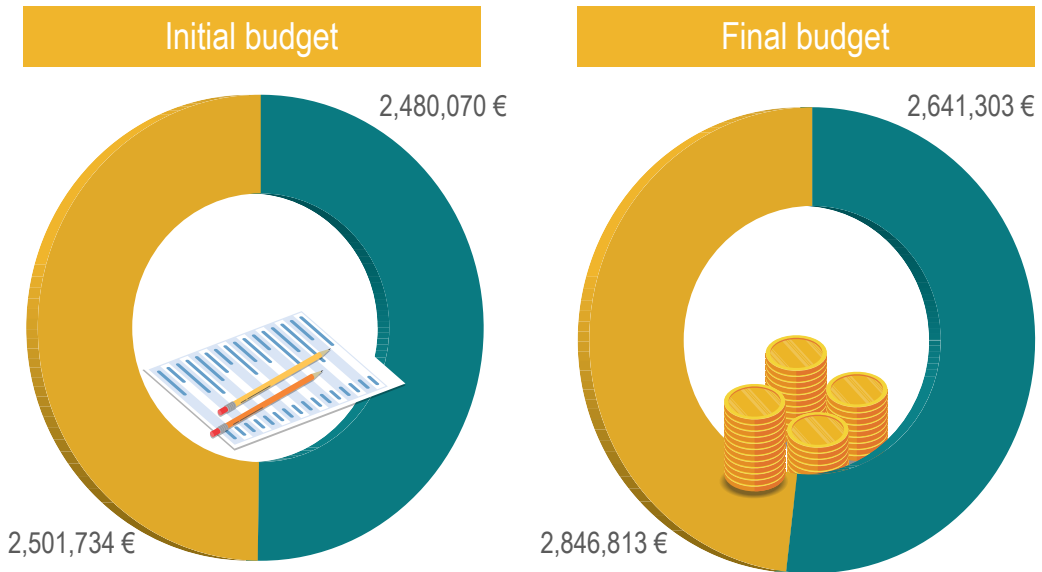
Payments/expenses according to the initial budget were in the amount of €2,501,734,000, while according to the final budget in KFMIS, the total planned

payments was €2,846,813,000, with an increase of €345,079,000. The coverage of this increase was planned by the budget review for €274,268,000, the increase of own source revenues carried forward by €53,317,000, as well as the Designated Donor Grants for €17,494,000.

### *Receipts for 2020*

Total receipts or revenues realized in 2020, amount to €2,206,647,000. Compared to the realization of 2019, receipts have decreased by €16,275,000 or 0.73%, while in 2018 they have increased by €196,974,000 or 9.8%

*Receipts and Payments by AFR/BRK*



Payments
  Receipts

The main issues identified during our analysis are as follows:

The differences between the initial and the final budget are noted with an increase in terms of both planning of receipts and payments. According to the initial budget law, receipts were planned in the amount of €2,480,070,000 or €21,664,0000 or 1% lower than payments (reduction of bank balance). Meanwhile, according to the final budget in KFMIS, payments were planned to be higher than receipts for €205,510,000. Differences between the initial and final budget projections are quite high, due to the impact of the Covid-19 pandemic. The government had taken measures to review tax and non-tax revenues by reducing them, while the projections for financing from borrowing were increased following the budget review.

Receipts were in the amount of €2,206,647,000 or 83.5% of the final budget. Compared to the last two years, receipts have increased by €16,275,000 or 0.73% for 2019, whilst for 2018 by €196,974,000 or 9.8%.

In terms of payments, the outturn for 2020 was in the amount of €2,334,943,000 or 82% of the final budget. When comparing it with the payments of the last two years, there has been an increase from 2019 by €182,397,000 or 8.47%, whilst from 2018 by €355,384,000 or 17.9%.

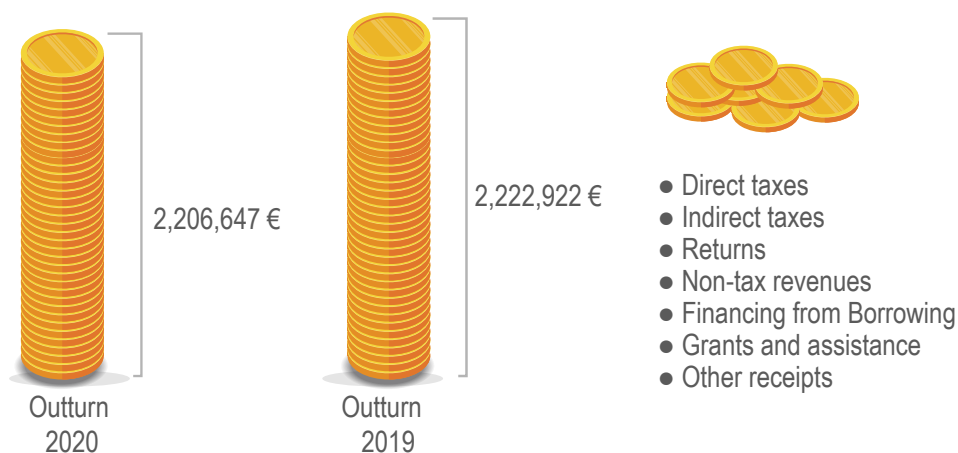
The difference between total receipts and total payments is -128,295,000€. This amount represents the funds spent from the bank balance reserve and reflects the reduction of cash in the bank account of the Budget of the Republic of Kosovo, which on 31 December 2020 has a final balance of €329,955,000, including funds for specific purposes.

In analysing the historical trend of the last three years, we see that receipts and payments have increased steadily.

### 4.1.1 Analysis of Budget Revenues by Economic Categories

Based on the analysis of receipts/revenues by sources, the main budget financing sources are: tax revenues (direct and indirect) in a net value of €1,506,983,000 or 68.30%; financing from borrowing €389,031,000 or 17.63%; non-tax revenues €181,201,000 or 8.20%; other revenues €86,355,000 or 3.90%, as well as grants and assistances €43,078,000 or 1.9%. The table below provides more complete information on the initial and final budget as well as budget trends over the last three years.

### Receipts by source according to AFR/BRK ('000 in €)



## 4.1.2 Budget Revenue Analysis (Structure)

### Direct taxes

Direct taxes consist of four categories: corporate income tax (CIT); personal income tax (PIT); property tax (PT), as well as other taxes (TAK fines). Outturn of direct taxes was in the amount of €267,247,000 or 94.6% of the amount planned in the annual budget.

The main source of these direct taxes is: personal income tax with €157,966 (59%) of the total outturn; corporate income tax of €85,235,000 (32%); property tax at €22,707,000 (8%), and other taxes at €1,294,000 or about 1%. From these, personal income tax and corporate income tax were collected by the Tax Administration of Kosovo (TAK), while property tax by Municipalities. Compared to 2019, direct taxes in general have decreased by €25,012,000 or 8.6%, and €257,000 or 0.10% compared to 2018.

### Indirect taxes

The main sources of indirect taxes are: value added tax (VAT); customs duty; excises and other indirect taxes. The total outturn for this category of revenues was €1,272,735,000 or 96.2% of the amount planned in the annual budget. The value added tax collected was €770,145,000 or 60.5% of the total outturn; excise €398,072,000 or 31.3%; customs duties €101,618,000 or about 7.98%, and the remaining €2,900,000 or 0.23% belongs to other indirect taxes. Compared to 2019,

indirect taxes have decreased by €142,556,000 or 10%, as well as €71,395,000 or 5.3% compared to 2018.

### *Tax returns*

Tax returns occur due to amounts paid by taxpayers on the amount of tax liability. When making reconciliation of tax balances with TAK and Customs of Kosovo, differences are calculated and returned to different entities after reviewing the requests for reimbursement as such.

According to the budget, returns was planned in the amount of €39,631,000, whilst amounts returned by the end of the year were for €32,999,000 or 83.3% of the plan and 2.1% of the total taxes collected. From these, the value of returns from TAK was €31,344,000, while €1,655,000 are returns from CK.

The amount of direct and indirect taxes returned relates to the return of internal VAT of €30,325,000; return of border VAT of €792,838; corporate tax return of €514,000; return of excise in the amount of €464,253; customs duty refund of €362,884; tax refund for withheld salaries of €349,000, as well as other types of taxes of €191,025.

Compared to 2019, tax returns were by €12,508,000 lower or by €27%.

### *Budget performance of Kosovo Customs and Tax Administration*

Kosovo Customs and Kosovo Tax Administration are the two main government agencies for collecting direct and indirect taxes, such as: VAT, customs duties, excises, corporate income tax, personal income tax and others.

Customs revenues planned by the Government of Kosovo with Law no. 07/L-001 on budget appropriations for 2020 were €1,244,000,000. Meanwhile, with the revised Law no. 07/L-014 on Budget, due to the pandemic situation, the projected value of customs revenues was reduced to €1,084,000,000. From this value, KC had managed to realize €1,052,525,263, while in the net value the realization was €1,050,869,892 or 97% of the planning.

Compared to 2019, total revenues have decreased by €127,060,769 or 10.80%. In analysing by types of tax, border revenues from value added tax (VAT) were €547,646,000 or 9.6% lower, revenues from excise at the border were €398,072,000 or 8.60% lower, and revenues collected from customs duties were €101,618,000 or 22% lower. As explained above, this was mainly due to the situation created

by the COVID 19 pandemic, which had a direct impact on the decline in revenue collection. State fiscal policies or import tax exemptions for Kosovar producers for all raw materials and all inputs used in the production process, the impact of the Stabilization and Association Agreement and the Free Trade Agreement with Turkey also had an effect on revenues.

Tax Administration of Kosovo had planned to collect revenues in the amount of €557,000,000 for 2020. Following budget review, for the same reason of the pandemic, the projected value of tax revenues was reduced to €492,000,000. From this amount, TAK had managed to realize €467,039,833 or 95% of the plan. Whereas in net value, the outturn was €435,695,779. Compared to last year, total revenues have decreased. In 2020, the realization in gross revenues was reduced by €37,242,071 or 7.4% compared to the previous year. This decline was mainly due to the situation created by the COVID 19 pandemic, which has affected both the reduced activities of TAK for revenue collection, as well as the decline in economic activity of businesses.

Customs revenue management by KC had worked well, while the process of collecting and managing TAK revenues was followed by some shortcomings which are related to the unfinished fiscalisation process.

The complete fiscalisation of all businesses that meet the fiscalisation criteria remains a challenge for TAK. The number of businesses not fiscalised and required by the legislation to be equipped with fiscal cash registers at the end of 2020 was 13,802.

### *Non-tax revenues*

The category of non-tax revenues includes all types of administrative and other taxes, various types of fines, revenues from inspections, use of public property, service fees, licenses, rents for public property, concession taxes, mining rents, etc.

Non-tax revenues are collected from the central level, independent budget agencies and the local level.

Non-tax revenues for 2020 in the original Law on Budget were planned in the amount of €226,487,000, whilst in the revised budget €189,000,000 were planned in the amount of. Of which, €105,000,000 were planned at the central level, €47,000,000 at the local level, mining rents €30,000,000, interest income €4,000,000 and concession taxes €3,000,000€.

The total amount of outturn of non-tax revenues during 2020 was €181,201,000 or 96% of the plan. Of them, €103,486,000 was the amount collected from Central Government entities, €42,716,000 from Local Government, €29,362,000 were collected from mining rents, €2,986,000 interest income from loans from KEK and €2,651,000 from concession fees.

If we compare the outturn of these revenues in relation to the budget, the plan has been implemented at 98.5% at the central level and 91% at the local level. In analysing the trend of the last three years, non-tax revenues have decreased by €33,413,000 or 16% compared to 2019, and by €11,664,000 or 6% compared to 2018.

Shortcomings or irregularities identified by individual audit reports in the category of non-tax revenues are:

- Non-harmonisation of revenues with Treasury;
- Poor oversight of water users;
- Delayed review of applications for construction permit and environmental permit;
- Use of public property without compensation and with expired contracts;
- Irregularities in property tax billing;
- Inadequate management of leased municipal properties;
- Deficiencies in the property tax database;
- Failure to verify (inspect) registered properties;
- Failure to pay the fee for exercising the activity;
- Failure to verify the current condition of the properties;
- Billing not according to the real area (Regulation);
- Registration of revenues in inappropriate economic codes; and
- Incorrect calculation of fees for construction permits.

### *External and internal borrowing*

As a source for financing budget payments, with the Budget Law No. 07/L-001 on budget appropriations for 2020, the Government had planned to finance part of the payments from borrowing.

Receipts from borrowing, with Law no. 07/L-001 on budget appropriations for 2020, were planned in the amount of €323,474,000. Meanwhile, after the budget review, the amount of financing from borrowing had increased to €596,200,000 or 84.3% of the initial plan. This is because some macro-fiscal parameters (tax and non-tax revenues) are affected by the situation of the global Covid-19 pandemic.

Internal borrowing was planned in the amount of €170,000,000, of which €169,955,000 or almost 100% of the plan was executed.

External borrowing was planned in the amount of €426,200,000, while €219,077,000 or 51% of the plan was executed. This happened because the implementing units did not take into account all the factors and did not make the necessary preparations when planning the projects, following the requests for initiating the borrowing process. Borrowing arrangements occurred before the conditions were created for the use of these funds.

**Note:** In the following section of the report, financing from borrowing will be presented in more details.

### *Designated donor grants*

Designated Donor Grants are funds that must be used in accordance with the terms of agreements between the Government and donors. These funds are planned with an annual budget and are part of the total budget revenues for financing various projects.

Based on the original Law no. 07/L-001 for budget appropriations for 2020, grant were planned in the amount of €23,000,000, whilst with the final budget including budget support grants €46,410,000 were planned, and €43,078,000 or 93% were received. The amount of these grants in 2019 was realized with €19,487,000, while in 2018 it was €8,497,000.

At the end of 2020, unspent funds from donors amount to €9,752,000. Inefficient use of donors funds under the conditions set out in the agreement, increases the risk that grants in the future will be reduced.

### *Other receipts*

Other receipts consist of one-off financing from PAK, repayment of loans from publicly owned enterprises, concession fees, dedicated revenues and deposit fund. For 2020 according to the Budget Law No. 07/L-001, other receipts were planned in the amount of €124,609,000, while with the budget review they were increased to €244,609,000. The budget was: one-off revenues of PAK in the amount of €185,000,000, own source revenues carried forward €42,000,000, repayment of loans from publicly owned enterprises €11,000,000 and earmarked revenues of €6,609,000€.

Whilst the outturn was as follows: one-off revenues from PAK in the amount of €71,476,000 or 38% of the plan, repayment of loans from publicly owned enterprises €11,387,000 (the plan was exceeded by €387,000 or 3.5%) and designated revenues in the amount of €2,473,000 or 37.4%.

## **4.1.3 Analysis of Expenses by Categories**

The total expenses for 2020 planned according to the final budget were €2,846,812,000, whilst their outturn was €2,334,943,000 or 82% of the planned amount. Expenses for 2020 were higher by €182,396,000 or 8.47% compared to 2019 and €355,386,000 or 17.95% by 2018.

According to the Law no. 07/L-001 on Budget 2020, payments were planned in the amount of €2,501,734,000, whilst with the final budget it was €2,846,812,813, with an increase of €345,079,000 or 15.8%.

This increase was as a result of the following issues:

- Change with revision according to LPFMA in the amount of €274,268.000;
- Carried-forward own source revenues in the amount of €53,317,000; and
- Designated donor grants in the amount of €17,494,000.

*Table 4 – Fluctuations between the initial and final budget ('000 in €)*

Description	Initial appropriations according to Budget Law	Changes under LPFMA	Changes for own source revenues	Changes to defined grants	Final budget appropriations (KFMIS)	Initial budget changes
Salary and Allowance	619,204	42,756	2,711	1,110	665,782	7.50%
Goods and Services	326,424	-13,410	6,528	7,702	327,244	0.25%
Municipal Expenses	30,545	-6,214	435	7	24,773	-19%
Subsidies and Transfers	632,753	285,198	4,605	1,145	923,701	46%
Capital expenses	671,808	2,041	39,038	7,529	720,416	7.20%
Reserves	44,127	-42,230	0	0	1,896	-95.70%
Others	176,873	6,127	0	0	183,000	3.50%
<b>Total</b>	<b>2,501,734</b>	<b>274,268</b>	<b>53,317</b>	<b>17,493</b>	<b>2,846,812</b>	<b>13.80%</b>

Budget fluctuations for economic categories between the budget law and the final budget

- The initial budget for salaries and allowances was €619,204,000, while the final budget was €665,782,000, with an increase of €46,578,000 or 8%. This had happened for the payment of allowances for certain categories of public employees engaged in pandemic management based on Government decisions;
- The initial budget for Goods and Services increased from €326,424,000 to €327,244,000 or 0.3%. This is due to the need to cover claims from BOs, regarding some costs related to the Covid-19 pandemic;
- The initial budget for Subsidies and Transfers was €632,753,000, while the final budget was increased by €290,948,000 or 46%. This was due to pandemic spending from the emergency package and the economic recovery package - the Economic Recovery Program;
- The budget for Capital Investments from €671,808,000 as foreseen by the budget law, has increased by €48,608,000 or 7.2%. This is mainly due to the increase in own source revenues carried over to the local level; and
- Financing of the principal, under-borrowing and interest from €177,000,000 has increased by €6,000,000 or 3.40%.

In addition to the budget increase from year to year, increases in expenses are observed in almost all categories, with the exception of Capital Investments where we have a decrease of €149,302,000 or 28% compared to last year.

As in previous years, it can be seen that the lowest rate of budget execution is in Capital Investments. In 2020, €384,471,000 or 53.40% of the budget were spent, compared to the previous year where the execution rate was €533,773,000 or 67.20%.

In other categories of expenses, there were budget surpluses, which for various reasons were not used by budget organizations. As a result, goods and services were not spent for €47,237,000 or 14.4% of the budget, utilities 2,605,000 or 10.5%, salaries and allowances over €4,439,000 or 0.67% of the budget, and subsidies and transfers over €55,221,000 or 6% of the budget.

The data presented in the AFR/BRK are a reflection of actual receipts and payments and relevant budget allocations. The budget of the Republic of Kosovo for 2020 has been subject to review and Government decisions for budget changes, and as a result, there have been budget movements within economic categories within BOs.

*Table 5 - Overview of total payments compared to planning and the last two years* ('000 in €)

Description	Outturn 2020	Final budget (KFMIS)	Initial budget	Outturn 2019	Outturn 2018
Wages and Salaries	661,343	665,782	619,204	616,921	592,587
Goods and Services	280,007	327,244	326,424	273,313	229,057
Utilities	22,168	24,773	30,545	24,866	23,441
Subsidies and Transfers	868,480	923,701	632,753	627,959	558,779
Capital Investments	384,471	720,416	671,808	533,773	533,066
Interest expenses	27,505	30,000	32,000	23,450	18,718
Return of principal/sub-loan	88,208	153,000	144,873	51,182	22,023
Return of deposits	2,761	0,00	0,00	1,082	1,890
Reserves	0,00	1,896	44,127		0
<b>Total</b>	<b>2,334,943</b>	<b>2,846,812</b>	<b>2,501,734</b>	<b>2,152,546</b>	<b>1,979,559</b>

## 4.1.4 Outturn of Budget Expenses (Expenditure Structure)

As presented in the table above, the total of payments made for 2020 is €2,334,943,000. Compared to 2019, payments have increased by €182,397,000 or 8.5%.

**Wages and Salaries** - their share in the structure of general budget expenses is 30% and presents one of the categories with the highest percentage of expenses<sup>21</sup>. The budget for 2020 was €665,782,000, while expenses at the end of the year were in the amount of €661,343,000 or 99% of the budget. Expenses on salaries and allowances have increased by €44,422,000 or 7.2% compared to 2019. This is due to the implementation of the Government decision to increase salaries for some government sectors such as health, police and other BOs for COVID- 19 pandemic management.

In testing salaries, namely attendance of employees, we found that 211 employees hired in seven ministries were paid throughout the year in a total amount of €1,014,005 without attending work at all. Payments as such are treated as irregular payments. This staff was distributed in these ministries as a result of the Brussels Agreement of 2016, between Kosovo and Serbia, but their inclusion in the payroll was made before the normal working conditions were created.

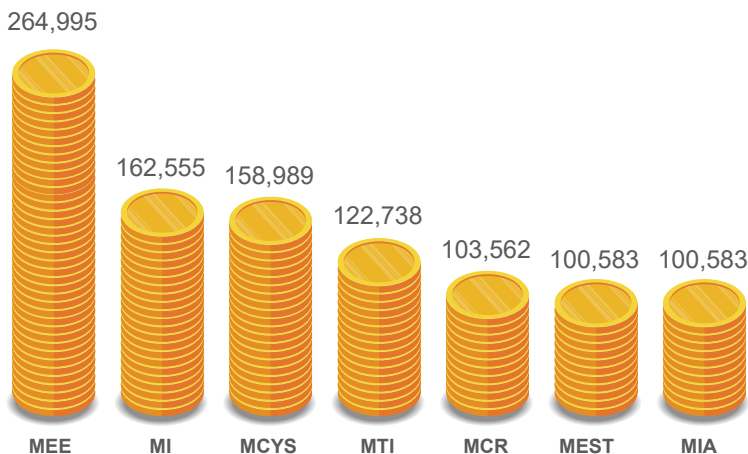
This problem has been present for years, and we have given recommendations on this issue, but it has not been addressed in 2020 either. The issue has remained unresolved and is being followed up every year.

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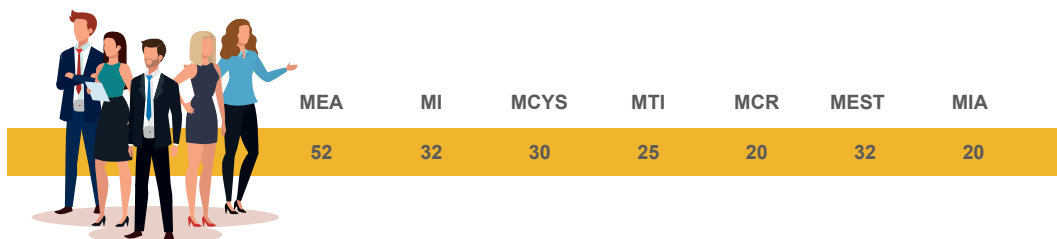
21 In calculating the percentage as a share in the total expenditures for economic categories, payments for principal, sub-loans, interest and return of deposits are excluded.

Detailed information on these payments are shown in the following table:

### Payments made under the Brussels Agreement



### Number of staff paid



Shortcomings or irregularities identified in the individual audit reports regarding wages and salaries are:

- Payment of Serbian community officers, former members of the “Civil Protection”, in absence of evidence on attendance at work;
- Exercising job positions in discordance with the grades obtained;
- Weaknesses in personnel management;
- Deficiencies in keeping records of night-shifts and attendance;
- Compensation of internal commissions for additional work contrary to legal requirements;
- Irregular compensation of salaries;
- Payment of salaries with a lower multiplier than in the Appointment Acts;
- Engagement to special Services without performing legal procedures; and

- Payment of officials of the Emergency Management Agency in the absence of information on their file.

**Goods and Services** – their share in the structure of general budget expenses is 12.6%. The budget for Goods and Services was €327,244,000, while €280,007,000 or 86% of the budget was spent. The increase of expenses in this category compared to last year was by €6,694,000 or over 2.45%. This increase was more reflected in medical supplies, other contracting services, and payment by court decisions.

Expenses for official travel abroad, per diems, accommodation and other for 2020 were €3,281,000, while in 2019 they were €11,912,000; expenses on fuel for vehicles were €6,613,000, while in 2019 they were €8,522,000; as well as the expenses for luncheons were €1,985,000, in 2019 they were €3,773,000.

The main items in this category, which have the largest share with €164,046,000 or 59% of the total, are: other contracting services with €58,277,000, medical supplies with €56,983,000, payment by court decisions with €12,227,000, food supply and drinks with €11,060,000, rent for buildings with €10,271,000, maintenance of highways €8,916,000, as well as purchase of books and works of art with 6,312,000€.

Shortcomings or irregularities identified in the individual audit reports regarding Goods and Services are:

- Failure to inform the PPRC about the rejection of the tender with abnormally low price;
- Acceptance of Services without procurement procedures
- Exceeding the value of framework contracts;
- Purchase of oxygen without procurement procedures;
- Delay in notification for signing the contract;
- Separation of tenders through the use of minimum procedures;
- Non-appointment of contract managers;
- Exceeding bank limits and delays in reporting expenses by the Kosovo Diplomatic Missions (KDM);
- Failure to close advances within the deadlines;
- Weaknesses in payment processing;
- Irregularities in the management of public expenses and contracts;
- Shortcomings in the development of the procurement procedure;
- Delays in commitment, issuance of purchase orders and insufficient of funds;

- Non-compliance with the steps for processing payments according to the Financial Rules;
- Contract award without meeting the administrative requirements of the tender dossier;
- Incomplete contract performance security;
- Delay in notification for signing the contract;
- Payment for mobile telephony services based on the expired contract;
- Acceptance of drugs without commission;
- Expenses not in accordance with Government decisions;
- Exceeding the weighted positions of the contract and irregularities in payment;
- Certification for payment for incomplete courses; and
- Inadequate classification of expenses and inadequate registration in economic codes.

**Subsidies and Transfers** - their share in the structure of general budget expenses about 39.20%, it also presents the category with the highest percentage of expenses. The budget for 2020 was €923,701,000, while expenses were €868,480,000 or 94% of the budget. The increase of expenses in this category compared to last year was by €240,521,000 or 38%. This increase was reflected in the following economic codes: payments to individual beneficiaries; subsidizing public and non-public entities; basic pensions; payments for people with special needs and payments for agricultural crops.

The main items that have characterized this category with a value of €731,441,000 or 84.2% of total expenses are: basic pensions with €165,777,000; basic contributory pensions €129,310,000; subsidies to public entities €97,063,000; payment to individual beneficiaries €97,659,000; subsidies to non-public entities €94,561,000; pensions for war veterans €76,793,000; pensions - category I €43,271,000 and payments for agricultural crops €27,007,000.

Payments for the management of the Covid-19 pandemic totalled €285,547,016. Of these, the emergency package was €168,037,902, while the package for Economic Recovery was €117,509,114. The costs of the pandemic will be addressed in a separate paragraph.

Shortcomings or irregularities identified in individual audit reports regarding Subsidies and Transfers are:

- Inadequate evaluation of applications for financial support by evaluation commissions;

- Double subsidization of NGOs for the same project;
- Shortcomings in the management of subsidies;
- Lack of justification of funds for subsidized medical treatments;
- Receiving post-mortem pensions;
- Benefit of pensions from beneficiaries who earn income from other sources;
- Irregularities in the management of subsidies for Sports Federations;
- Delays in justifying and reporting subsidy expenses;
- Shortcomings in the design of the direct payment program in the Agriculture sector;
- Failure to prepare an annual plan for financial support/subsidy;
- Public calling, evaluation, non-adherence to criteria, and monitoring of subsidies in violation of Regulation no.04/2017 on criteria, standards, and procedures for financing of NGO with public funds;
- Subsidizing projects in the absence of a detailed budget proposal;
- Lack of annual plan for public funding of NGOs; and
- Lack of evidence for justification of expenses by beneficiaries;

**Capital Investments** - their share in the structure of general budget expenses about 17.35%. Budget funds for Capital Investments are intended for financing infrastructure projects, construction of highways, local roads, in the field of education, health, cultural and sports facilities, as well as other public services.

Capital projects are managed through the Public Investment Program (PIP). Project planning in PIP should be done in detail and approved by the heads of organizations, based on their analysis and rationale. On the other hand, the MF approves these requests of BOs based on the documents submitted to the PIP regarding the reasonableness and ensuring that they are in their responsibility and competence.

The final budget for this category was €720,416,000, while expenses by the end of the year were €384,471,000 or 53% of the final budget amount. Compared to last year, there is a lower performance of expenses, which in 2019 was €533,773,000 or 67.2% of the budget.

During the preparation of the annual budget, there has been a continuous tendency of the Government to increase budget expenses in the category of investments from year to year, because Capital Investments have a direct impact on the national economic growth. But due to the effects of Covid-19 pandemic,

protracted procurement procedures, complaints from Public Review Body (PRB) operators, and unresolved property issues, the budget execution rate in this category continues to remain low for years.

The capital investment budget for the central level was € 492,092,391, while the realization was €228,897,451 or 46.5%. This low level was affected by the non-realization of projects according to the investment clause, where the budget was €125,835,238, while the expenditure was only €25,655,267 or 20.40%. Impact was also the poor implementation of projects financed by borrowing, where the planned value was €27,273,537, while the implementation was €11,451,746 or 42%. This low realization is observed in the following budget organizations: Ministry of Labour Finance and Transfers with 6%, Assembly of the Republic of Kosovo with 18.50%, Ministry of Health with 33%, Ministry of Labour and Social Welfare with 38%, Ministry of Trade and Industry with 41%, Ministry of Culture, Youth and Sports with 43%, and Ministry of Infrastructure with 55%.

The capital investment budget for the local level was €228,323,822, while the realization was €155,573,333 or 68%. This low level of budget execution is observed at the source of financing - own source revenues, where the budget was €91,678,213, while the implementation was 42,477,314 or 46.3%. This is observed in the Municipality of Prishtina with 33%, Mitrovica North with 33%, Klllokot with 49%, the Municipality of Fushë Kosovë with 50%, and the Municipality of Ranilug with 53%.

### *Financing of capital projects from borrowing*

The total budget for 2020 for financing capital projects from borrowing was €153,108,775, while the expenditure was €37,107,013 or 24.2%. Budget funds for Capital Investments are intended for financing infrastructure projects, road rehabilitation, supporting projects from the economic recovery program, water and waste, public infrastructure and health.

Projects with poor budgetary performance are presented as the following:

- Ministry of Health - Central Administration Program, the budget was in the amount of €31,600,000, while the outturn was 8,720,000 € or 27.6%;
- Ministry of Infrastructure - the project 'Rehabilitation of regional roads', the budget allocated for 2020 was €24,500,000, while the outturn was €2,172,952 or 8.90%;
- Ministry of Infrastructure - project 'Rehabilitation of the railway line Fushë Kosovë- Hani Elezit', the budget allocated for 2020 was €12,630,000, while the outturn was €3,108,925 or 24.6%;

- Economic Recovery Program - funds were budgeted in the amount of €16,890,000 for 2020, while there was no outturn at all;
- Ministry of Infrastructure - project 'Expansion and rehabilitation of the highway M9 Prishtina-Peja', the budget allocated for 2020 was €17,000,000, while there was no outturn;
- Ministry of Economy and Environment - Water and Waste Program', the budget allocated for 2020 was in the amount of €10,250,000, also there was no outturn (projects' Wastewater Plant in the municipalities of Prishtina and Ferizaj', 'Fecal sewage in six villages of Deçan', 'Drinking water catchment in the village of Verboc - Drenas' and the project 'Construction of asbestos-cement pipes in the city of Gjakova'.

The challenges faced by BOs during the implementation of projects are: problems with expropriation of infrastructure projects, budget allocations not harmonized with project dynamics, uncertainty with procurement procedures, consolidation of project implementing units are faced with difficulties in the process of recruiting and retaining staff, budgeting some projects for which loans were not ratified agreements in the Assembly and the effects caused by the Covid-19 pandemic. As a result, the situation in some projects has affected the interruption of works, while in other cases it has caused administrative delays.

According to Regulation no.03/2017 amending the Regulation no. 01/2016 on administration of funds from borrowing, Article 10 A- Reporting to Implementing Budget Organizations, Chief Administrative Officers of implementing BOs are required to report to Treasury on the level of execution of projects financed by international borrowing, no later than the date of five of the following month, from each quarter.

The following are Budget Organizations that did not report in accordance with the requirements of the regulation:

- Kiev-Zahaq Highway Project, project value €71,000,000 and Route 6 Project from Kiev to Peja €80,000,000 (Budget Implementing Organization Ministry of Environment, Spatial Planning and Infrastructure);
- Construction of Water Supply System in Ferizaj, project value €5,130,000 (Implementing BO, Municipality of Ferizaj);
- Wastewater Treatment Project in Prishtina, project value 66,000,000 €(implementing BO Ministry of Economy and Environment);
- Modernization of the Education System in Kosovo through e-Education, project value €4,930,000 (Implementing BO Ministry of Education, Science, Technology and Innovation), and

- Implementation of Energy Efficiency Measures in Public Buildings in MEE and three Municipalities, project value €2,500,000 (Implementing BOs are the municipalities: Prishtina, Gjakova, Gjilan).

Shortcomings or irregularities identified in individual audit reports regarding Capital Investments are:

- Failure to implement projects within the time limit/dynamic plans;
- Incorrect classification of expenses;
- Weaknesses in the management of co-financing by the ministry;
- Using the negotiated procedure without publication and announcing the tender for the capital project in violation of the Budget Law;
- Non-compliance with the terms of contracts when executing payments;
- Non-compliance with deadlines for procurement procedures, opening and closing of the bid evaluation process;
- Selection of tender winners, in the absence of meeting the criteria set out in the tender dossier.
- Failure to sign the contract on time and not ordering the equipment;
- Signing the contract with the winner of the tender, in the absence of certification of TAK and the Court;
- Concluding contracts in the absence of sufficient commitment;
- Changes in the quantities of contracted bill of quantities for employment contracts, not through the procurement department and in the absence of approval of the Chief Administrative Officer (CAO) and the designer;
- Continuation of performance of works/projects, beyond the term of the contract and in the absence of approvals for extension of contract execution, as well as the lack of programs for the performance of works;
- Exceeding certain positions;
- Invalid warranty period and unauthorized signing of the receipt report;
- Inadequate segregation of duties in the procurement process;
- Lack of executive construction projects;
- Exceeding the contracted quantities;
- Delays in the process of evaluating procurement procedures;
- Weaknesses in the implementation and management of contracts;
- Lack of guarantee for completed/realized works;
- Signing contracts beyond the estimated budget value;
- Public investments in non-expropriated plots;

- Development of procurement procedures outside the procurement plan and without prior notice to the CPA;
- Advance payment not in accordance with the budget law;
- Lack of executive projects when issuing the tender dossier;
- Unclear technical specification;
- Acceptance of unfinished works/supplies or not according to the contract; and
- Selection of beneficiaries without formal criteria.

### *Other payments*

According to the final budget, budget appropriations for this category were provided in the amount of €183,000,000. During the year the following types of payments were made: payments for debt repayment, sub-borrowings and interest expenses with a total value of €115,713,000 or 63.20%, and payments from the deposit repayment fund of 2,761,000€.

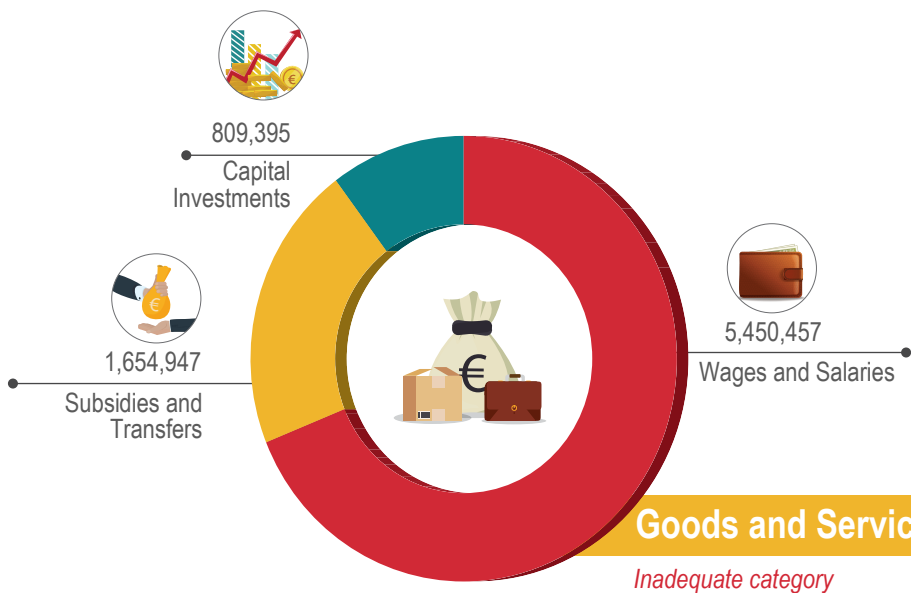
### *Misclassification of Expenses*

During the year, in 47 BOs misclassifications of expenses in a total amount of €17,808,180 were identified. Of which, €5,866,165 or 33% at 35 Central level organizations and €11,942,015 or 67% at 12 local level BOs.

The following table shows the misclassification by economic category. The category most affected by misclassification is the category of Capital Investments with €9,122,056 or 52% in relation to the misclassification as a whole, then the category of Goods and Services with €7,914,799 or 44% and the category of Subsidies and Transfers with €766,975 or 4% .

**Table 9 - Misclassification for economic categories**

Misclassification for economic categories



Adequate categories



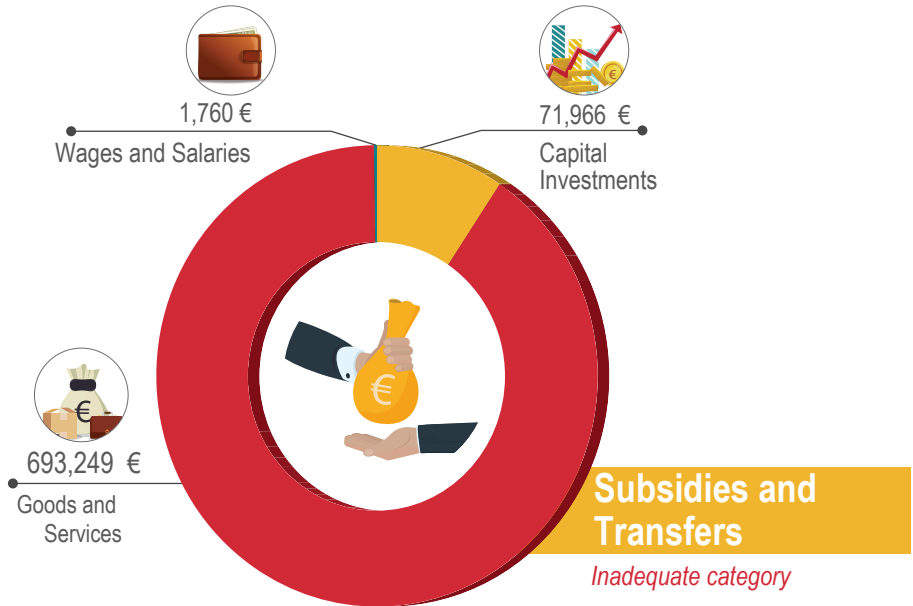
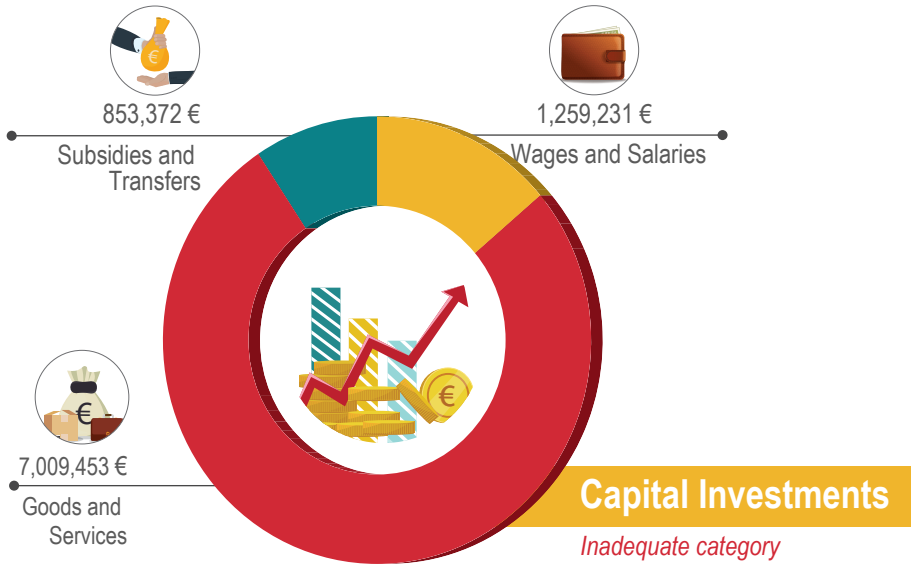
Subsidies and Transfers



Capital Investments



Wages and Salaries



**Adequate categories**



Subsidies and Transfers



Capital Investments



Wages and Salaries



Goods and Services

From the total payments from the incorrect categories of €17,808,180, the largest value of €9,122,056 was from the category of Capital Investments, these were made for expenses on Goods and Services, Salaries and Wages and Subsidies.

From the incorrect category of Goods and Services in the amount of €7,914,799, were paid for Capital Investments, Salaries and Wages and Subsidies and Transfers.

From the incorrect category of Subsidies and Transfers in the amount of €766,975, were paid for Capital Investments, Goods and Services and Salaries and Wages.

As well as from the incorrect category of Wages and Salaries, €4,350 were paid for the category of Subsidies and Transfers.

**Impact on the misclassification of expenses** The table above indicates that the misclassification of expenses is influenced by failure to plan in the right economic category through the budget process, by expenses in the incorrect categories by the Budget Organization itself, and as a result of payments executed by Treasury for court decisions.

From this aspect, most of the misclassification is planning not in the correct economic category in the amount of €9,222,677 or 52% of misclassified expenses.

The value of misclassification, executed by Treasury through court decisions is €7,626,198, or 43% of misclassified expenses, of which €6,489,453 are payments for jubilee salaries

The value of €959,305 or 5% of misclassified expenses were from expenses made in different economic categories by the Budget Organizations themselves, despite the fact that the budget planning was in order.

If we analyse the misclassifications from the aspect of over/under-declaration by economic categories, then we have the following:

*Table 6 - Over/understatement of economic categories*

Economic category	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Investments
Overstatement	4,350	7,914,799	766,975	9,122,056
Understatement	(6,711,448)	(7,702,702)	(2,512,669)	(881,361)
Over/ understatement	(6,707,098)	212,097	(1,745,695)	8,240,696

Regarding the economic categories which are overstated or understated when these are deducted (broken) among themselves, then according to the table we have that: the most overstated category is that of Capital Investments with €8,240,696, then the category of Goods and Services with €212,097, while the most understated economic category is that of Wages and Salaries with €6,707,098 and the category of Subsidies and Transfers with €1,745,695.

The Table shows 10 Budget Organizations that have paid expenses belonging to different categories mainly from the category of Capital Investments and Goods and Services.

*Table 7 - Misclassifications with budget planning and court decisions*

Entity	Incorrect category	Correct category	Financial amount	Nature of expenditure (explain in detail the nature or to which economic items these expenses belong).
Municipality of Prishtina	Capital Investments	Goods and Services	€3,520,117	Payments for the maintenance of public areas, deratization of basements, spatial disinsection, organization of various cultural festivals, etc.
Ministry of Infrastructure	Capital Investments	Goods and Services	€1,527,692	Payment for road maintenance
University Hospital Service of Kosovo	Goods and Services	Wages and Salaries	€809,439	Payments for compensation of jubilee salaries, ancillary salaries and other costs of court proceedings.
Municipality of Vushtrri	Goods and Services	Wages and Salaries	€717,648	Payments for compensation of jubilee salaries, accompanying salaries, meals and other costs of court proceedings.
Healthy ministry	Goods and Services	Subsidies and Transfers	€580,000	Payment based on the Government Decision for allowances of contract workers in Health Institutions who meet the risk conditions.
Municipality of Mitrovica	Goods and Services	Wages and Salaries	€425,033	Payments for jubilee salaries based on Court Decisions.
Municipality of Skënderaj	Goods and Services	Wages and Salaries	€406,973	Payments for compensation of jubilee salaries, accompanying salaries, meals and other costs of court proceedings.
Ministry of Education, Science and Technology	Capital Investments	Goods and Services	€393,952	Payments for supplies of sports equipment, and packages for school maintenance.
Ministry of Finance,	Goods and Services	Subsidies and Transfers	€378,624	Payments based on Court Decisions, to compensate farmers for damage (wheat and corn) caused by floods.
Municipality of Fushë Kosovë	Goods and Services	Wages and Salaries	€269,377	Payments for compensation of jubilee salaries, farewell salaries and other costs of court proceedings.

The Government, according to the regular budget process, had submitted to the Committee of Budget and Finance the Draft Budget for 2019, and this Committee then submitted to the Assembly this draft law for approval with a large number of amendments of Parliamentary Committees, parliamentary groups and MPs, which were largely approved by the Assembly of the Republic of Kosovo in the final law. This had the effect that many of these planned expenses with budget allocation, were not classified correctly.

### *Recommendations to the Government*

- The Government of Kosovo should ensure that all conditions are in place for staff employed under the Brussels Agreement to continue the normal work process. Employees that do not perform in the interest of the employer should not be remunerated; and
- The Government should review the MFLT's periodic reports on public debt and analyse the identified setbacks. It should also periodically analyse the conditions and criteria for the selection of projects for financing, budgeting and monitoring the use of borrowing funds, as well as to review possible delays in the withdrawal of these funds.

### *Recommendations to the Ministry of Finance, Labor and Transfers*

- MFLT, when preparing the initial budget, should clarify all budget items so that the transfer of data from Table 1 to the Financial Statements is clear, consistent and fair;
- It should ensure that capital project planning is subject to an analysis on the organization's capacity to manage projects in accordance with the initial plans. Controls in project planning and budget execution need to be strengthened to overcome the identified challenges in order to have the projects implemented in time and achieve the objectives. A harmonization of cash flow with project planning is necessary to address the low levels of financial outturn of capital projects; and
- In coordination with Ministers, should put in place oversight mechanisms to ensure that projects are implemented and reporting to MFLT is made in accordance with legal requirements regarding the progress of the implementation of projects financed by borrowing.

## 4.2 Statement of Assets in Cash and Balance of Funds

Cash balance at the end of the year, includes unspent amounts of funds from the money in the main account, development trust fund, cash in transit, quota in IFI, accounts of Embassies of RK, cash (cash register) ), as well as open advances.

These cash funds are divided into unallocated funds that were in the amount of €235,530,000 (bank reserves), and funds intended for specific purposes that were in the amount of €94,425,000.

Funds for specific purposes consist of: designated donor grants, own source revenues carried forward, development trust fund, designated revenues, other funds (mainly various types of deposits) and unspent funds from borrowing during 2020 and carried over to 2021.

The Government manages the funds through the use of the Single Treasury Account (STA). Most accounts are held with the Central Bank of Kosovo (CBK). The total amount of cash in the budget account of the Republic of Kosovo on 31 December 2020 was €329,955,000. The data are presented in detail below.

**Table 8 - Cash statement and balance of funds**

('000 in €)

<b>State Budget bank accounts</b>	<b>Year 2020</b>	<b>Year 2019</b>	<b>Year 2018</b>
Central Bank of Kosovo	316,897	444,301	374,663
Quotes in IFI	1,741	1,741	1,741
Trust Development Fund	1,971	4,754	4,514
Money in transit	4,851	4,632	4,031
Money in accounts of Diplomatic Missions	1,751	1,135	1,074
Cash (cash register)	2,744	1,687	1,851
<b>A. Total: financial assets in cash</b>	<b>329,955</b>	<b>458,251</b>	<b>387,874</b>
<b>Balance of funds</b>	<b>Year 2020</b>	<b>Year 2019</b>	<b>Year 2018</b>
Designated donor grants	9,752	8,866	7,803
Own source revenues transferred to CL	1,765	5,741	3,932
Own source revenues transferred to LL	55,994	49,477	44,308
Trust Development Fund	7,078	6,837	7,514
Dedicated revenues	52	803	1,706
Other revenues	15,894	17,504	16,432
Unspent funds from borrowing	3,891	7,000	0
Funds for specific purposes	94,425	96,227	81,695
Undistributed	235,530	362,023	306,179
<b>Total: funds balance</b>	<b>329,955</b>	<b>458,251</b>	<b>387,874</b>

The balance of current accounts held with the CBK has decreased compared to the previous two years. Cash at the end of 2020 has decreased by €128,296 or 28% compared to the 2019 balance sheet. This decrease is a result of financing expenses and regular budget payments.

From the table above it can be seen that the transfer of own source revenues as unspent revenues over the years, their balance is increasing from year to year. Funds carried forward from own source revenues in 2020 have increased by €2,541,000 or 4.6% compared to the amounts carried forward from 2019.

In the course of our analytical reviews of the Consolidated Statements of Financial Assets and Balance Sheets, we have not found any discrepancies between the data presented in the statement above and the data in the General Treasury. Cash found in the Main Budget Account of the Republic of Kosovo at the end of 2020 was €316,897,000 or 96% of the balance of funds.

## 5 ANALYSIS OF EXPLANATORY NOTES

The government and BOs control and manage public funds, as well as use these resources to achieve the objectives of service delivery. However, the Government should keep records and have detailed information on the public funds it manages.

The International Public Sector Accounting Standards Boards strongly encourages the disclosure of additional information, where possible, in order to increase transparency and financial accountability. Disclosure of appropriate information in the AFS regarding the overall activities of the Government can increase the transparency of financial reports and provide opportunities for a better understanding of the relationship between government activities and stakeholders.

The content of the disclosures or annexes to the AFS should be clear and provide sufficient and quality information for all items of the statements, so that the users of the AFS better understand the reported areas, ie the annual budget trends and reasons for changes.

In general, the AFS contain multiple disclosures, which provide detailed information on the content of the figures in the three main statements. Nevertheless, our conclusion is that it is not sufficient just to present analytically the figures in these three statements. Compared to the 2019 AFR, the explanatory notes to the 2020 AFR are more complete, although in some elements there is still a need to expand the relevant explanations, in particular in parts where changes are difficult for users to understand.

### 5.1 Basis of Preparation, Accounting Policies and Reporting

Ministry of Finance, on behalf of the Government, prepares the Annual Financial Statements of the Budget of the Republic of Kosovo in accordance with LPFMA no.03/L-048, amended by Law no. 03/L-221, Law no.04/L-116, Law no.04/L-194, Law no.05/L-063 and Law no.05/L-007, as well as based on IPSAS- Financial Reporting according to the principle of cash based accounting.

The basis of accounting and reporting of the Government is LPFMA and IPSAS, according to the principle of cash. Based on this, the information presented in these financial statements represents cash receipts and payments and cash flow movements.

According to the cash accounting principle, receipts/revenues are recognized when money is transferred to the Treasury account, received in commercial banks or waiting to be transferred to the Treasury account, and money collected by officials of budget organizations pending to be transferred to the Treasury account at the CBK.

Payments/expenses are recognized when they are withdrawn from the Single Treasury Account, whereas expenses for petty cash and advances for official travel are recognized at the time of closing the petty cash account and justifying official travel expenses.

Money management is organized in the form of a Single Treasury Account. The Single Treasury Account is a system of bank accounts used for the collection of revenues and the realization of expenses, which are managed and controlled by the Treasury in the Ministry of Finance, Labour and Transfers.

The Treasury is authorized to execute the payment of invoices and requests for payment under Article 39.2 of the LPFMA and court and enforcement decisions under Article 40 of the LPFMA. Such payments were made from different categories of funds which were available, respectively free for the settlement of the obligation in accordance with the requirements of the LPFMA.

The LPFMA has some additional requirements for the presentation of non-financial assets and liabilities in the explanatory notes of the financial statements, in accordance with Part 2 of IPSAS on a cash basis.

Assets presented in Annex 7 are based on KFMIS records, and include assets worth over 1,000 euros in accordance with Financial Regulation no.02/2013. The list of non-financial assets is presented in the net book value, after the application of depreciation rates according to this regulation.

The report contains disclosures of information for other accounts, which are presented in the annexes: (8) Assets worth less than 1,000 euros; (9) Stocks; (10) Receivables; (11 and 12) Liabilities; (16) Employment records, (17) Number of employees outside the payroll; (18) Number of employees with contracts for special Services. All these annexes are consolidated from the individual statements of budget organizations.

Transactions between budget organizations, called "Interdepartmental Transactions" are not consolidated in these financial statements, in order to maintain the consistency of the information reported in the individual financial statements

of budget organizations. Expenses are categorized according to the economic and functional classification of the Budget Law, based on the Government Financial Statistics of the IMF (CFS) which are a version of the 2014 CFS based on cash.

Payments made by third parties are not considered receipts or cash payments, but are Government benefits. These payments are presented as a separate note in annex 4.1 in accordance with IPSAS 2017, effective from 1 January 2019.

Cash consists of funds held in the Central Bank of Kosovo, commercial banks, as well as cash in BOs' cash registers and cash equivalents.

Payments returned to BRK from previous years in the current year are recorded as revenues of this year. The official reporting currency in Kosovo is Euro (€), while the disclosure of government debt may have been used in the currency Special Drawing Rights (SDR) in annex 21, and USD in IFI membership fee payments in annex 22.

AFS are authorized on the date of signing the declaration by the Minister of Finance, Labour and Transfers, and the Director General of Treasury and after approval by the Government.

## 5.2 Consolidation of Data from Individual Statements with Government Statements

The audit process of budget organizations has highlighted a number of discrepancies between the individual statements and their consolidation in the Government Financial Statements. This is because some of the BOs have not recorded and reflected correctly some items in their financial statements, which are mainly part of the disclosures. Treasury has done data consolidation as reported by individual organizations. Discrepancies in the consolidated figures relate to the following issues:

- In the statement of disclosures, annex no.7 to AFS/BRK for 2020, capital assets over €1,000 were presented in the amount of €9,041,518,666, while according to audits, capital assets over €1,000 turned out to be €8,943,588,684, with an overstatement of €97,929,982. This difference remains after the breaks of the balances, because some organizations have more assets than they have presented in the statements, and others have presented incomplete data on the state of assets;

- In the statement of disclosures/complaint No. 8 in the AFS/BRK for 2020 the property under €1,000 in the statement of disclosures is in the amount of €46,778,503, while according to individual audits, the value of assets is €44,927,697, with an overstatement of €1,850,806.
- Stocks in the statement of disclosures in the AFS/BRK were in the amount of €33,529,602, while according to individual audits this amount is €33,364,454, with an overstatement of €165,148.
- Outstanding liabilities at the country level, in the statement of disclosures/annex No.12 are presented in the amount of €331,418,958, while according to individual audit reports the value of outstanding liabilities was €362,982,078, there is an understatement of liabilities of €1,563,120;
- The balance of contingent liabilities in the AFS/BRK is presented in the amount of €211,972,679, while the value of these liabilities according to the audit was €217,358,083, or with an understatement of €5,385,4040; and
- Accounts receivable were presented in AFS/BRK were presented in the amount of €693,332,925, while according to individual audit reports, the value of these accounts was €692,228,120, overstated by €1,104,805.

### 5.3 Public Debts (Internal and External) and State Guarantees, as well as State Debt Stocks

General state or public debts consist of Internal Debts and External Debts. While for the needs of calculating the total debt against the Gross Domestic Product (GDP), State Guarantees in the category of debts are also considered. As a source of budget financing, these borrowings are taken in order to cover budget deficits and for the needs of financing capital projects. The Republic of Kosovo has received external debts since 2009, while since 2012 borrowing is also done from internal sources.

At the end of 2020, the Total Debt reached the value of €1,487,690,000, where compared to the previous year there is an increase of 23.87%. This amount does not include state guarantees of €31,650,000. This increase is due to disbursements of €215,330,000 during 2020 (of which €177,410,000 are for the management of the Covid-19 pandemic) as well as new issues of Securities under Domestic Debt of €169,950,000. During the last two years, the debt ratio in relation to GDP has increased, where at the end of 2019 it was 17.51%, while at the end of 2020 it was 21.83%. The following table presents the debt trend over the last three years.

*Table 9 - Internal and external state debt**(in million €)<sup>22</sup>*

Description	Year 2020	Year 2019	Year 2018
External Debt	525.80	409.10	416.43
Internal debt	961.90	791.94	676.62
General Debt	1,487.69	1,201.05	1,093.05
State Guarantees	31.65	42.68	43.70
Total Debt (% of GDP)	21.83	17.51	16.90
GDP from KAS <sup>22</sup>	6,961.00	7,103.76	6,725.91

MF for 2020 has fully complied with the legal limit for obtaining Public Debts, where in this year Public Debt in relation to GDP was 21.83%. The Law on Public Debts stipulates that in no case the amount of outstanding principal of the total debt should not exceed forty percent (40%) of GDP.

The data in the table show that most of the debts (64.66%) are from domestic borrowing, while external debts participate with a lower percentage (35.34%). As can be seen, compared to last year, external debt has increased by about €117,000,000, while domestic debts have increased by more than €170,000,000 from new issuance of securities.

State guarantees represent possible obligations and they become de facto debts only in cases when the public entity fails to pay the guaranteed contractual obligations. In these cases, the Government must pay the obligations for the guarantee given. The table shows that the Government has provided guarantees for €31,650,000 (Prishtina Urban Traffic Guarantee of €7,650,000 and the Second Credit Line Guarantee for the Deposit Insurance Fund in Kosovo of €24,000,000€).

### *External debts*

In the framework of external debt<sup>23</sup> in 2020, funds were disbursed in the total of €215,330,000. The highest amounts were disbursed by International Development Agency (IDA) creditors in the amount of €76,120,000, by the International Monetary Fund (IMF) in the amount of €51,960,000, by the European Union (EU) in the amount of €50,000,000, while the remaining amount of €37,250,000 was

<sup>22</sup> External debt changes over the years also as a result of exchange rate changes. GDP values for 2018-2019 are taken from the official website of the Kosovo Agency of Statistics, for 2020 is taken from the Budget Law 2020. The calculation of the indicator includes State Guarantees.

<sup>23</sup> External debt changes over the years also as a result of exchange rate changes. GDP values for 2018-2019 are taken from the official website of the Kosovo Agency of Statistics, while for 2020 it is taken from the Budget Law 2020. Calculation of Total Debt indicators including State Guarantees

withdrawn by the European Council Development Bank (ECDB), UniCredit and Islamic Development Bank (IDB). External debt at the end of 2020 amounts to €525,800,000. External debt has increased by €117,000,000 or 28.52% compared to 2019, and represents 35% of the total State Debt and 7.55% of GDP.

The majority or about 70% of the International Debt portfolio is to the IDA, IBRD and the IMF.

*Table 10 - External state debt*

*(in million €)*

Years	Year 2020	Year 2019	Year 2018
External Debt	525.80	409.10	416.43
Central Government	479.50	359.45	364.53
Sub-borrowed debt	46.29	49.65	51.90
External Debt (% of GDP)	7.55%	5.76	6.27
GDP	6,961.00	7,103.76	6,725.91

During 2020, seven loans/financial agreements were ratified between the Government of Kosovo and creditors, as well as one agreement to which ratification does not apply (three signed in 2019 and four in 2020). The signed financial agreements are as follows:

- Two agreements with the World Bank - IDA;
- One agreement with EBRD;
- One agreement with IMF;
- One agreement with ECDB; and
- One agreement with EIB

The contracting of new financial agreements was realized in order to finance projects in the water infrastructure sector, for the management of the Covid-19 pandemic and direct budget support. The following are the agreements and their purpose:

1. Through the loan financing agreement between the Republic of Kosovo and the International Monetary Fund, the Instant Financing Instrument for the Republic of Kosovo was approved, in the total amount of €51.96 million to support the need for balance of payments, which includes support for the state budget.;
2. The financial agreement with IDA for the loan 'Emergency Project Covid-19' for Kosovo, aims to prevent, detect and respond to the threat posed by the

Covid-19 pandemic, and strengthen national systems for preparing public health in the country;

3. The financing agreement with the EU for the loan 'Macro-Financial Assistance to Kosovo', aims to alleviate the constraints of Kosovo's external financing, to ease its balance of payments and budgetary needs, to strengthen its foreign exchange position and help it address current external and financial weaknesses. This EU assistance is complementary to the resources provided to Kosovo by international financial institutions and bilateral donors, in support of the authorities, the economic stabilization program and reforms;
4. The financial agreement with ECDB for the loan 'Public Sector Financing Instrument for Emergency Response to Covid-19', aims to assist the Republic of Kosovo in its efforts to provide medical Services to those affected by the Covid-19 virus and assist in pandemic management;
5. The financial agreement with the European Investments Bank for the loan 'Wastewater Treatment Plant in Gjilan', aims at the disposal of all wastewater generated in the urban area of the Municipality of Gjilan and surrounding villages, as well as to treat this water according to the standards set out in the Urban Wastewater Treatment Directive 91/271/EEC;
6. The financing agreement with the EBRD for the loan 'Vital Infrastructure Emergency Liquidity Loan', aims to assist Kosovo in providing emergency liquidity funds to vital infrastructure providers affected by the Covid-19 pandemic crisis; and
7. The financial agreement with IDA for the loan 'Fostering and Leveraging Opportunities for Water Security', aims to strengthen the national foundations for water safety management and improve water security in the Morava e Binçës pond.

*Table 11 - External debt by creditors**(in million €)*

Creditor	Year 2020	Year 2019	Year 2018
IBRD	124.31	135.64	146.98
IDA	132.20	60.53	49.51
IMF	111.44	132.60	160.14
UniCredit Austria	20.91	13.26	7.04
KfW	36.41	42.79	48.91
IDB	14.27	8.83	3.32
SFD	1.23	2.08	0.25
OFID	0.57	1.24	0.00
EBRD	6.32	4.11	0.28
EIB	7.00	7.00	0.00
RBI Austria	3.35	1.03	0.00
BE	50.00	0.00	0.00
ECDB	17.78	0.00	0.00
<b>Total external debt</b>	<b>525.80</b>	<b>409.10</b>	<b>416.43</b>

*Domestic debts*

The Republic of Kosovo has started issuing its Securities since January 2012. Market development has proven to be quite successful in terms of investor interest and borrowing costs, and this type of borrowing has contributed as the main catalyst in budget deficit financing.

Domestic debt is created through the sale of securities by the Government in the form of Treasury bills (up to 1 year) and bonds (2 to 10 years).

In 2020, the domestic debt is €961,900,000, which represents about 65% of the total State Debt, or 14% of GDP. The relative increases of domestic debt in last years are: in 2020 increase by 21%, in 2019 increase by 17% and in 2018 increase by 18%.

During 2020, an agreement was reached with the Kosovo Pension Savings Fund for the issuance of the Bond through direct placement with private placement, in the amount of €50,000,000 and with a maturity of 10 years, for the purpose of managing the Covid-19 pandemic.

*Table 12 - Domestic debts in the last three years**(in million €)*

<b>Domestic Debt (net)</b>	<b>Year 2020</b>	<b>Year 2019</b>	<b>Year 2018</b>
New Emissions	169.95	115.32	102.43
Domestic Debt Stock	961.90	791.94	676.62
State guarantees	31.65	42.68	43.70
Domestic Debt (% of GDP)	14.27	11.75%	10.60%
GDP	6,961.00	7,103.76	6,725.91

 *Holders of Securities*

According to Regulation MF-CBK no.01/2014 on the Primary and Secondary Market of Securities of the Government of the Republic of Kosovo, in addition to Primary Actors and Primary Participants, other natural and legal persons have the right to purchase Securities in the Primary Market as well as Secondary Securities of the Government of Kosovo. As a result, in addition to commercial banks that are Primary Actors and the Pension Trust as a Primary Participant, the Securities are held by other physical and legal investors (businesses and private individuals). In the following we have presented in the table the situation according to the holders of Securities for the years 2016-2020.

*Table 13 - Securities Holders (nominal value)**(in million €)*

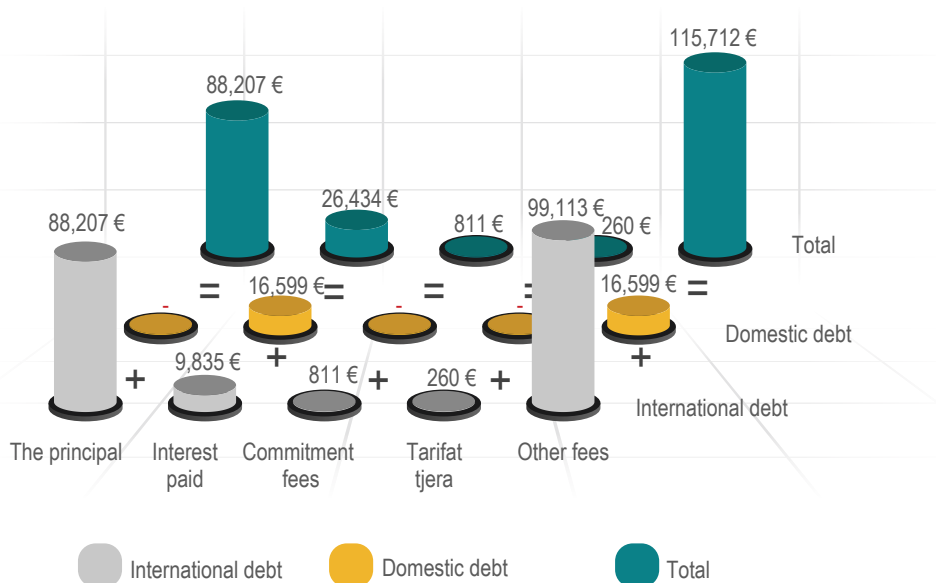
<b>Instruments</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Commercial Banks	272.48	283.03	257.25
Pension Funds	450.12	298.56	210.12
Public Institutions	198.86	181.02	185.98
Insurance Companies	33.8	26.40	22.92
Other	10.01	6.24	3.55
<b>Total</b>	<b>965.27</b>	<b>795.25</b>	<b>679.82</b>

*Domestic and international debt service*

In 2020, international and domestic debt services were €116,000,000. Of these, for international debt together with interest was €99,000,000 (about 67.94% of the amount paid is to the IMF, about 16.94% is debt service to the IBRD, and 15.13% to other creditors). While for the domestic debt the interest paid was around 17,000,000 €.

The following table presents data on debt repayment and international interest as well as domestic interest, including principal repayment, interest expense, commitment fees and other fees as part of debt.

*International and Domestic Debt Services for 2020 (in million €)*



*State guarantees*

For the purposes of calculating the total debt and determining the limit of such debt, State and Municipal Guarantees are treated as debt. At the end of 2020, the value of state guarantees granted was €31,650,000 (guarantee for urban traffic Prishtina of €7,650,000 and Second Credit Line Guarantee for DIFK of €24,000,000).

Based on annex 21 of the AFS/BRK - disclosure of government debt, we note that from the ratified agreements, in 5 projects worth €229,500,000 no funds were withdrawn at all. Unspent funds relate to unrealized projects as follows:

- The project of road 6 from Kieva to Peja in the amount of 80,000,000 €, where the project implementer was the Ministry of Infrastructure, the year of ratification of the agreement is 2018;
- The project for the Kieva-Zahaq Highway in the amount of €71,000,000, the project implementer was the Ministry of Infrastructure, the year of ratification of the agreement is 2018;
- Wastewater treatment project in Prishtina in the amount of €66,000,000, the year of ratification of the agreement is 2017;

- Wastewater Development Project in Gjilan in the amount of €10,000,000, the year of ratification of the agreement is 2020; and
- Project for Energy Efficient Measures in the Municipalities: Prishtina, Gjakova and Gjilan, in the amount of €2,500,000, the year of ratification of the agreement is 2016.

This was due to poor project planning which would be financed by borrowing, delays in establishing project implementing units, different procurement procedures from those foreseen in loan agreements, etc.

As a result, the Government of Kosovo is paying a commitment fee for the value of the committed funds which it has not withdrawn. This is due to the discrepancy of the time dynamics between the allocation of loans and the realization of projects, the value of the commitment fees paid for the loan funds not withdrawn by the borrowers is €811,255, for all ratified and undisbursed loans up to the year 2020.

### *Recommendation to the Government*

The government should review MFLT's annual reports on public debt on a regular basis, and use them in comprehensive deliberations when assessing the need for borrowing, the results and obstacles in the process. Also it needs to strengthen management and controls over efficient and effective use of these funds.

### *Recommendations to the Minister of Finance, Labour and Transfers*

- MFLT in cooperation with the Government and the beneficiaries of the funds should ensure that before the start of negotiation of loan agreements for certain projects, all conditions are met that ensure their full and efficient implementation;
- Based on Treasury's quarterly reports, MFLT, in cooperation with other line ministries, should address all the challenges identified by the line Ministries, in the implementation of projects financed by borrowing. At all times and in all cases where it is deemed necessary, MFLT should suggest appropriate measures to the Government to overcome the difficulties; and
- MFLT should provide clear guidance to budget organizations on the inclusion of capital investment plans to be financed by borrowing. Approval of projects should be done only if they have completed all the preparations and provide sufficient assurance and documented that the implementation of these projects will be done in a the right time and manner.

## 6 ASSETS

MF Regulation no. 02/2013 on Asset Management in Budget Organizations obliges all organizations to keep records of non-financial assets and to constantly update them, depending on new purchases/acquisitions or systematic review of their status of use.

The assets of budget organizations as a whole are divided into:

- Capital assets that have a useful life of more than one year and a financial value over €1,000;
- Non-capital assets that have a useful life of more than one year and a financial value less than €1,000; and
- Stocks or spare equipment and stationeries.

### *Capital and non-capital non-financial assets*

Asset management is done through two centralized systems: KFMIS Accounting Register, as an integrated system within the MF, where assets worth over €1,000 are identified, maintained, valued and reported, as well as the application “E - assets” which is an integrated asset management system within the Ministry of Public Administration, now in the Ministry of Internal Affairs, where all public institutions must record and report on their assets with values under €1,000.

Budget organizations have reported different amounts of assets in the individual AFS, figures which have subsequently been consolidated in the AFS of MF. In the case of the audit of individual statements, discrepancies were observed between the reported figures and the audited values.

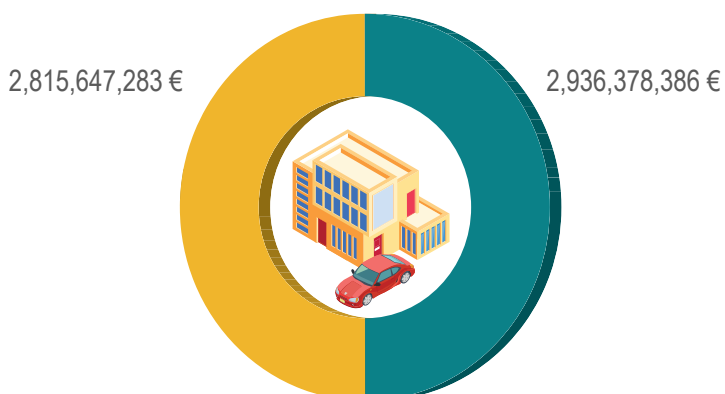
The main findings regarding asset reporting and control are as follows:

### *Central institutions*

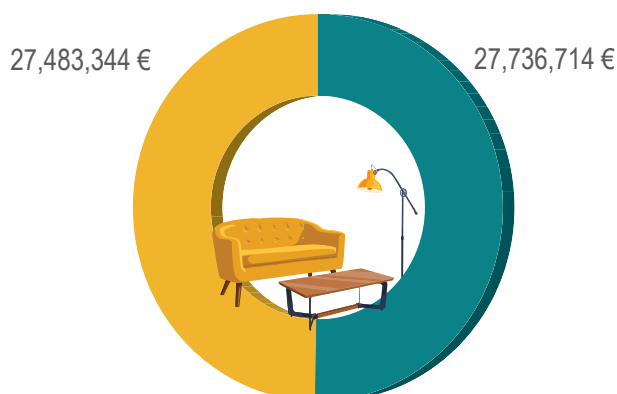
From the individual audits, it resulted that some organizations did not include in their registers a part of the assets, and as a result, the net value presented in the AFR/BRK was overstated for assets over €1000 for €120,731,103, while for assets under €1000 for €253,370.

## Status of assets in central institutions.

### Capital assets (over €1,000)



### Non-capital assets (under €1,000)



According to Audits

Value of assets presented in AFR-BRK by MF

Identified errors or discrepancies in the status of assets reported more or less, have been identified in eighteen (18) central level organizations, which include: 13 ministries, Office of the Prime Minister, University Hospital and Clinical Service, University Prishtina and three Independent Agencies.

Other weaknesses in the control and management of assets which are most often encountered during the audit of **Central Institutions** are:

- In ten (10) institutions the harmonization of data between the annual inventory report and the general asset register was not performed;

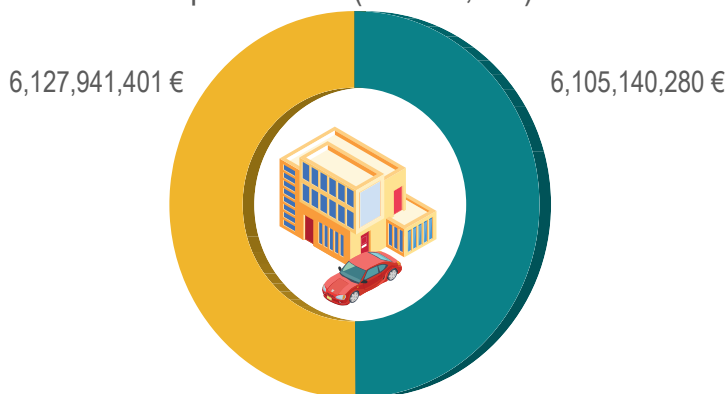
- In eighteen (18) institutions the e-assets system did not work or all assets under €1000 are not placed or partially placed in the e-assets system;
- In nine (9) institutions the annual inventory was not performed, the inventory was partial or the process was completed with delays in the inventory of assets, respectively the inventory reports were submitted after the preparation of the financial statements; and
- Other weaknesses which have been observed at the central level but in smaller numbers are: Shortcomings in the registration of the following assets and the lack of formation of commissions for the assessment of assets.

### Local Institutions

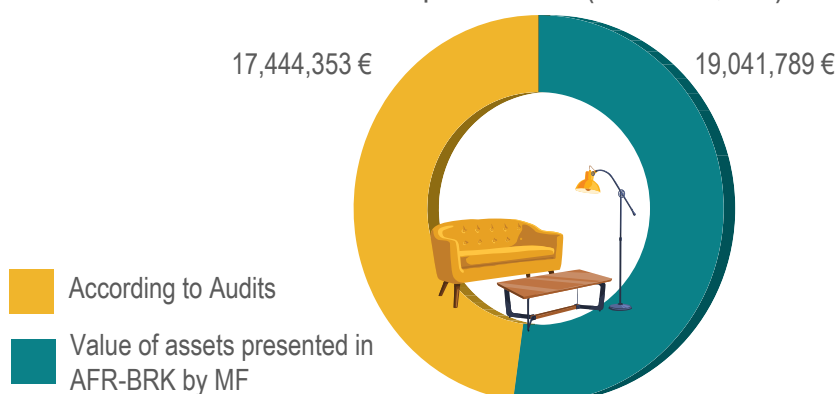
At the municipal level, significant weaknesses have been identified in terms of recording and reporting assets. Capital assets according to the net value presented in the AFR/BRK was overstated by **€22,801,119**, while non-capital assets by **€1,597,436**.

#### Status of assets in municipalities

Capital assets (over €1,000)



Non-capital assets (under €1,000)



Shortcomings and errors in the maintenance and registration of assets have been identified in most municipalities. Out of a total of thirty eight (38) municipalities, twenty three (23) of them have overstated or understated the assets presented in the AFR/BRK.

Other weaknesses in controls and management that are most often encountered during the audit of assets in municipalities are:

- The Municipality of Zubin Potok and Leposavic did not report assets worth over €1,000.
- The municipalities of Ferizaj, Zveqan, Klllokot and Novobërdë did not report non-financial assets under €1,000, while the municipalities of Istog, Leposaviq and Zubin Potok reported non-financial assets under €1,000 with zero value.
- In 17 municipalities, no harmonization of data between the general asset register and the inventory report was performed;
- In 30 municipalities, the e-assets system did not work or all assets under 1000 were not placed or partially placed in the e-assets system;
- In 14 municipalities there was a lack of property inventory or a partial inventory; and
- In 8 municipalities, internal asset management policies and procedures are lacking.

Other weaknesses which have been observed at the local level but in smaller numbers are: Deficiencies in the registration of the following assets, non-registration of assets or new purchases, non-deletion of assets which the municipalities did not have in their possession.

Seven (7) municipalities have reported AFR/BRK assets with zero value or have not reported at all. This presents uncertainties regarding the registration and updating of assets.

### *Stocks for Central and Local Institutions*

Stocks or spare equipment and office materials of central institutions according to AFR-BRK are €30,966,105, while according to individual audits €31,125,159, with an understatement of €159,054. Whereas stocks in municipalities according to the AFR-BRK are €2,563,497, while according to audits €2,239,295 with an overstatement of €324,201.

It is worth noting that at the end of 2020, nine (9) municipalities did not report stocks, while two municipalities reported stocks at zero value.

### *Audit conclusion*

Disclosures on non-financial assets and controls over their management in 2020 have not provided sufficient assurance that budget organizations have complete controls and monitoring over assets and their management in effective manner. In addition, fixed asset data in the KFMIS and E-assets management system are inaccurate and incomplete in some cases. The same asset management practices are continuing in both central and local level institutions, although for years recommendations have been made to improve this area, while independent institutions have made progress over the previous years.

### *Recommendations to the Government*

The government should play an active role in addressing all issues related to asset management by building accountability mechanisms so that:

- All budget organisations meet legal obligations by accurately recording and reporting all owned non-financial assets; and
- Analyse the causes behind incomplete functioning of the e-assets system, as a problem inherited for years, and take measures to make it fully operational.

### *Recommendations to the Ministry of Finance, Labour and Transfers*

- The Ministry of Finance, through end-of-year training on the preparation of AFS, should strengthen the requirement that all budget organizations establish timely inventory and evaluation commissions, and inventory results to be reflected in the AFS of the fiscal year; and
- Upon receipt of AFS from budget organizations, to establish formal controls in particular regarding the reporting of non-financial assets and stocks with zero status, and in such cases to seek clarification, because in the reports of the last three years there were significant differences.

## 7 ACCOUNTS RECEIVABLE

The balance of accounts receivable (AR) is mainly reported manually and consolidated afterwards, for both the preparation of individual financial statements of budget organizations and for the consolidated ones. As they constitute an extremely important item of short-term assets, they require increased attention, both for audit purposes and throughout the overall budget process - all the more so as such an approach to collecting accounting information leaves room for possible errors in their reporting or disclosure. Therefore, the errors identified during the last audits were material.

For 2020, the total value of AR declared in the Annual Financial Report 2020, for the central and local levels amounts to €693,332,926 (CL 479,101,665 € and LL 214,231,260 €), while according to the audit the value of receivables is €692,228,120 (CL €478,591,988 and LL €213,636,132). A difference of €1,104,805 overstated (including central and local level). There are even differences when comparing the notes of the individual financial statements with the consolidated ones (AFR) (€1,478,053 overstatement of AR in the AFS).

This inaccurate disclosure is due to the lack of a formal structure for reporting, monitoring and consolidation of data and due to almost technical errors in the transfer of records from the FS to the AFR, when preparing consolidated statements.

Based on the AFR, In 2020 AR increased by €55,829,012 or 8.75% (in 2020 AR are €693,332,925 and in 2019 AR were €637,503,913). We can see a growing trend of AR over the years.

*Table 14 - Summary of accounts receivable<sup>24</sup>*

Accounts receivable	According to audit 2020	According to FS of BO 2020	According to AFR 2020	According to AFR 2019	According to AFR 2018	Comparison 2020-2019
Central level	478,591,988	479,101,666	479,101,666	455,091,604	462,687,206	5.28%
Local level	213,636,132	212,812,603	212,812,603	182,412,309	170,279,395	16.67%
<b>Total</b>	<b>692,228,120</b>	<b>691,914,269</b>	<b>691,914,269</b>	<b>637,503,913</b>	<b>632,966,601</b>	<b>8.5%</b>

<sup>24</sup> Accounts receivable does not include data for the Kosovo Intelligence Agency and the National Audit Office.

### *Central Level Accounts Receivable*

The value listed in the 2020 AFR for the central level is €479,101,665, which during the audit was overstated by €509,677, as this figure according to the audit should be presented in the amount of €478,591,988. Some of the mistakes were mostly:

- AR at the Ministry of Infrastructure were overstated by €444,409. The cause of the overstatement was technical errors during AR reporting;
- AR at the Ministry of Finance were overstated by €42,769. The reason for their overstatement according to the audit was inefficient management of AR.
- AR at the Ministry of Health were overstated by €22,150. The reason for the overstatement of AR was that such value was incorrectly included within AR.
- AR at the Central Election Commission were understated by €25,372. The cause of understatement was the entity had presented the value of €1,000, while according to the audit the value of AR is €26,372.

About 87% of accounts receivable at the central level are receivables from the Ministry of Finance (audited figure €417,423,635).

Compared to the previous year, AR at the central level are characterized by an increasing trend of AR by 5.28% (AR of 2020 are €479,101,665 and AR of 2019 are €455,091,604).

### *Local Level Accounts Receivable (AR)*

According to the consolidated financial report (AFR), the balance of receivables in 34 municipalities<sup>25</sup> amounts to €214,231,260 while according to the audit the value of AR is €213,636,132. The audit revealed an overstatement of €595,128 at the local level (explanation: at the local level the understatement of AR was for (€2,529,542) and the overstatement was for €1,934,412). This difference is due to carelessness in keeping, reporting data as well as due to manual harmonization of data. This has affected the reporting and monitoring process for AR by the relevant municipal directorates to be followed with an unsatisfactory quality.

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<sup>25</sup> North Mitrovica, Zvečan Municipality, Leposaviq Municipality and Zubin Potok Municipality did not report receivables. It is worth mentioning that the property tax is budgeted year after year to be collected by these municipalities.

Changes for AR have been observed in the following municipalities:

Whilst municipalities with understated AR (differences between AR/BRK and values according to the audit) are presented as the following:

- AR of Istog Municipality were understated for €1,250,922;
- AR of Klllokot Municipality were understated for €418,340. The reason for the understatement was that in the AFS the accounts receivable presented by the property tax management office were understated and the waste collection fees were not presented at all.
- AR of Skenderaj Municipality were understated for €80,780. The reason for the underestimation of AR was that the accounts receivable from the parcel tax were not presented at all in the AFS. According to the Protax system, their value at the end of 2020 was €80,780;
- AR of Ferizaj Municipality were understated for €82,265. The reason for the understatement was that the ARs were understated for Building Permits and by Rents.
- AR of Kaçanik Municipality were understated for €45,966. The reason for the understatement was that the municipality did not provide information on the status of receivables from the use of public property that were sent to the bailiff in the amount of €45,966.
- AR of Partesh Municipality were understated for €40,314. There is no concrete explanation in the audit questionnaires regarding this difference.
- AR of Rahovec Municipality were understated for €15,824. The reason for the understatement was that the Property Tax Accounts Receivable were understated by €15,824.

Whilst municipalities with overstated AR are presented as the following:

- AR of Novobërdë Municipality were overstated for €970,816. The cause of the overstatement was insufficient control during the transfer of data related to accounts receivable from property tax to the AFS;
- AR of Mitrovica Municipality were overstated for €91,488. The reason for the overstatement was that the accounts receivable from taxes in the business were understated since the software with which these accounts are managed was not functional in 2020 and businesses were not billed at all;
- AR of Vushtrri Municipality were overstated for €42,000.

Compared to the previous year, AR at the local level is characterized by an increasing trend of 16.67% (in 2020 AR were €212,812,603 while in 2019 AR were €182,412,309).

Local level receivables generally include property tax receivables, business taxes, waste Service taxes, rents and more. This category is dominated by that of property tax which includes current charges as well as interest and penalties for non-settlement of previous obligations.

The amount of accounts receivable at both the central and local level increased in 2020, compared to 2019. Moreover, significant weaknesses have been identified at both levels regarding the reporting process and consolidation of AR. This has led to poor quality of the reporting and monitoring process for AR by the relevant departments managing the AR.

*Recommendation to the Government and the Ministry of Finance, Labour and Transfers*

The Government of the Republic of Kosovo, in coordination with revenue-generating budget organizations should carry out an in-depth analysis of the structure of these accounts, age, and the changes to collect these debts inherited for years. As a result, it should establish appropriate mechanisms to collect these debts, and provide for complete and true reporting and consolidation of accounts receivable both at the central and local level.

## 8 OUTSTANDING AND CONTINGENT LIABILITIES

### *Outstanding liabilities*

Outstanding liabilities represent invoices received for works/services completed by economic operators but which have not been paid. Due to the use of cash accounting, the balance of outstanding liabilities can only be disclosed in the financial statements. Consequently, they are processed manually by budget organizations and reported on a monthly basis to the MF, for further consolidation. The budget law and secondary regulations for the spending of public money restrict the entry of BOs into obligations, as they are obliged to order the goods (purchase order) only when funds are available, but this is not always observed. This fact has led to an increasing trend of liabilities from year to year, both locally and centrally

Total outstanding liabilities according to the audit are €362,982,078, while in the consolidated financial report, total outstanding liabilities are presented in the amount of €361,418,958, a value that according to the audit is understated by €1,563,120. Compared to the previous year (AFR 2020/ AFR 2019), liabilities have increased by €868,052.

*Table 15 - Outstanding liabilities in the last three years*

Outstanding liabilities	According to audit 2020	According to AFR/BRK 2020	According to AFR-BRK 2019	According to AFR-BRK2018	Comparison 2020 - 2019 (%)
Central Level	328,502,151	327,003,733	337,202,119	226,643,000	(3)
Local Level	34,479,927	34,385,225	23,348,787	32,149,000	47
<b>Total</b>	<b>362,982,078</b>	<b>361,418.958</b>	<b>360,550,906</b>	<b>258,792,000</b>	<b>(0.24)</b>

### *Central level outstanding liabilities*

Discrepancies were due to poor quality in data collection, consolidation and reporting, mainly in the following organizations:

- The Ministry of Education, Science and Technology (MEST) - liabilities were understated by €5,266,109 and declared less in the FS, consequently these deficiencies/notes were transferred to the AFR.
- The Ministry of Agriculture, Forestry and Rural Development (MAFRD) - liabilities were overstated by €1,897,916 and declared more in the FS, consequently these deficiencies/notes were transferred to the AFR.

- The Ministry of Economy and Environment (MEE) - liabilities were overstated by €1,604,564 and declared more in the FS, consequently these deficiencies/ notes were transferred to the AFR.

### *Local level outstanding liabilities*

Reporting errors at the local level are mainly from the Municipality of Ferizaj, there was an understatement of liabilities by €98,400 at the end of 2020 and consequently these deficiencies/ notes were transferred to the AFR.

The municipalities with the highest liabilities are Gjilan €11,012,843 or 31.93% of the total debts of the local level, Prishtina 6,790,497 € or 19.69%, and Ferizaj 4,116,646 € or 11.94%.

Untrue disclosures of liabilities present an incorrect picture of the financial position of BOs and the Government where they may result in inadequate decisions during the budgeting process. Weak controls over data reconciliation jeopardize the identification, accurate and complete reporting of liabilities, putting to question the reliability of the statements.

### *Recommendations for the Minister of Finance Labour and Transfers and Budget Organizations*

During budget appropriations, priority should be given to allocation of funds for the payment of outstanding liabilities in order to avoid additional interest and other administrative expenses. In addition, special attention should be paid to their reporting and consolidation so that a true and fair presentation is made in the AFR/BRK

### *Contingent liabilities*

In the part of liabilities, contingent liabilities are also disclosed which present different claims by the plaintiffs, which are likely to create liabilities for the organizations in the future, depending on the court decisions which may be in favour of the plaintiffs. These relate to expropriation compensation, debt compensation, material damage, wages and other related financial implications.

In the consolidated report, contingent liabilities for 2020 are in total €211,936,702 (Central level €131,085,961) and (Local level €80,850,741) while according to the audit contingent liabilities should be presented in the amount of €217,358,083.

Based on these analyses, it results that contingent liabilities were understated by €5,421,381. This category as such is subject to potential errors in disclosure. But, the differences also have to do with some mistakes that have been made by the central and local level during the consolidation of records. The positive trend of these liabilities and at the same time the negligence and lack of due diligence in their reporting is worrying. Compared to the previous year (€192,519,745 in 2019), contingent liabilities are higher by €19,416,957 or about 10.1% according to audit results.

*Table 16 - Summary of contingent liabilities<sup>26</sup>*

Contingent Liabilities	According to audit 2020	According to AFR 2020	According to AFR 2019	According to AFR 2018	Movement from 2019 (%)
Central Level	126,206,006	131,085,961	118,509,510	91,032,560	10.64
Local Level	91,152,077	80,850,741	74,010,235	75,514,104	11.27
<b>Total</b>	<b>217,358,083</b>	<b>211,936,702</b>	<b>192,519,745</b>	<b>166,546,664</b>	<b>10.25</b>

### *Central level contingent liabilities*

Contingent liabilities of the central level were reported in the 2020 AFR in the amount of €131,085,961, while according to the audit, it should be €126,206,006, an overstatement of €4,879,955. The reason for this is the poor quality of data collection, consolidation and reporting from BOs to MF. Some of the mistakes were:

- The Ministry of Infrastructure's contingent liabilities reported in its AFR were €18,987,471, whilst according to audit they were €15,554,240, an overstatement of €3,433,231. This had occurred as a result of technical errors reported in the AFS as well as carelessness in internal control;
- The Ministry of Internal Affairs' contingent liabilities reported in its AFR were €6,918,708, whilst according to audit they were €5,687,918, an overstatement of €1,230,790. This was as a result of technical errors in reporting of liabilities and lack of internal control;
- The Ministry of Culture, Youth and Sports' contingent liabilities were overstated for €256,357. The reason for this overstatement was that the AFR reflected the amount of contingent assets rather than contingent liabilities.
- The Ministry of Health's contingent liabilities were overstated by €235,341.

<sup>26</sup> Data for the National Audit Office and the Kosovo Intelligence Agency are not included herein.

### *Local level contingent liabilities*

Contingent liabilities at the local level are significantly lower compared to those at the central level. Lawsuits against municipalities are of various natures, ranging from claims for jubilee salaries to lawsuits for expropriation. Due to the unstructured and informal approach to data harmonization, the audit has highlighted a series of errors. The amount of contingent liabilities reported according to the AFS was €80,850,741 while the amount of contingent liabilities according to the audit is €91,152,077, an understated of contingent liabilities by €10,301,336.

Some of the most significant differences are the following:

- Prizren Municipality's contingent liabilities were understated by €8,600,028. These contingent liabilities were not reported in the AFR and in the 2020 AFS. This happened due to lack of coordination between the legal department and the finance department;
- Deçan Municipality's contingent liabilities were understated by €1,476,450; and
- Gjakova Municipality's contingent liabilities were understated by €158,850. This occurred as a result of failure to create general ledger which would be updated and maintained over the years by the legal office in the municipality.

Untrue disclosure of contingent liabilities has led to unfair and incomplete presentation of their balance. This may cause that the information disclosed about these liabilities to be misleading to stakeholders.

### *Recommendations to the Minister of Finance, Labour and Transfers*

In coordination with budget organizations and other relevant stakeholders, should ensure that a more accurate assessment of contingent liabilities is made so that the disclosures in the AFR are true. Where entries have not been transferred to the AFR or where discrepancies in the entries exist, the reasons behind these errors should be identified and the same should be corrected the following year.

## 9 PAYMENTS UNDER SECTION 39.2 OF LPFMA

Pursuant to the authorizations given by LPFMA, Article 39, paragraph 2, Kosovo Treasury during the year has handled the requests of economic operators for payment of late invoices (over 60 days) based on this law, from which the expenditure has been approved and transferred from the budget of the respective budget organization for the settlement of the created obligations.

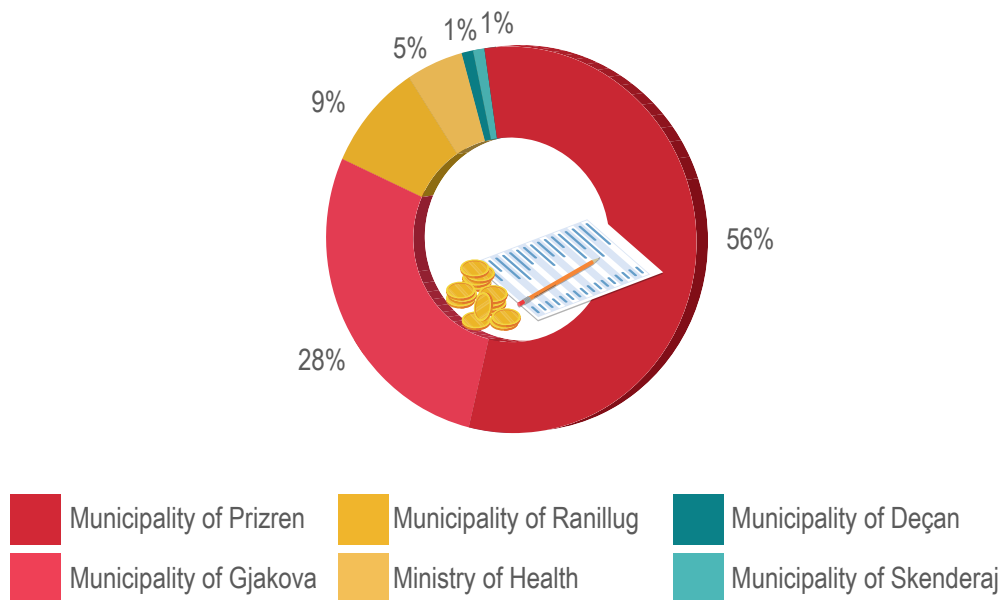
The value of these payments executed by Treasury for 2020 was €190,698. Compared to the previous year 2019, where the value of executed payments was €1,559,692, there is a very significant decrease in the amount of €1,368,994. This decrease is a positive indicator which shows that the controls regarding the negligence and irresponsibility of the responsible officials in paying the bills on time, non-planning/non-payment of the expenses for the jubilee salaries according to the collective contract, which are the main reasons for the execution of these payments are in the direction of improvement.

*Table 17 - Payments under article 39.2 of LPFMA by economic categories for the last three years (in €)*

Salaries by categories	Total 2020	Total 2019	Total 2018
Goods and Services/Utilities	67,283	52,066	1,673,869
Capital investments	123,415	1,507,626	7,010,331
<b>Total</b>	<b>190,698</b>	<b>1,559,692</b>	<b>8,684,200</b>

In view of the share of these expenses by budget organizations, most of them are local level organizations (municipalities). Expenses under article 39.2 of LPFMA by budget organizations are presented as the following:

VALUE OF PAYMENTS ACCORDING TO 39.2



Based on the audit reports of BOs for 2020, while reviewing the process of these payments, we have not noticed any irregularities and that the procedure for handling suppliers' claims for overdue and unpaid obligations under Article 39.2 of the LPFMA has been consistently implemented by the Treasury.

Meanwhile, from the aspect of financial reporting, according to the annual financial report of the budget of RKS, payments under Article 39.2 are presented in the amount of €184,672, with a change of €6,026, compared to the real situation of payments based on the latest KFMIS records. This change comes as a result of non-presentation of MoH expenses in the amount of €9,195 and presentation of the value of €3,170 as an expense of the Municipality of Istog, although the same payment was cancelled at the beginning of 2021.

*Recommendations to the Minister of Finance, Labour and Transfers*

When preparing the Annual Financial Report of BRK, should provide for true presentation of payments under Article 39.2, based on the latest corrected records of KFMIS and through comparison/reconciliation with individual AFS of BOs that have incurred such costs.

## 9.1 Payments According to Court and Enforcement Decisions

Pursuant to the LPFMA, Article 40, Item 1, when a court issues an order or decision requiring a public authority to pay any kind of monetary compensation to a person, and the order or decision is not subject to the right of appeal by the public authority, or the public authority has not exercised this right on time, the court shall immediately send a copy of the order or decision to the Ministry of Justice and the relevant Ministry, for the execution of the payment in question.

Payments under court decisions and private bailiffs decisions for 2020 were in the amount of €29,965,312. Compared to 2019, these payments increased by €4,131,074 or 16%, whereas compared to 2018, the increase is greater by €9,705,237 or 48%. The causes behind this are almost the same as in previous years, we can say that addressing these causes by those responsible was not at the right level.

*Table 18 - Payments under court decisions and bailiffs for the last three years (in €)*

Salaries by categories	Total 2020	Total 2019	Total 2018
Wages and Salaries	73,976	819,679	303,522
Goods and Services/Utilities	12,881,930	7,088,607	4,058,530
Subsidies and Transfers	259,151	603,395	590,977
Capital investments	16,750,254	17,322,557	15,307,046
<b>Total</b>	<b>29,965,312</b>	<b>25,834,238</b>	<b>20,260,075</b>

Payments for central level organizations were €15,324,361, or 51% of the total, whilst payments at the local level were in the amount of €14,640,951 or 49% of the total court decisions. Below, graphically, are presented ten (10) budget organizations to which payments in larger amounts have been executed, which constitute over 70% of the amount of payments made by court decisions (over 21 million euros).

## Payments made under court decisions by BOs with the highest values



### Budget Organisation

- Ministry of Economy and Environment
- Prizren Municipality
- Mitrovica Municipality
- Vushtrri Municipality
- University Clinical Hospital Service of Kosovo
- Ministry of Finance and Transfers
- Prishtina Municipality
- Ministry of Internal Affairs
- Ferizaj Municipality
- Ministry of Culture, Youth and Sports

Non-fulfilment of obligations by budget organizations on time has resulted in additional costs for the state budget due to the costs of court proceedings (enforcement) and interest costs. These additional costs have damaged the budgets of these BOs and consequently the intended objectives to be achieved with those funds. Given the fact that most of these expenses are Capital Investments, it turns out that many projects have remained unrealized as a result of these costs.

The main reasons for the payment of invoices by the Treasury under court decisions were mainly related to expropriation payments as a result of complaints of owners who were part of the expropriation process, delays in payment of invoices by BOs due to negligence of responsible officials; non-compensation of workers for jubilee and accompanying salaries which were regulated under the collective agreement, but which were not budgeted from the category of salaries; as well as delays in payments to economic operators due to lack of budget funds.

Moreover, from the BOs 'audits we found that the costs of court decisions were misclassified into economic categories to a large extent, which means that the reporting of these costs in the BOs' financial statements, and in the consolidated statements of BRK was not correct. Misclassification of expenses through court decisions has led to understatement/overstatement of economic categories in the AFS for the same amount.

Most of these misclassifications relate to the payment of jubilee salaries to retired employees as a result of obligations arising from collective agreements, from other categories of expenses. The amounts paid are misclassified because they do not correspond to the adequate category of expenses, thus leading to overstatement of expenses in other categories and understatement of salaries expenses for the same amount. Payments from incorrect codes occurred due to lack of budget funds, which in the case of budget allocations by the Government, respectively the Ministry of Finance, were not considered as current liabilities during the year and consequently, no contingent fund was allocated for compensation. The Treasury had executed payments from funds allocated to other categories. During the 2020 audit we have identified these type of payments in 23 BOs.

Regarding the financial reporting on these payments, according to the annual financial report of BRK, payments under court decisions were presented in the amount of €30,220,398, with a change of €255,086 compared to the real situation of these payments. This change was mainly due to the lack of fair reflection of some corrections which had resulted from changes during the transfer of expenses because of the restructuring of ministries according to government decision no.10/26 dated 23.04.2020.

### *Recommendations to the Government*

- To examine the eventual obligations and responsibilities of BOs arising from valid collective agreements and take appropriate action. Depending on these obligations and budgetary possibilities, to ensure that budget organizations do adequate budget planning, in order to avoid unnecessary expenses from eventual litigation as a result of non-fulfilment of eventual obligations arising from these agreements.

### *Recommendations to the Minister of Finance, Labour and Transfers*

- When preparing the AFR of BRK, to ensure the accuracy of the presented value of these payments, based on the latest corrected records of KFMIS and through comparison/reconciliation with individual AFS of BOs that have had such costs.

## 10 EMPLOYMENT DATA

According to Law no. 07/L-014 on Budget Appropriations for the Budget of the Republic of Kosovo for 2020, the allowed number of employees for the central level (Ministries and Independent Institutions), and the local level was 85,436, while the actual number of employees according to the AFS of BRK was 81,690. If we compare the actual number of employees in 2020 with the actual number of employees in 2019 (83,789), we have a decrease in employees per 2,099 employees, this was mainly due to pensions. As can be seen, Budget Organizations in 2020 had not managed to fill all the jobs allowed by the budget law. The difference between the allowed and actual number of employees was by 3,746. Among the reasons for not filling the positions were: the abrogation of the law on civil Service by the new law on public officials, sending the Law no. 06/L-114 on Public Officials in the Constitutional Court for interpretation by the People's Advocate, lack of secondary legislation related to this law, pandemic caused by COVID 19.

Failure to meet the approved number of employees according to the budget law for 2020, both at the central and municipal level, may result in poor performance at the level of the budget organization and failure to achieve the planned plans and objectives.

### 10.1 Employees outside the Payroll List

According to BRK AFS for 2020, the total number of employees outside the payroll was 709, where the central level institutions (Ministries and Independent Institutions) had 619 and the local level 90 employees outside the payroll. If we compare this number with last year's (405) there is an increase of 304 employees.

The largest number of them were in the Ministry of Health (510) who were staff engaged under Government decision in the fight against the COVID pandemic 19.

Moreover, in the Procurement Review Body are 46 employees engaged as external technical and professional experts.

Glllogoc Municipality (31), are staff engaged in education sector as a replacement for postnatal women.

## 10.2 Employees with Special Service Agreements

According to AFS /BRK for 2020, the total number of employees through Special Services Agreements (MSA) was 2,233. A decrease of 2,103 compared to 2019 (4,336). Following entry into force of Law no. 06 / L - 114 for Public Officials, the majority of budget organizations did not renew the expired contracts of these employees. However, even in 2020 there was a significant number of these employees who were either inherited over the years, or engaged without any procedure during 2020 for regular job positions. To completely eliminate this phenomenon, BOs should comply with all legal requirements regarding those engaged in special service agreements.



*Part Two:*

*Summary of  
individual  
audit results*



## 11 IMPLEMENTATION OF RECOMMENDATIONS

The importance of audit reports lies in identifying weaknesses in governance systems, especially financial systems, while the implementation of audit recommendations serves as a mechanism for remedying these weaknesses and making systems more efficient and effective in achieving objectives. Analyses in this area have shown that the current level of implementation of audit recommendations is not satisfactory.

Following the adoption of the AAR for 2019, the Government prepared an action plan for the implementation of the recommendations.

Most budget organizations do not implement a systematic process for monitoring the implementation of recommendations. Although, compared to 2019, the number of recommendations has decreased, however, the number of fully implemented recommendations is at the level of 45%, while the rest of the recommendations are in the process of implementation or not implemented yet, including recommendations from prior years. In addition, a number of recommendations have been treated as closed due to changes in the legal basis as well as changes in the reporting structure which will not be repeated.

Delays in the full implementation of the recommendations affect the recurrence of control weaknesses and shortcomings and the systematic recurrence of irregularities from year to year. The causes and reasons that have contributed to poor progress are various, which will be explained below.

The impact of the audit is measured by the level of implementation of the recommendations, and is the best indicator of whether management is improving existing processes and controls in the areas where irregularities have been identified.

NAO, through individual audits, also assesses the implementation of the recommendations given in the previous year and earlier years, clearly reflecting the areas in which remedial measures and actions have been taken, as well as the areas where no changes have been observed.

Annex I of the report provides complete information on the progress of the recommendations given in the AAR, while Tables 1 and 2 present the recommendation statistics for individual organizations.

## 11.1 Implementation of the Recommendations in the 2019 AAR

In the 2019 AAR, the Auditor General recommended that the Assembly request a report from the Government regarding the recommendations given in the 2019 AAR and prepare an action plan for the implementation of the recommendations given in the 2019 AAR, as well as reports regarding the progress of this plan on a six-monthly basis.

The Government of Kosovo in September 2020 had approved the Action Plan for the implementation of the recommendations, which obliges all budget organizations (BOs) to implement it. According to the COPF, the same was sent to the Assembly of Kosovo (COPF) for reviewing the progress of the recommendations.

Based on the information collected during the audit process for the budget statements as well as from individual audits, we have noticed that the actions taken by the Assembly of Kosovo, the Government and other institutions, have reflected with a low progress in the implementation of recommendations though compared to last year in terms of number, their level has decreased.

Out of a total of 43 recommendations<sup>27</sup> data in the 2019 AFR, 8 have been fully implemented, 20 were in the process of implementation and another 15 have not yet been addressed. Annex II presents detailed data on the recommendations given in AFR 2018.

The non-implementation of the recommendations has led to the recurrence of certain weaknesses and irregularities, especially in areas such as:

- Incorrect reporting of expenses in the AFS due to misclassification (including direct payments from the Treasury including jubilee salaries in municipalities) and insufficient disclosure of information;
- Weaknesses in procurement procedures;
- Weaknesses in revenue and expenditure management;
- Weaknesses in personnel management and subsidy procedures;
- Lack of internal audit services in some organizations and for small independent institutions; and
- Inefficient resource management in municipalities.

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<sup>27</sup> Three (3) Recommendations were given to the Assembly of Kosovo, 39 to the Government/ministries, and 1 to the Municipal Assemblies. Of these recommendations 2 are given in relation to performance auditing.

## 11.2 Implementation of the Recommendations in the Individual Reports 2019

Evaluating the implementation of recommendations is part of the ongoing audit process. The assessment of how and to what extent they have been implemented is made for each budget organization during the regular audit, and the results for the previous year are presented in the audit reports for the following year.

The following table presents data on the state of recommendations for 2019 and 2018, which are categorized by audited organizations.

The audited organizations are divided into: Central level institutions<sup>28</sup>, Independent institutions<sup>29</sup> and Local level Institutions (38 Municipalities).

The following tables show the number of recommendations given and the percentages of their implementation.

**Table 19: Implementation of AG recommendations for 2019**

Auditees	Total no. of Implement- recommen- dations		Partly implemented		Not implemented		Closed as unimplemented		
	No.	%	No.	%	No.	%	No.	%	
Central level institutions	266	138	52%	10	4%	71	27%	47	18%
Independent institutions	54	30	56%	0	0%	16	30%	8	13%
Local level institutions	483	197	41%	43	9%	183	38%	60	12%
<b>Total recommendations</b>	<b>803</b>	<b>365</b>	<b>45%</b>	<b>53</b>	<b>7%</b>	<b>271</b>	<b>34%</b>	<b>114</b>	<b>14%</b>

<sup>28</sup> Assembly of Kosovo, Office of the President, Office of the Prime Minister, 16 Ministers, Health Insurance Fund, Tax Administration of Kosovo, KC and HUCSK.

<sup>29</sup> Independent institutions include the University of Prishtina and 28 institutions.

**Table 20 - Implementation of AG recommendations for 2018**

Auditees	Total no. of recommendations	Implemented		Partly implemented		Not implemented		Closed as unimplemented	
		No.	%	No.	%	No.	%	No.	%
Central level institutions	274	111	41%	32	12%	101	37%	30	11%
Independent institutions	59	42	71%	3	5%	10	17%	4	7%
Local level institutions	588	217	37%	78	13%	201	34%	92	16%
<b>Total recommendations</b>	<b>921</b>	<b>370</b>	<b>40%</b>	<b>113</b>	<b>12%</b>	<b>312</b>	<b>34%</b>	<b>126</b>	<b>14%</b>

As seen from the tables above, the total number of recommendations given for the years 2018/2019 is declining, which is reflected by the level of institutions, however the level of recommendations not implemented or that implementation has not started, is still not satisfactory.

In general, budget organizations do not follow any formal process of monitoring, evaluating or reporting on the degree of progress. This reflects the lack of responsibility to ensure that recommendations are implemented in a timely manner and obstacles to action are identified and addressed.

In 2019, the NAO sent to BO "Rules of Procedure for the implementation of the audit and action plans" as well as the formats of the forms for the action plan of recommendations and their monitoring (progress).

In order to have the situation improved, there is a need for increased commitment and accountability from those responsible and regular monitoring of the implementation of recommendations by all Budget Organizations (BOs).

### **Implementation of recommendations in the performance reports**

The purpose of the recommendations in performance audits is to improve the process of implementation and effective functioning of systems, programs and government activities. The recommendations are addressed to the audited entities in order to improve their approach in relation to the spending of public funds.

Through performance audits, the NAO has provided useful recommendations to the Assembly and the auditees to improve and increase economy, efficiency and effectiveness in important sectors such as: judicial system, health, environment,

information technology systems, public procurement. Performance audit recommendations have included both central and local government levels.

The monitoring of the implementation of the recommendations from the individual performance audit reports is done through special audits, which are also known as the “follow-up phase”. After this process, the results of the implementation of the recommendations were issued.

The AAR for 2019 provides two recommendations, one of which is implemented while one is in the process of implementation. Annex II of this report presents the state of implementation of these recommendations.

### *Reasons behind low implementation of recommendations*

Lack of formal processes for proper and systematic monitoring of action plans for implementation of recommendations, as well as lack of proper commitment for their addressing, are among the main reasons for the low level of implementation of recommendations. Also, the lack of effective oversight by the Government and oversight bodies has led budget organizations to avoid full and consistent implementation of financial management guidelines, causing the recommendations to be repeated.

To increase the level of implementation of recommendations, additional measures are needed by the Government to BOs and strengthen accountability measures to the Assembly of Kosovo.

### *Recommendations to the Assembly of Kosovo*

To ensure that the action plan for the implementation of recommendations prepared by the Government is reviewed by the COPF. These plans should set out the actions, deadlines and persons responsible for the implementation of the recommendations and their monitoring. In addition, to ensure that COPF has reviewed the progress made on the recommendations given at least twice a year.

### *Recommendation to the Government*

The Government should establish an effective process of monitoring the implementation of recommendations, and discuss with BOs all effective measures that can improve the process, in particular those strengthening the accountability and preventing the setbacks in implementation of recommendations.

## 12 AUDIT OPINIONS ON INDIVIDUAL REPORTS 2020

NAO for 2020, has completed 90 financial and compliance audits. The audits were performed based on the updated manual and methodology on financial and compliance audits, in order to be in line with the updated Auditing Standards (ISSAIs). Based on this methodology we have given audit opinions on the Financial Statements, in accordance with ISSAIs, and for the first time we have given audit conclusions to each BO regarding their compliance with authorities. Audit opinions regarding BOs' AFS are presented in the table below.

*Table 21 - Type and number of opinions on individual BOs for AFS for 2020*

<b>Auditees</b>	<b>Unmodified opinion</b>	<b>Qualified opinion</b>	<b>Adverse opinion</b>	<b>Total</b>
Central Level Institutions	8	14	8	22
Municipalities	25	13	25	38
Independent Institutions	30	0	30	30
<b>Total</b>	<b>63</b>	<b>27</b>	<b>63</b>	<b>90</b>

As seen from the table above, individual BO audits have resulted in: 63 unmodified opinions (of which 39 unmodified and 24 unmodified with emphasis of matter), as well as 27 modified opinions (of which 13 qualified opinions and 14 qualified opinions with emphasis of matter). Expressed in percentage, 70% of audit opinions are unmodified, which means that there was good quality and correct reporting of information in the AFS, while 30% are modified opinions, which means that a significant number of BO- have had problems reporting the required information to the AFS. In the previous year, i.e. 2019 only in 1% of cases, the statements contained material errors and mistakes, while in 2018 in 10% of cases.

The main reasons for modifying the audit opinions were mainly: misclassification and inadequate reporting of expenses (done by BO), errors in presenting information on capital and non-capital assets, unjustified payments (this applies to the central level where made payments to workers who did not attend work, mainly former members of the civil protection), non-disclosure of cost information for COVID-19, etc.

The main reasons for emphasizing the issue, in most individual audits have been the misclassification of expenses, affected by payments through court decisions and bailiffs, misclassifications affected by incorrect budget planning, etc.

## 12.1 Recommendations in the Individual Reports for 2020

In addition to the audit opinions on the AFS, in the individual BO reports we provided recommendations for improving each area where deficiencies and errors were identified. In the following table we have presented the recommendations given in the last three years, for BOs, which we have collected in three categories.

*Table 22 - Number of recommendations in individual BO reports*

<b>Audited entities</b>	<b>Year 2020</b>	<b>Year 2019</b>	<b>Year 2018</b>
Central Level Institutions	244	263	275
Municipalities	367	488	585
Independent Institutions	43	52	60
<b>Total Recommendations:</b>	<b>654</b>	<b>803</b>	<b>920</b>

The data presented in the table show a steady decline in the number of recommendations over the years. The largest decrease in the number of recommendations this year is observed in the Municipalities, while the slightest decrease in the number of recommendations is in central level BOs, although this may be influenced by the smaller number of ministries, as compared to the year In 2020, there were 5 fewer ministries, while Independent Institutions are better off, and the number of recommendations continues to decrease every year.

## 13 INTERNAL AUDIT SYSTEM

Internal Audit (IA) is an important function of the system which ensures senior management that internal control mechanisms are designed and operate effectively. The Audit Committee (AC) is an advisory body to the senior management of Public Sector Entities (PSEs), and supportive for internal auditors by ensuring their independence, assessing the adequacy of resources and ensuring the implementation of recommendations.

Within the objectives of the Public Internal Financial Control Strategy is the advancement of IA through the implementation of the professional development program, quality assurance for compliance and updating the legal framework. In Service to this goal, the Ministry of Finance - Central Unit for Harmonization of Internal Audit in February 2020 has drafted the Internal Audit Manual.

The CHU/IA is the coordinator of the entire internal audit process and, among other things, monitors public sector entities for the internal control of public finances.

IAUs in 2020 focused on the current year with a level of 67%, while in terms of actions taken by the management of BOs in the implementation of internal audit recommendations we have noticed that 45% of the recommendations given had found full implementation while the rest were in process or unimplemented.

In the internal audit system we have noticed the following shortcomings:

- Regulation 01/2019 on the establishment and implementation of the internal audit function sets out the criteria to be met for the establishment of the IAU, and sets out the minimum number of auditors that the BOs must have. Based on these criteria we have identified that out of 64 PSEs despite meeting the criterion three (3)<sup>30</sup> of them had not established the IAU. While in terms of sufficient staff with auditors out of 61 BOs that have the IAU over half (34) of them had fewer auditors than the regulation provides. However, the level of audits performed in relation to the planned ones was 85%, which is an indication that the number of internal auditors in most cases is sufficient; and
- The establishment of Audit Committees (ACs) in all organizations remains a challenge. Of the 61 BOs that had the IAU, six<sup>31</sup> (6) of them had not established the AC in 2020. Further, out of 55 BOs where the AC operated it was noted

30 Mitrovica North, Leposaviq and the Agency for the Management of Memorial Complexes.

31 Office of the Prime Minister, Ministry of Local Government, Ministry of Infrastructure, Ministry of Regional Development, Municipality of Ranillug and Central Election Commission

that in 27 of them the AC had held less than four (4) meetings as required by the AI. Also, 15 ACs had not submitted the annual report as required by Article 10 of the AI. This indicates that the ACs are still not effective enough to fully support the work of the IAU.

Internal audits continue to remain compliance-oriented and less focused on performance and systems audits.

The internal control system, despite the improvements from last year, is still not at a satisfactory level, so that IAs act as an advisor and mechanisms for preventing errors and mistakes.

*We recommend the Government to ensure that:*

- Management of BOs which are obliged to establish the IAU according to regulation GRK no. 01/2019 should establish this unit as soon as possible, through which the efficient and effective functioning of the internal control system will be ensured. BOs that are not obliged to have the IAU, to exercise the internal audit function through other ways provided by this regulation; and
- All BOs should establish Audit Committees to support the achievement of IAU objectives. These Committees should produce an annual report as required in the AI, increase efficiency and contribute to increasing accountability in BOs and strengthening the role of IA.

## 14 PROCUREMENT

Through public procurement, in 2020, 10,935 contracts were concluded in the amount of 499,311,906 euros, which compared to the previous year represents a decrease in the amount of 36%. A total of 158 contracting authorities (CAs) were involved in the development of these procurement activities, while for 16 independent institutions the procurement activities were conducted by the Central Procurement Agency.

In 2020, budget organizations (BOs) have signed 8,039 public contracts which represents over 73% of the total number of public contracts, followed by 2,888 contracts signed by publicly owned enterprises. Compared to the previous year, the number of public contracts has decreased by close to 12%.

The main source of funding for public tenders was the Kosovo budget with 86%, then own source revenues with 13% and 1% were financed by donations.

The Central Procurement Agency (CPA) has acted as the contracting authority on behalf of all BOs for 14 types of supplies and has conducted procurement activities that have resulted in the signing of centralized public contracts. During 2020, the CPA has conducted seven procurement activities that have resulted in 26 contracts (due to the division of tenders in lots) whose total value is 37,088,196 euros. A total of 103 centralized contracts for these 14 types of supplies were implemented during 2020 but were concluded in previous years.

During 2020, the Directorate for Special Procurements in CPA conducted 65 procurement activities for various BOs, at their request, and has signed 76 contracts whose total value is €1,568,937, approximately the same as the value of the contracts it had signed the previous year.

From the audit of the Annual Financial Statements of 2020 that the National Audit Office has conducted in BO, various procurement issues have been identified related to the tendering phase and that of public contract management.

Regarding the (alleged) irregularities during the tendering phase, the economic operators that had submitted their bids in response to the public tenders, during 2020 had submitted to the Procurement Review Body (PRB) 1184 complaints which represents an increase of 20% in compared to the previous year (981 complaints in 2019). In relation to the total procurement activities carried out during 2020, it turns out that there was one complaint for every 11th tender published.

Regarding the submitted complaints, the PRB has decided in favour of EO for 56% of cases, so more than half (605 cases) have been returned for re-evaluation and re-tendering (63 cases), until it has approved 339 decisions of CAs that make up 29% of the total number of appeals. The PRB has imposed three fines for three CAs during 2020, the total value of which is €20,000.

The most common issue that has been observed in public tenders is the entry into contractual obligations without sufficient budget as well as the development of procurement activity and the conclusion of contracts (construction) in the absence of major projects.

## 14.1 Irregularities in Public Procurement

In 2020, as in previous years, individual audit reports have highlighted a number of shortcomings in the development of procurement activities as well as in the implementation of public contracts concluded through procurement.

During 2020, the audit found deficiencies at every stage of procurement. In the following table we present the weaknesses that are most frequently repeated.

*Table 23 - Repeated weaknesses in public procurement*

Issue	Impact	Actions required by budget organizations
Entering into contractual obligations by signing contracts without sufficient budget in available.	Entering into liabilities without securing the necessary funds may result in delays in the execution of works or payments as well as an increase in outstanding liabilities, which will be a burden for subsequent periods.	Strengthen controls by ensuring that prior to the initiation of procurement procedures each capital project has sufficient funds for implementation.
Development of procurement activity for employment contracts, in the absence of the main project.	Initiating the procurement activity in the absence of the main project results in bypassing the legal requirement and may result in poor implementation which in turn may result in additional costs or poor value for money.	Through the procurement manager to ensure that no work-related procurement activity is initiated without ensuring that the main project exists. Proper preparation for a project by the requesting unit will have a direct effect on the drafting of clear specifications, eliminating the obstacles of both delays and additional costs.

Purchase without procurement procedures	Failure to apply procurement procedures reduces competition and transparency in the spending of public money and BO may receive products at unfavourable prices.	Ensure that the purchase of services or products is done according to adequate procurement procedures. In cases where the funding is from donors, define in the funding/grant agreement what procurement procedures are expected to take place.
Non-compliance with the requirements set in the tender dossier during the selection of economic operators.	Contract award of economic operators who may not meet the requirements of the tender dossier, may affect the same to not be able to deliver/complete the goods/works as required.	Ensure that the requirements set out in the contract notice/tender dossier are being complied with by the evaluation commissions, so that only operators who have met all the conditions are rewarded with a contract.
Lack of commission for acceptance of goods	Receipt of goods in the complete absence of the members of the acceptance commission as defined in the contract increases the risk that the goods are not in accordance with the quantity and terms of the contract.	Ensure that the goods are accepted according to the terms of the contract and that no payment is made if the receipts are not signed by three members of the commission.
Exceeding quantities over 30% in framework contracts	Exceeding the framework contract above the allowed norm, affects the budget organization (BO) to enter into unplanned obligations and consequently affects that expenses are not made in accordance with the legal framework.	Ensure that contracts above the permitted rate of 30% are not exceeded and that contracts that have already exceeded the permitted limits are terminated immediately.
Commitment to special services without procurement procedure.	Bypassing procurement procedures in relation to covering positions for special services, in addition to non-compliance with legal procedures also increases the risk of engaging inadequate persons for certain positions and tasks, which may be reflected in their performance in work.	Ensure that all procurement procedures and steps are followed in engaging individual contractors for specific services ensuring that the staff engaged will be able to perform the required tasks. Management should also ensure that commitments to regular positions are made through the regular recruitment process.
Separation of tenders and non-application of open procedure.	Allocations and deviations from appropriate procurement procedures are reflected in a lack of transparency and competition restrictions, jeopardizing the qualitative aspect of supplies received for the money spent.	Ensure fair and accurate planning, avoiding any division of the same procurement activities, so as to ensure efficient procurement and thus enable compliance with legal requirements for money spent.

<p>Annex contract beyond the allowed value of 10%</p>	<p>Bypassing open procedures in cases where additional quantities exceed 10% of the contract value may affect competition. Also, the change of contracted bill of quantities points out the weaknesses of the contract and the controls exercised by the management.</p>	<p>Ensure that technical specifications are drafted in accordance with executive projects and approvals of changes should be made only in cases permitted by law. Also, when there is a need for additional work, make a detailed analysis of the required quantities and in cases where the needs of the contracting authority cannot be met without making substantial changes to the contract, then an open procurement procedure should be applied in accordance with the requirements of PPL legal provisions.</p>
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### *Recommendations to Budget Organizations*

- To ensure that there are sufficient funds for each contract, approved in the budget law, to cover the cost of the project and have it implemented as planned.
- To use procurement procedures which ensure that competitiveness is not limited and provide value for money spent; and
- Ensure that procurement activities for employment contracts are not initiated unless the main project exists.

## 15 APPLICABILITY OF LAWS AND LEGAL CHALLENGES

In the audits conducted during 2020, there were cases of non-compliance with certain legal provisions (including shortcomings in the implementation of property tax laws, construction permits, use of public property, reporting of AFS by publicly owned enterprises, as well as decisions of various expropriations). The cases handled relate to the applicability of laws and legal challenges of particular importance which will be reported in the AAR, as follows:

(a) *Various legal arrangements for the reporting and publication dates of audited AFS.*

Based on Article 33.1 of Law no. No.03/L-087 on Publicly Owned Enterprises (POEs), the Annual Financial Statements of each Publicly Owned Enterprise are subject to an external audit provided by law in accordance with internationally accepted auditing standards. This audit is performed by an independent, competent and qualified auditor. The final product of such an audit should be an opinion on the authenticity of the Annual Financial Statements including, herein, the Management Letter. The opinion and Letter of Management must be submitted to the POE Policy and Monitoring Unit no later than May 30 of the following year for the previous year. In addition, the Auditor General, the Government and the Assembly may conduct any type of audit they deem necessary. Based on article 17 of Law no. 06/L-032 on Accounting, Financial Reporting and Auditing (AFRA), deadlines for submission and publication of financial statements of companies audited in accordance with ISAs and in accordance with Article 7 paragraph 1, and Article 8 paragraph 1 of this Law, are submitted and published in the KFRC and a copy is submitted to the relevant Ministry of Trade and Industry no later than April 30 of the following year.

Law no. 03/L 048 on Public Financial Management and Accountability (as amended), article 48, for regularity audits, the Auditor General submits final reports to each audited institution and the entity which reports directly to the relevant institution and the Minister, no later than June 30th.

Therefore, for submitting the audit report of POEs with these legal requirements, three different deadlines are set: according to the Law of ARFA – 30 April; according to the Law on POEs - 30 May; and according to LPFMA - 30 June. This as a result of various regulations and non-harmonization of these three laws that regulate the issue of reporting of publicly owned enterprises.

As a result of the legal collision between these three laws, the KCFR has imposed fines on some POEs who were late in submitting their AFS within the dates mentioned above (April 30), although the delays were due to reasons of audits performed by the NAO in accordance with applicable law

**(b) *Government decisions for expropriation without allocation of budget funds.***

Government decisions on land expropriation for various infrastructure projects create financial liabilities that have relatively high costs and are not budgeted to cover liabilities resulting in the creation of other additional costs.

In one case we noticed that with the Government decision no.08/148 dated 05.11.2010, regarding the expropriation of immovable properties of cadastral parcels, the initial debt was €662,476, but due to delays of 10 years (2010)/2020) in the execution of payments the debt increased to €1,692,551, i.e. with an additional cost of €800,974 on behalf of interest (7% annual) and €229,101 for other administrative and procedural expenses that the MEE is obliged to cover.

**(c) *Municipalities (Mitrovica North, Zvečan, and Zubin Potok) - Non-implementation of laws on revenue collection (property tax, construction permit, and use of public property).***

Article 2 of Law no. 06/L-005 on Immovable Property Tax clearly stipulates that each BO's shall collect revenues from immovable property tax. Related to this is Law no. 04/L-110 on Constructions in articles 1 and 2 determines the purpose of issuing construction permits. While Law no. 04/L-144 on the allocation for use and exchange of immovable property of the municipality regulates the manner and determines the procedures and forms for the allocation for use of public property.

During 2020, as in previous years, Municipalities, Mitrovica North, Zvečan and Zubin Potok do not collect revenues from property tax, construction permits, properties allocated for use and have not drafted internal regulations on taxes, fees and citizens' charges for public services received. Therefore, the level of collection of own source revenue is also very low. This happened because the municipalities still do not implement the laws and has not taken concrete actions to collect revenues from these activities that have a significant impact on the level of the municipal budget and improve services to citizens.

Non-implementation of laws and regulations on the collection of property tax, construction permit fees and other taxes by municipalities reflects a frivolous

approach to the implementation of legal requirements in these areas. This increases the risk of non-compliance with applicable laws and reduces the level of revenue, as well as the possibility of financing projects from these sources of revenue.

### *Recommendations to the Government and the Ministry of Finance, Labour and Transfers*

- To initiate amendments to the legal framework on financial reporting and auditing of POEs in order to provide for harmonisation of laws governing this area; and
- When issuing decisions for expropriation of properties to analyse and make an assessment of the financial effects/costs for the respective projects. In addition, to allocate budget funds and timely execute payments in order to prevent additional spending by BOs on land expropriations.

### *Recommendations for Municipalities Mitrovica North, Zvečan, and Zubin Potok*

- To provide for the implementation of revenue collection laws, and ensure that internal regulations on respective fees and taxes are drafted and approved. Collection of these revenues would enable the implementation of many projects, and improvement of citizens welfare.

## 16 ISSUES RELATED TO COVID-19 PANDEMIC MANAGEMENT COSTS

In 2020, budgeted expenses for the management of the COVID 19 pandemic were €294,565,723, of which €285,547,016 or 97% were spent.

*Table 24 - Payments for COVID 19 pandemic management (codes 00099 and 00098)*

Description	Budget	Payment	Progress %
Emergency Package (00099)	172,163,254	168,037,902	98%
Economic Recovery Package (00098)	122,402,469	117,509,114	96%
Total	294,565,723	285,547,016	97%

The budget and payments for the management of the Covid-19 pandemic were from the Emergency Package (code 00099) and the Economic Recovery Package (code 00098). These are divided as follows:

*Table 25 - Payments for COVID 19 pandemic management - Emergency Package (00099)*

Economic category	Budget	Payment	Progress %
Wages and Salaries	33,781,638	33,784,096	100%
Goods and Services	20,885,865	19,721,517	94%
Utilities	143,306	141,348	99%
Subsidies and Transfers	115,806,351	113,797,341	98%
Capital Expenses	1,546,094	593,600	38%
Total	172,163,254	168,037,902	98%

*Table 33 - Payments for COVID 19 pandemic management - Economic Recovery Package (00098)*

Description	Budget	Payment	Progress %
Wages and Salaries	200,000	175,176	88%
Goods and Services	6,834,520	4,039,469	59%
Utilities	52,453	52,440	100%
Subsidies and Transfers	115,315,496	113,242,030	98%
Total	122,402,469	117,509,114	96%

From the COVID-19 Pandemic Emergency Management Package €172,163,254 were budgeted, of which €168,037,902 or 98% were spent. While from the economic recovery package €122,402,469 were budgeted, the expenditure was €117,509,114 or 96%. Most of the budget was budgeted and spent in the category of Subsidies and Transfers. The Ministry of Finance, the Treasury respectively on 11.12.2020 had issued a circular on the processes and deadlines for the preparation of annual financial statements 2020. In this circular it was requested that the financial statements should contain a separate section (annex), which reports and discloses expenses related to pandemic management (covid-19), with the necessary explanations for budget transparency.

Based on this, budget organizations (BOs) disclosed expenses for pandemic management, with the exception of some of them, which did not disclose or partially disclose COVID expenses in the annual financial statements.

From the central level, the Office of the Prime Minister did not disclose COVID expenses in the annual financial statements. As for the local level, municipalities that have not disclosed Covid-19 management expenses are Istog, Shtërpce, and Partesh

Municipalities that have partly disclosed the Covid-19 management expenses are:

- Rahovec – out of total expenses of €410,080 has partially disclosed the amount of €303,996;
- Zubin Potok - has disclosed the expenses on goods but did not disclose the amount of €306,239 spent on subsidies; and
- Zveçan - has disclosed the costs of goods, but not the amount of €275,991 in subsidies.

This shows that BOs in question did not comply with the requirements of MF for the disclosure of COVID-19 expenses as required in the circular on the processes and deadlines for the preparation of the annual financial statements 2020, for budget transparency purposes.

### *Recommendation to the Ministry of Finance, Labour and Transfers*

The Minister of Finance and the Director General of Treasury should ensure that budget organizations in the preparation of the AFS will comply with all legal requirements regarding disclosures, including expenses for the management of COVID-19 pandemic.

The National Audit Office is in the process of completing a performance audit related to the management of the COVID-19 pandemic, which is expected to give more details on the management of the supply of medical equipment and the optimization of human and technical resources to respond to the needs of patients affected with COVID-19.



*Part Three:*

*Performance and  
Publicly Owned  
Enterprises  
Audits*



## 17 PERFORMANCE AUDITS

The National Audit Office continues to put special focus it gives to performance audits as an important factor in changing and improving the lives of citizens. Performance audits assess how much public funds are being used efficiently and effectively for the benefit of citizens. Through the results of the NAO audit, the Assembly and the citizens will be able to hold public resource managers accountable.

For the audit season 2020-2021 are covered areas of social, economic, environmental, health, safety interest and importance and in the field of public procurement and projects by donors. Through these audits, the National Audit Office aimed to promote the efficiency, accountability, effectiveness and transparency of the public administration.

In recent years, the NAO has paid special attention to information technology audits. These audits are an examination and review of the Information Technology systems and related controls in order to have assurance on the principles of legality, efficiency, economy, and effectiveness of Information Technology systems and related controls. This year, too, information systems are included with an impact on public institutions and services to citizens and according to the potential risk in their management.

During the reporting season, 11 performance and information technology audit reports were conducted. The following is a summary of the content of these reports, including the audit objective, findings and messages.

### *Subject 1 - Licensing process of users of construction and industrial minerals and protection of the environment from this activity*

Responsible institutions must assure the citizens that the use of construction and industrial minerals in the country is carried out in the right way and that the protection of the environment where they operate is ensured. The Independent Commission for Mines and Minerals regulates licensing activities for exploration and exploitation. Whereas, the Ministry of Economy and Environment is responsible for issuing environmental consents and permits and in cooperation with the inspectorates of central and local levels are responsible and regulate the activities of environmental protection.

**Audit message** - *The results of the audit show that the responsible institutions have not done enough to protect the environment from economic operators during the development of mining activity by enabling these operators to operate without applying the required criteria and without providing security on the ground. The system established by the Commission for Mines and Minerals did not provide sufficient assurance that all criteria were met during the licensing process.*

There is no coordination between the parties during the licensing, there is a lack of consent from the bodies responsible for the roads, there is a lack of rehabilitation program and the extension of licenses is realized in the absence of cultivation of areas where minerals have been exploited. Inspections by the inspectorate of the Independent Commission for Mines and Minerals have been followed by shortcomings in the implementation of punitive provisions and in the monitoring of illegal operators. The system/process for issuing environmental consents and permits by the Ministry of Economy and Environment is characterized by some shortcomings in monitoring the validity of environmental consents and the process of environmental permits, monitoring of operators using minerals. Also, the inspection by the MEE Inspectorate of mineral users is characterized by shortcomings in the implementation of punitive provisions. These deficiencies have a direct negative impact on the environment from mining activity, pose a risk to humans and animals and at the same time have a financial effect.

**Subject 2 - Implementation of the recommendations of the report**  
***“Administration of the program for medical treatment outside public health institutions and evaluation of results”***

The program for medical treatment outside the Public Health Institutions (hereinafter the Program) gives the right to equal treatment for every citizen in cases when such a service cannot be provided within the Public Health Institutions. Through the budget of the country under the management of the Health Insurance Fund for the three years 2017 to 2019 are given about 28 million euros intended for this program.

**Audit message** - *The follow-up audit shows that out of the four recommendations given, two of them have been implemented and two have partial implementation by the Health Insurance Fund. However, the Ministry of Health and the University Hospital and Clinical Service have not evaluated the results of this program, moreover, in their investment plans they have not addressed the need to reduce the demand for treatment of patients outside the Public Health Institutions.*

The software application for registration/processing and management of applicants' data has been created and is being used by the staff of the Health Insurance Fund. The Medical Evaluation Commission possesses the evaluation list of applications for non-emergency cases. The Executive Board reviews applications on time according to the administrative instruction which includes the types of diseases and price list for referral outside public health institutions, but does not report on a regular-quarterly basis. Whereas, the price list together with the types of diseases has not been updated since 2017, despite the fact that the University Clinical Hospital Service of Kosovo has continuously made investments in infrastructure, human resources that could affect the increase of treatments and prices may have changed.

Also, the Ministry of Health and the University Hospital and Clinical Service have not taken any action regarding the evaluation of the results of this program. Moreover, even when planning human resources and investments in physical infrastructure have not addressed the need to reduce the demand for treatment of patients outside of Public Health Institutions.

### *Subject 3 - Transparency and accountability in the process of financing non-governmental organizations*

Non-governmental organizations act to promote local, national and international development and through the services they provide help solve social, individual, group or wider problems. They have an impact in various areas such as: human rights, education, health, governance, protection of the poor, etc. Responsible funding institutions should ensure a process of funding NGOs which should be well managed, provide full transparency, be competitive and the implementation of projects and programs of NGOs meet the priorities and achieve the intended goals of public institutions.

**Audit message** - *The audit found that the Office of the Prime Minister, the Ministry of Culture, Youth and Sports and the Municipality of Prishtina, during the funding process of non-governmental organizations have bypassed the procedures and criteria for funding.*

There were cases when the financing of non-governmental organizations was done without any real assessment and only with decisions of the leaders. Non-governmental organizations have been supported by public institutions by more than one source of public funding for the same project. One issue with particular emphasis is the failure to evaluate results for funded projects due to a lack of project monitoring. Public Institutions have not been able to follow/monitor the progress

of projects and report on these follow-ups. The funding offices in the Office of the Prime Minister and in the relevant directorates of the Ministry of Culture, Youth and Sports have not reflected the funding data through annual reports. The Office for Good Governance within the Office of the Prime Minister has not made any effort to publish data on project funding of non-governmental organizations on the website and to make the management of the database at a satisfactory level.

#### ***Subject 4 - Prevention and response to emergency situations: Floods***

Emergency management requires good institutional organization in terms of preparedness to prevent or respond to emergencies. Emergency response is a range of challenging activities to be undertaken by state institutions. Emergency situations vary in size, cause and effect, so they require well-organized institutional preparation and response. The emergency management cycle shows that good emergency preparedness is an ongoing process. It also clarifies the fact that when a disaster occurs, prompt response is essential to minimize human and material damage. Based on previous experiences after each unusual situation comes the period of recovery and recovery of the affected economy or sectors, to the previous state.

**Audit message** - *The audit found that the responsible institutions at the central and local level, have failed to establish an appropriate system which effectively ensures the prevention and response to emergency situations of floods in the Republic of Kosovo.*

The report states that the strategic documents have not been updated by not taking into account the changes and needs of the parties involved in the management of emergency situations. Also, the country-wide risk assessment document has not been updated since 2016 and historical data on natural and other disasters are incomplete. There is a lack of monitoring of prevention activities and performance measurement of Professional Firefighting and Rescue Units. Central and local levels have failed to provide sufficient human and technical resources to respond to emergencies/floods.

#### ***Subject 5 - Value for money in Centralized Procurement - part two -***

“Value for money in centralized procurement, part two ”is a continuation of the 2018 audit with the same name. The purpose of this audit was to assess whether value for money has been achieved in centralized procurement, ie whether budget savings have been achieved and whether the Central Procurement Agency has learned lessons from experience with the first centralized procurement.

**Audit message** - *In centralized procurement there is value for money but there is also a need for some improvements in the process therefore the Central Procurement Agency has been given six recommendations.*

The Central Procurement Agency through centralized procurement activities had saved budget organizations 2.5% of the funds allocated for the procurement of certain goods. However, in addition to savings of 477 thousand euros, the Central Procurement Agency could have saved close to 514 thousand euros if the entire amount supplied by centralized contracts would be purchased at the lowest prices of the respective items of individual contracts. With this, the total savings that would result from centralized procurement would reach over one million euros which represents over 5% of the budget spent on just three centralized contracts.

Furthermore, the Central Procurement Agency had shortcomings in communication with the intended users of centralized contracts which consequently resulted in overstatement or understatement of the needs which had become the reason for their low or excessive realization. There were also shortcomings in the monitoring of centralized contracts by the Central Procurement Agency. The lack of effective monitoring had caused the Central Procurement Agency not to take corrective action when the contracts were not being implemented as intended.

The Central Procurement Agency did not conduct a proper analysis of the effects of centralized procurement to determine whether they are resulting in savings or additional costs. This was because it had not done proper market research that would provide the Agency with reference prices to which centralized contract prices would be compared.

#### ***Subject 6 - Value for money for the construction of regional and local roads - [DRAFT before comments in the organization]***

Given that road construction receives a significant share of capital investment expenses, the National Audit Office conducted an audit entitled "Value for money in the construction of local and regional roads", to assess whether value for money has been achieved. In this audit we have included the Ministry of Infrastructure, and the municipalities of Prishtina, Prizren, Ferizaj and Malisheva.

**Audit message** - *Construction of local and regional roads is followed by many shortcomings ranging from lack of feasibility study, inadequate planning of activities, insufficient budgeting, problems with expropriation, problems with drafting major projects and uncertainty regarding referral to road construction standards.*

As a result, road construction was delayed by up to three years and some remained unfinished for another five years. Therefore in these circumstances the best value for money is not provided.

Planning of activities related to road construction was not adequate, all preconditions for contract award (expropriation) were not met, procurement activities were not started in time. The auditees had not budgeted sufficient funds to ensure the uninterrupted implementation of the contracts. The audited entities had received major projects that had shortcomings and as a result, most of them were modified after the start of road works. The roads built, although belonging to the same category, were different in design and structure because the audited entities did not have a standard to which they would refer in order for the roads to be uniform. There were no feasibility studies and in the absence of which some roads were built that had given little value to the money spent. To improve these issues we have given 5 recommendations to the Ministry and municipalities.

### *Subject 7 - Collection, treatment and disposal of commercial waste*

Waste is a substance or object for disposal, which can be recycled or reprocessed. Their management is of particular importance as it affects a clean environment and safety for the health of the population.

**Audit message** - *Waste management continues to be a challenge for institutions in the country. Their collection, transport, recycling, reprocessing and disposal has an impact on the lives of citizens. If not treated properly they can contaminate soil, water and air.*

The Ministry of Environment, Spatial Planning and Infrastructure, the municipalities of Ferizaj and Fushë Kosovë have failed to create conditions for waste separation and treatment. Also, the Regional Waste Companies during the collection do not separate the waste according to the state waste catalogue and this is not done by the Landfill Management Company in Kosovo during their disposal. Environmental protection is at risk as sanitary landfills and transfer stations continue to lack integrated permits. Although the process of obtaining an integrated permit has started since 2012 which is issued by the Ministry of Environment, Spatial Planning and Infrastructure, this process by April 2021 has not been completed and shows that sanitary landfills and transfer stations continue to deposit waste without meeting the conditions to protect land, water and air.

### *Subject 8 - Projects funded by the Municipal Performance Grant-DEMOS*

In 2017, the Ministry of Local Government Administration (MLGA) and the Swiss Agency for Development and Cooperation (SDC) agreed to establish and fund a nationwide Municipal Performance Grant system. For the years 2018-2021, the Grant has at its disposal a budget of nine (9) million euros. In 2019, the Swedish Government through SIDA (Swedish International Development Cooperation) decided to join this Grant with 504,413 euros. All (38) Kosovo municipalities are eligible to apply for the performance grant.

**Audit Message** - *Municipal Performance Grant in general has assisted municipalities in achieving strategic objectives and has achieved its main goal, by providing better municipal Services to citizens.*

However, despite the fact that the Municipal Performance Grant has achieved its intended purpose, municipalities need to improve in some aspects of the management of this Grant. Municipalities do not yet have a standard process of receiving requests from citizens, reviewing them and prioritizing investment needs. Also, some projects have not been completed on time for reasons such as: delayed initiation of procurement procedures, failure to provide adequate working conditions for Economic Operators and irresponsibility of Economic Operators to the contract. Therefore, the contract management process needs to be further monitored and strengthened to maximize the intended results.

### *Subject 9 - Assessment of the implementation of the recommendations of 2017*

During 2020, the National Audit Office reviewed the progress, ie the achievements of public institutions in the process of implementing the audit recommendations addressed during 2017. The report has included the six main areas of socio-economic development; judiciary, public procurement, public administration, economic development, education and health.

This assessment was achieved through questionnaires sent to 35 audited institutions based on the various topics addressed in seven performance audit reports.

**Audit message:** *The level of implementation of audit recommendations is not satisfactory. The data of the report indicate a low level of implementation of the recommendations and require greater commitment and dedication of the responsible authorities to improve their work processes through the decisions and activities undertaken. Also, raising the accountability of public institutions is presented as a necessity for more efficient inter-institutional cooperation and engagement.*

Based on the confirmations and supporting documents, this assessment highlights that out of 74 recommendations given/assessed 59% of the recommendations are considered implemented or in process of implementation (36% of them were implemented, 10 were in the final stage, while 13% are considered at the stage that they have at least started implementation). Unimplemented recommendations' share in the total number of assessed recommendations is 10% and for 31% of the recommendations we have not received answers/information.

## Information Technology Audits

### *Subject 10 - Electronic systems for managing grants and subsidies in AAD-MAFRD*

The Agency for Agricultural Development is within the Ministry of Agriculture, Forestry and Rural Development which has an executive role in order to implement programs to support agriculture and rural development. In order to better manage and implement the work processes for financial support of Kosovar farmers, whether through grants or agricultural subsidies, the Agency has developed several information systems.

**Audit Message** - *The applications used by the Agency for Agricultural Development do not contain the standards required to efficiently manage the processes for the distribution of agricultural grants and subsidies.*

The Agency for Agricultural Development did not have a strategic plan or strategy for information technology, information technology policies and procedures that would determine how information technology would support the needs of the institution. As a result, it did not distribute financial and human resources according to its needs and created dependence on third parties, endangering the availability, integrity and reliability of information technology processes.

The applications used by the Agency did not have controls in place to ensure that they only receive authorized, accurate and complete data. As a result, the databases contained inaccurate data, as well as additional workload for application users as everyone had to constantly and repeatedly verify the data if accurate causing inefficiency in their job.

Weaknesses have also been noted in the security of information systems which endanger infrastructure and systems to be insecure and vulnerable to possible errors and misuse. There is a risk that the data stored in the databases will be

changed without being identified, as there was no adequate configuration for collecting, handling and storing activity traces in the databases.

### *Subject 11- Cases Information Management System in the Kosovo Judicial Council and the Kosovo Prosecutorial Council*

The Kosovo Judicial Council and the Kosovo Prosecutorial Council have constitutional and legal obligations to ensure an efficient justice system, fair and at the same time to ensure transparency and accountability in their work. These institutions have developed the System for Case Information Management to increase efficiency in procedures and timelines in resolving cases, providing accurate and timely statistics, and better services to citizens.

**Audit message:** *KJC and KPC have made continuous progress in CMIS, but despite this the audit results have shown that there are still some shortcomings and the full scope of implementation of this system in all instances in courts and prosecutors has not been realized.*

The automatic distribution of cases to the court and the prosecution, the interaction of the CMIS of the prosecution and the court for all documents and statistical reports with advanced indicators are some of the developments that need to be fully finalized. In addition, the information technology strategy in the KJC has not yet been drafted and standard operating procedures have not been fully implemented in the KPC.

These shortcomings may affect the poor administration of CMIS and the inaccurate reflection of efficiency, transparency and resource planning needed in courts and prosecutors' offices.

In 11 performance and information technology audit reports, the National Audit Office provided 125 recommendations for improving various aspects of public administration.

*We recommend the Assembly of Kosovo:*

Through the Public Finance Oversight Committee, the Budget and Finance Committee and other relevant standing committees to review the performance audit reports and take the needed actions to hold the heads of public institutions to account for the implementation of performance audit recommendations.

*We recommend the Government, Municipal Assemblies and management bodies of auditees:*

To ensure that action plans for the implementation of the recommendations arising from performance audits are prepared and mechanisms for continuous monitoring of implementation of these plans are established, by assigning and holding accountable the relevant functions in the organization and by ensuring regular reporting.

## 18 PUBLICLY OWNED ENTERPRISES

This season, NAO has audited 12 Publicly Owned Enterprises (POEs) for the AFS of 2020. These POEs were subject to audit by the NAO in the previous year and most of them for several years.

The audit revealed that the financial management system and their internal control need significant improvements. The fact that in 10 out of 12 POEs audited there were material errors and it resulted that opinion was modified, indicates the poor quality of financial systems in POEs and shortcomings in financial reporting and transparency regarding the management of funds and public assets.

In addition to the part of opinions, this year POEs have been followed by the same shortcomings as in previous years. The most common shortcomings were the failure to install a good governance mechanism that would contribute to the implementation of effective policies that ensure that the objectives are being achieved economically and efficiently.

Then weaknesses such as: non-segregation of duties, ineffective internal audits, lack of publication of regulations, reports for transparency purposes, and errors in the AFS, indicate the need for deep reforms and restructuring in the POEs that were subject to audits. by NAO.

Existing processes of preparing annual financial statements were not adequate. They do not contain sufficient analysis and do not take into account the risks that may occur and endanger POEs in achieving the objectives set to present the true and fair balance of transactions, items and financial statements.

To improve the current management of Publicly Owned Enterprises, we have provided a number of recommendations for the preparation of AFS and the strengthening of internal controls, which are presented in individual audit reports and addressed to those charged with the management responsibilities of POEs and their shareholders.

## 18.1 Audit Opinions for Publicly Owned Enterprises

The following table provides an overview of the opinions given for the 2020 and 2019 AFS audited by NAO.

*Table 27- Opinions given to audited POEs for 2020 and 2019*

No.	Audited Enterprises	Audit Opinion 2020	Audit Opinion 2019
1	Kosovo Landfill Management Company JSC	Unmodified	Qualified
2	Kosovo New Energy Enterprise	Unmodified with emphasis of matter	Unmodified with emphasis of matter
3	Kosovo Railways Trainkos JSC	Qualified	Qualified
4	RWC Hidroregjioni Jugor JSC	Qualified	Adverse
5	Post of Kosovo JSCC	Adverse	Adverse
6	Telecom of Kosovo JSC	Adverse	Adverse
7	RWC Prishtina JSC	Adverse	Adverse
8	RWC Pastrimi sh.a.	Adverse	Adverse
9	RWC Drini i Bardhe JSC	Adverse	Adverse
10	RWC Bifurkacion JSC	Adverse	Adverse
11	RWC Hidromorava JSC	Adverse	Qualified
12	Horticulture JSC Prishtina	Adverse	Qualified

Irregularities identified during the audit which have caused the modification of the opinion or the emphasis of the issue, have to do with the following causes:

- **Unmodified opinion** - was given only to the Landfill Management Company in Kosovo JSC, which presented the AFS without material errors.
- **Unmodified opinion with emphasis of matter** - was given to KNEE because there are material uncertainties which may raise significant doubts about the ability of the Enterprise to continue and consequently it may not be able to carry out its activities and to settle liabilities during the normal course of business, where the investor of the Kosova e Re project had declared its withdrawal from the construction of the Kosova e Re power plant and had sued the Kosovo government in the Court of Arbitration.
- **Qualified Opinions** - were given Kosovo Railways - Trainkos sh.a., and RWC Hidroregjioni sh.a due to **non-revaluation** of non-current assets for more than five years respectively, since their corporatisation in 2007 when

they were under the management of the Privatization Agency of Kosovo, deferred grant revenues were overstated in AFS, Trade payables were overstated, assets presented in the AFS were not true, depreciation expense and revaluation reserves were understated, and the disclosures were incomplete and inaccurate.

- **Dissenting Opinions** - were given to RWC Drini i Bardhë JSC, RWC PrishtinaJSC, RWC HidromoravaJSC, RWC Bifurkksioni JSC, Posta e Kosovës JSC, Telekom i Kosovës JSC, Hortikultura JSC, and RWC Pastrimi JSC due to material inaccuracies in the presentation of the financial statements, specifically for items and information related to: receivables, accounts payable, non-current assets, property, equipment and plants, ongoing investments, stock, deferred income from grants, other short-term assets, overstatement of rental income, other short-term liabilities, trade payables, revenues, cash flow by activities (operating and investment), insufficient disclosure of the going concern hypothesis, statements of changes in equity as well as explanatory notes were not complete and accurate.

### *Recommendations to Boards of Directors and Shareholders of Enterprises*

- The Boards of Directors of the respective POEs should analyse the causes that led to Modification of the Opinion and take all necessary actions to correct and prevent them. They should ensure that effective processes and controls are in place to confirm that the drafting of the AFS addresses the shortcomings identified in the previous year; and
- Shareholders to hold the Boards of Directors of the respective POEs to account in order to ensure a true and fair preparation of AFS, which would have resulted in Unmodified Opinions to respective enterprises.

## 18.2 Previous year recommendations and level of implementation

POEs audited by NAO in previous years, are having a smaller number of recommendations from year to year, and at the same time have a higher level of their implementation (with some rare exceptions).

The table below provides detailed data on the number of recommendations implemented, in the process of implementation or not implemented for each enterprise separately from the recommendations of 2019.

**Table 28 - Implementation of external audit recommendations for 2019**

No.	Audited entities	Number of recommendations	Implemented	In the process of implementation	Closed not implemented	Not implemented
1	Kosovo Landfill Management Company JSC	9	9			
2	Horticulture JSC Pristina	6	4	2		
3	Kosovo Railways Trainkos JSC	10	5			5
4	RWC Hidroregjioni Jugor JSC	11	6	4		1
5	Kosovo Post JSC	25	18	2		5
6	Telecom of Kosovo JSC	36	16	4		16
7	RWC Prishtina JSC	36	9	3	2	22
8	RWC Pastrimi JSC	44	24			20
9	Drini i Bardhe JSC	20	13	1		6
10	RWC Bifurkacion JSC	34	22	4		8
11	RWC Hidromorava JSC <sup>32</sup>	11	6	1		4
12	New Energy Enterprise of Kosovo JSC	2	1			1
<b>Total recommendations</b>		<b>244</b>	<b>133</b>	<b>21</b>	<b>2</b>	<b>88</b>

The table above shows that the recommendations given in 2019 had the status: 54% have been implemented, 9% are in the process of implementation, 1% were closed not implemented and 36% are still not implemented.

While the situation a year earlier (2018 recommendations implemented during 2019) was as follows: 41% of them were implemented, 12% of them were in the process of implementation, 9% were closed unimplemented and 38% were still not implemented.

### *Recommendation to shareholders*

- Shareholders should ensure that the Boards of Directors of audited POEs prepare quality action plans and ensure that they are fully implemented in order to increase the level of implementation of audit recommendations. Shareholders should also ensure that BDs submit progress reports on the implementation of audit recommendations at least twice a year.

<sup>32</sup> Kosovo New Energy Enterprise was established by the government in 2018 and started operating in 2019

## 18.3 Procurement in Publicly owned enterprises

The procurement process for POEs must be implemented according to the rules and procedures set out in the Law on Public Procurement in Kosovo.

The results of the audit have shown that the existing controls in the field of public procurement of publicly owned enterprises are followed with deficiencies at all stages. All issues raised in this area are presented in detail in the individual audit reports, but in summary, we are presenting them in the following table.

*Table 29 - Main issues identified during the audit of Publicly Owned Enterprises*

Issue	Cause	Impact	Actions required by management
Concluding contracts not according to the instructions of the PPRC  (RWC Hidromorava)	This was due to the lack of internal controls of the company in the implementation of procurement procedures in concluding contracts.	Entering into contracts not according to the instructions of the PPRC risks damaging the company's budget by paying more than the contract price.	The Board of Directors should ensure that all necessary actions have been taken for the correction in the accounting records and also the conclusion of contracts should be done only according to the instructions of the PPRC.
Delays in the implementation of capital projects  (RWC Hidromorava)	According to the contract managers, the delays are due to the drought faced by the municipality of Gjilan (which was declared a state of emergency). Also, the supply of pipes, according to the agreement, would be done by the donor (CDI), who was late in the supply of water pipes.	Failure to complete capital projects on time, potentially affects the entry into obligations and financial implications that may arise from the extension of time limits.	The Board of Directors should ensure that the necessary actions are taken in the management and implementation of capital investment projects, so that the execution of works is carried out within the prescribed timeframes.

<p>Frequent procurements with minimum values</p> <p>(RWC Hidromorava)</p>	<p>The division of claims has resulted from the failure to identify needs for timely supplies and poor and inadequate quantity planning for these supplies.</p>	<p>Applying multiple minimum value procedures to the same items may result in higher costs for these supplies compared to applying other procedures developed in open competition.</p>	<p>The Board of Directors should ensure that the supply needs are identified by all requesting units and the same are included in the annual procurement plan. Adequate development of supply plans helps to develop adequate procedures and add value for money.</p>
<p>Signing the contract for supply without performance security</p> <p>(Horticulture j.s.c.)</p>	<p>Based on official confirmations, the performance security was not delivered in a timely manner, prior to the signing of the contract due to the situation created by the Covid 19. pandemic. However, in the Notices of the PPRC dated 30.03.2020 and 21.04.2020 for the contracting authorities regarding the mitigation measures in the development of the tender procedures the document - the security of execution is not included in these two notifications</p>	<p>In cases of non-performance of the contract the Company in the absence of performance security may face additional costs, and fail to receive compensation for possible damages caused by non-performance.</p>	<p>The Board of Directors should review the reasons for the failure of controls and take measures and actions to strengthen them, so that the contracts are signed in full compliance with the legal requirements of public procurement.</p>
<p>Not including all procurements in the final annual procurement plan and not detailing the plan</p> <p>(RWC Bifurcation)</p>	<p>This was due to non-forecasting of needs at the time of preparation of the annual procurement plan and also due to non-detailing of requests by requesting units.</p>	<p>Failure to include some projects in the annual plan makes it impossible to meet the set deadlines, may cause additional procedures and costs for carrying out procurement activities and may not achieve the target value for money.</p>	<p>The Board of Directors should ensure that the procurement unit and the requesting units are coordinated during the drafting of the "Final Annual Procurement Plan", enabling the preparation of a detailed plan for each product, service, work and to eliminate any need for procurement outside the plan.</p>

Separation of tenders for the supplies/similar services/related	This happened despite the fact that the requesting units were informed in time for accurate recording of requests so that the possibilities for division of tenders could be avoided, while in some cases such division occurred due to the emergence of unforeseen needs on the ground. for supplies/services.	Allocations and deviations from appropriate procurement procedures are reflected in a lack of transparency and competition restrictions, jeopardizing the qualitative aspect of supplies received for the money spent.	The Board of Directors should ensure a fair and accurate planning, avoiding any division of the same procurement activities, so as to ensure efficient procurement and thus enable compliance with legal requirements for money spent.
Purchase without procurement procedures	These purchases occurred as a result of the improper functioning of internal controls in the process of planning and carrying out purchases of goods and services.	Purchasing goods and services bypassing the procurement procedures risks that the Company damages the budget and does not reach the value for money spent and affects the restriction of competition.	The Board of Directors should ensure that a proper assessment and planning of the needs of the Company has been made and in all cases where applicable, procurement procedures should be applied and direct purchases from EO should be avoided.
RWC Drini i Bardhë jsc			
Separation of tenders and non-application of open procedure	According to the procurement office, this happened because the requests that were submitted after the drafting of the plan could not be included. Also, for the activities within the plan which were not realized, the official confirms that, there were no requests from the requesting unit.	The division of tenders and the avoidance of open procedures increase the risk that the Contracting Authority will not be able to obtain the value for money spent and affect the restriction of competition.	The Board of Directors to ensure a proper assessment and planning of the needs of the enterprise and ensuring that similar items are grouped and procurement procedures are used according to the requirements of the PPL.
(RWC Pastrimi)			

<p>Improper procurement planning (RWC Pastrimi)</p>	<p>According to the procurement office the reason for not carrying out activities within the plan is the lack of requests from the requesting unit. Whereas, despite the efforts against the requesting unit for compliance with the plan, the moment the decision and the commitment of funds comes then the procurement procedure begins.</p>	<p>The signing of contracts that are not foreseen in the procurement plan and the non-development of the planned ones, is a signal of inadequate controls in the enterprise in the procurement process and this phenomenon can affect the mismanagement of the budget.</p>	<p>The Board of Directors should strengthen internal controls over the procurement process by ensuring that requesting units submit requests in a timely manner, to allow the procurement office to plan and initiate procurement activities and procedures in a timely manner.</p>
<p>Procurement of used goods (RWC Pastrimi)</p>	<p>According to the justifications given by the procurement officers, these procedures for the purchase of used trucks were carried out in the absence of financial means.</p>	<p>Procurement of used goods may affect the quality, performance and functionality of the goods purchased. The purchase of used products calls into question the quality of services/products received for the money given causing the enterprise to pay non-competitive prices for such products.</p>	<p>The Board of Directors shall ensure that, prior to the initiation of procurement procedures, it does not execute any aspect of the procurement activity in a manner that reduces or eliminates competition between economic operators or that discriminates to the detriment or benefit of one or more economic operators. The technical criteria should ensure that the bid evaluation process is equitable and non-discriminatory. In addition, it must ensure that public funds and public resources are used in the most economical way by enabling the value for money to be obtained.</p>

## 18.4 Analysis of the Financial Situation in Publicly Owned Enterprises

The table presents the main indicators of the financial situation for 12 publicly owned enterprises (10 at the central level and two at the local level). The subject of this analysis were: revenues, expenses, financial result, short-term and long-term liabilities.

*Table 30 - Financial result and liabilities of Publicly Owned Enterprises on 31.12. 2020 (in euro)*

No	Auditee	Revenues	Expenses	Financial outcome	Short-Term Liabilities	Long-Term Liabilities
1	Kosovo Landfill Management Company JSC	2,368,312	2,256,324	111,988	141,677	325,290
2	Horticulture JSC	1,457,597	1,466,871	(9,274)	482,515	0
3	Kosovo Railways - Trainkos JSC	4,099,843	3,869,820	230,023	1,396,591	1,397,666
4	RWC Hidroregjioni Jugor Sh.a, Prizren	5,687,631	5,632,852	54,779	2,538,143	15,307,110
5	Post of Kosovo JSC	11,724,170	12,701,864	(977,694)	4,062,583	0
6	Telecom of Kosovo JSC	51,700,000	68,283,000	(16,583,000)	73,534,000	11,900,000
7	RWC Pishtina JSC	17,701,999	17,274,423	427,576	4,632,241	41,213,808
8	RWC Pastrimi JSC	7,953,771	9,886,107	(1,932,337)	2,043,060	0
9	RWC Drini i Bardhë JSC	379,538	394,480	(14,942)	43,888	1,581,596
10	RWC Bifurkacion JSC	2,501,168	2,473,026	28,142	150,235	3,035,740
11	RWC Hidromorava JSC	2,629,816	2,552,219	77,597	275,203	5,609,514
12	Kosovo New Energy Enterprise	300,000	120,742	179,258	1,864	0

Revenues generated by audited enterprises in 2020 are in the amount of €108,503,844, while total expenses are in the amount of €124,622,219. Five (5) publicly owned enterprises had presented a negative financial result that in total represent a loss of €19,505,305, while the other seven enterprises presented a positive financial result with a total profit of €1,109,359. Most of the losses are from Telekom of Kosovo JSC in the amount of €16.6 million.

The table above shows concerning figures for the financial stability of these enterprises. Together, they have over 89.3 million euros in short-term liabilities, and 80.3 million in long-term liabilities. The return of these liabilities is quite uncertain, given the fact that all are on the verge of profitability, and in real terms, operate at a loss. In fact, the principle of continuity of activity in some of them may come into serious question.

Since over 89.3 million euros are short-term liabilities, there is a risk that these companies will not be able to meet these liabilities. In such a situation, the Government will be under pressure to cover some deficits of these enterprises to avoid bankruptcy proceedings due to public interest. Thus, if measures are not taken to draft strategies to overcome the current situation, the financial burden of the Government will be even greater.

Our conclusions are that the Boards of Directors of publicly owned enterprises were not sufficiently committed to establish policies and strategies to overcome the poor situation in which those enterprises are. Therefore, more active involvement of the Shareholder in problem solving is necessary.

*We recommend the Government, the Ministry of Economy and the Municipalities:*

To ensure that the Boards of Directors have analysed the financial results of POEs, have drafted and provided for the implementation of business plans for the purpose of improving the financial and business situation of these enterprises.

## Annexes:

- Annex 1: Progress in implementing the recommendations given in AFR 2019
- Annex 2: Explanation of the different types of opinions applied by the NAO; and
- Annex 3: Main Government Financial Statements

## Annex I: Progress in implementing the recommendations in AFR 2019

Responsible institution	Recommendations given in AFR 2019	Progress in implementing the recommendations Describe what measures have been taken to implement the recommendations Present evidence if any	Implemented	Partially implemented	Not implemented
<b>Chapter 1 Audit of AFS 2019</b>					
The parliament of Kosovo	Parliamentary Committees on Budget and Finance, as well as the Committee on Public Finance Oversight, should strengthen monitoring controls over the Government and the Assembly so that the Assembly of Kosovo, before approving the annual Law on Budget Appropriations for the following year, must ensure that all expenses are planned according to adequate economic categories.		Implemented	According to individual audit reports, cases have been reduced, however, there are still cases of expenditure misclassification due to inadequate expenditure planning.	
Government of Kosovo/ Ministry of Finance	The Ministry of Finance should continue with the measures started with the improvement of budget controls, so that the misclassified amounts with the budget are reduced as much as possible;  Department of Macroeconomics, in Table 1 to disclose the plan of non-tax revenues of the central level, according to BOs, and the same to serve as a revenue plan for each BO in the financial statements;	Implemented	According to the Budget Department, the Administrative Instruction on the selection criteria for capital projects has started to be implemented since 01.01.2020. For the local level we have managed to keep it at this standard, but for the central level the Government has decided to return these to the budget. Project proposals at the local level that not met the criteria are not allowed to		

<p><b>Government of Kosovo/ Ministry of Finance</b></p>	<p>When planning budget revenues, ensure that there are sufficient and clear analyses to document relevant sources of revenue. The Macroeconomics Department, the Budget Department and the Treasury must work closely to eliminate these errors before the Budget Plan is submitted to the Government. In particular, they should cooperate with the data presented in Table 1 and analyse the subsequent impacts on the Financial Statements;</p> <p>The Treasury should ask the municipalities to send the cash flow plan also for own source revenues carried forward, so that there is a balanced budget financing, always respecting the right that municipalities have to allocate these funds on time and certain projects; AND</p> <p>Upon the entry into force of the Budget Law, for all movements and changes in the KFMIS accounting books should remain traces, while only the Treasury as budget executor (respectively law enforcer) to make changes in the accounting books, including execution of all decisions for changes of budget allocations in accordance with the decisions taken in accordance with the legislation.</p>	<p>Implemented</p>	<p>become part of the budget, have remained in municipal reserve, but the possibility is left that during the fiscal year whenever a certain municipality<sup>107</sup> meets the criteria for a new capital project, is allowed to be part of the budget after approval by the Municipal Assembly. Whereas, at the central level, the government has decided that the project proposals that have been left in reserve by BD due to the programme<sup>108</sup> of conditions, have become part of the budget again.</p>	<p>Even during 2021, the cash flow plan for the source fund, own source revenues carried over from 2020 to 2021, for Budget Organizations at the local level (Municipalities) was not prepared.</p> <p>The budget department in 2020 has made changes in the accounting books, in the case of allocations, redistributions and budget transfers</p>
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<p><b>2.1.2 Realization of Budget Revenues</b></p>	<p><b>Government of Kosovo</b></p> <p>The Government of Kosovo must ensure that all conditions are in place for staff employed under the Brussels Agreement to continue the normal work process. Until then, in the Treasury payroll, the labor rate should be zero (0). Otherwise, these payments should be stopped and the continuation of these payments can be done from the category of subsidies, with a proper legal basis, because no one should be remunerated with salaries as long as he does not perform any work duties at the employer's interest.</p>	<p>Not implemented</p>
<p><b>Ministry of Finance</b></p>	<p>The MF should finally, when preparing the initial Budget, clarify all budget items so that the transfer of data from Table 1 to the Financial Statements is clear, consistent and error-free; and</p> <p>The Minister of Finance and the Budget Department should ensure that when applying to budget organizations for additional funds for urgent or unforeseen needs, to explain in detail the circumstances which have caused the need for these funds, to explain the reasons why these circumstances could not be forecasted and identified during regular budget preparation process, and after review by the Ministry of Finance, to be sent to the Government for approval and allocation of these funds from the reserve.</p>	<p>For 2021 this issue is regulated.</p> <p>Implemented</p>

3.3 Public Debts and State Guarantees

<p><b>Government of Kosovo</b></p>	<p>The government should review the Ministry of Finance’s periodic public debt reports, and analyse the identified bottlenecks. Also, on a periodic basis to analyse the conditions and criteria for the selection of projects for financing, programme and monitoring the use of borrowing funds, as well as to review possible delays in the withdrawal of these funds.</p>		<p>The government had reviewed the reports on public debts of the MF, but even in 2020 there were delays in disbursement of funds, due to failure to meet the terms of agreements for disbursement of funds related to certain projects</p>	
<p><b>Ministry of Finance</b></p>	<p>The Ministry of Finance should continue with the actions taken in addressing the projects financed by borrowing and submit twice a year to the Government for information and review a consolidated project progress report, identifying the relevant challenges and proposing measures to overcome them;</p> <p>Adopt the revised public debt law, which has significantly addressed the aspects addressed in this report, relating to debt inclusion and a needs-based approach by the MF, rather than by implementing organizations with creditors; and</p> <p>Before approving the budget (capital projects and not only), monitor the implementation of selection criteria and project priorities. Approval of projects should be done only if</p>		<p>Based on the input from the BOs implementing the projects, the Treasury during 2020 has prepared and sent to the Government for information and review two six-monthly reports.</p> <p>The law on public debt is in process, and is expected to be submitted to the Government for approval in 2021.</p> <p>According to the Treasury Department, monitoring and implementation of selection criteria as well as project priorities in terms of monitoring,</p>	

	<p>all preparations have been made for them and there is sufficient certainty and documented that the implementation of projects will be done in a timely manner.</p>		<p>the Administrative Instruction on selection criteria for capital projects is respected. It entered into force on January 1, 2020 and BOs have a legal obligation to implement this AI, if BOs do not reflect, MF will not include the budget that is sent to the Government in the proposal. The government has decided that project proposals that have been left in reserve by BD due to non-fulfilment of conditions for Budget Organizations at the central level, returned as part of the budget.</p>	
<p><b>4. Assets and Stocks</b> <b>Government of Kosovo</b></p>	<p>We partially reiterate last year's recommendations that the Government should play a proactive role in addressing all issues related to asset management and establish accountability mechanisms that:</p> <p>All organizations meet legal obligations by accurately recording and reporting all assets in possession; and</p> <p>Take measures for the full functioning of the e-assets system, as a problem inherited for years. Instead, repeal the part of the regulation which obliges BOs to use this system, and keep records separately in other BO programs.</p>		<p>This issue is not widespread in all BOs, however there are still challenges in this process, whether in the system or even in individual organizations.</p>	<p>Not implemented, the same issues are repeated in individual audit reports.</p>

<p><b>Ministry of Finance</b></p>	<p>Treasury through end-of-year trainings related to the preparation of Financial Statements; to strengthen the requirement that all budget organizations establish timely inventory and evaluation commissions, and reflect the inventory results in the financial statements at the end of the year; and</p> <p>In the case of receipt of AFS by budget organizations, to establish formal controls in particular regarding the reporting of stocks at zero, and in such cases to seek clarification, because in the reports of the last three years there are significant differences and deficient reporting.</p>	<p>Kosovo Treasury in cooperation with USAID has organized a two-day virtual meeting with BOs addressing the recommendations issued by AAR 2019, in the meeting BOs were requested to respect the financial regulation for the management of non-financial assets.</p>	<p>According to individual audit reports such cases still exist.</p>	
<p><b>5. Accounts Receivable</b></p>				
<p><b>Government, Ministry of Finance and MLGA</b></p>	<p>In coordination with municipalities and other revenue-generating organizations, they should analyse in detail the structure of these accounts, their age, and the likelihood of collecting these debts inherited over the years. Also, BOs should make an assessment which of these debts meet the criteria of bad debts and the same should be repaid from active accounts. The government should also consider other stimulus measures, not excluding legal measures for their collection.</p>			<p>Unimplemented, Accounts Receivable are growing and the situation has not improved.</p>

<b>6. Outstanding Liabilities and Contingents</b>				
<b>Ministry of Finance</b>	Ministry of Finance in coordination with organizations that have outstanding liabilities, in the case of budget allocations should have the first priority the allocation of funds for the payment of bills or liabilities from previous years in order to avoid additional interest and other administrative costs.		Treasury of Kosovo has sent a draft report of liabilities reported by BOs for 2020 to the Budget Department while the final version of the report will be sent at the time of consolidation of AFS 2020 and BOs liabilities will be discussed and addressed during the 2021 budget process (review) and 2022.	
<b>6.1 Contingent Liabilities</b>				
<b>Ministry of Finance/ Treasury/ MoJ and State Advocacy</b>	The Ministry of Finance should instruct and request from budget organizations to make a rough assessment of contingent liabilities so that the disclosures in the SFR are as complete as possible and to be considered for further analysis to address these liabilities. Where entries are not incorrectly transferred to the FS, correct them for the next year and ensure that technical errors are avoided during reporting.		The Treasury has requested from all BOs in the framework of the annual meeting with BOs, compliance with the regulation on annual financial reporting of budget organizations, part of which regulation are also contingent liabilities in order to present a fair value based on preliminary assessments.	
<b>7.1 Payments according to court and enforcement decisions</b>				
<b>Ministry of Finance/MoJ/ MLGA and Municipalities</b>	Examine all legal possibilities for out-of-court agreements to be reached by the Municipalities for cases in courts, mainly related to collective agreements, and their reprogramming based on budgetary possibilities and to plan them in the budgets in order to avoid legal fees and interest payments. Cooperation with the Judicial Council and other structures would also be necessary.			Not implemented

**Ministry of Finance**

When preparing the 2021 Annual Budget, the Ministry of Finance should request all data from each budget organization regarding the lawsuits filed along with an assessment by the legal offices for the possibility of cash outflow, and the same according to relevant categories to plan them with regular budget allocations, in order to avoid difficulties in securing funds for these payments as well as their misclassification in economic codes;

Specifically to require all BOs when calculating salaries for their staff, to calculate the obligations arising from collective agreements and submit the same plan to the Ministry of Finance so that these costs are provided in the regular budget and avoid litigation and additional court costs related to these disputes; and

Alternatively, consider increasing the contingency fund in the Ministry of Finance, and from the same fund, compensate all payments initially, while with the budget review or year-end adjustments, adjust the budget of budget organizations for the same amounts.

Not implemented, the situation is the same with misclassifications.

Not implemented, the situation is the same with misclassifications.

Not implemented, the situation is the same with misclassifications.

<p><b>8.1 Employees out of the payroll and with contracts for special Services</b></p>	<p><b>Ministry of Finance</b></p> <p>The Minister of Finance, to increase controls and together with the heads of budget organizations to ensure that in the case of planning, budget organizations have made sound and consistent analysis as well as reporting on actual employees to be harmonized; and</p> <p>The Minister of Finance and the Director General of the Treasury, to ensure that the relevant institutions will comply with all legal requirements regarding employees with special Service agreements, adapting to the requirements of the new Law on Public Officials.</p>	<p>Kosovo Treasury has taken all necessary actions by deactivating individual suppliers in KFMIS and are allowed/activated only after the request of the BO and the rationale based on the legislation in force.</p>	<p>According to MF, BD - through circulars and during budget hearings - constantly asks the BO to eliminate the discrepancy between the allowed number and the actual number of employees, but it happens that in the Assembly or the government decisions are taken to increase the number of employees even without a budget.</p>
<p><b>9.2 Implementation of the recommendations in the individual reports in 2018</b></p>	<p><b>The parliament of Kosovo</b></p> <p>We reiterate last year's recommendation that the Assembly should ensure that the action plan for the implementation of recommendations prepared by the Government is reviewed by the COPF. Also, to accurately define the actions, deadlines and persons responsible for the implementation of the recommendations and their monitoring. Also, ensure that at least once a year it reviews the progress made on the recommendations given.</p>	<p>Implementation of the recommendations in the individual reports in 2018</p>	<p>The action plan for the implementation of the recommendations has been prepared. The COPF has recommended the Assembly to consider the AFR and the recommendations given. However, the progress made on the recommendations given has not been addressed.</p>

<p><b>Municipal Assemblies</b></p>	<p>We reiterate last year's recommendation that Mayors discuss on a regular basis the reports of managers responsible for implementing action plans, and at least twice a year, report to the Municipal Assembly on progress and challenges in this area.</p>		<p>Reports are mainly discussed in Municipal Assemblies, but not on a regular basis and in all municipalities. However, the number of repeated recommendations is significant in individual municipal reports.</p>	
<p><b>11. Internal audit system</b> <b>Government/ CHU/IA</b></p>	<p>Management of BOs which are obliged to establish IAUs according to Regulation GRK no. 01/2019, should establish these units, while BOs that are not obliged to have IAU, to fulfil the internal audit function through other ways provided by this regulation and in accordance with the law on the operation and organization of state administrations and independent agencies; and</p> <p>To complete the internal audit system, IAUs need to be staffed and Audit Committees established to support the achievement of IAU objectives. Also, the AC should be effective in holding meetings and contribute to increasing accountability and strengthening the role of IA, as well as submit annual work reports, as required by the AI.</p>		<p>In individual audits, it was noticed that the cases were repeated but at a lower level, a year ago there were five and in this year three cases.</p> <p>Last year there were eight (8) cases, while in this year four (4) cases were identified.</p>	

<p><b>12.1 Issues of regularity in the field of procurement</b></p>	<p><b>For Budget Organizations</b></p> <p>Ministries allocating funds for co-financing of projects in municipalities, to appoint a member of the bid opening and evaluation commissions to ensure that the procurement procedures for co-financed projects are conducted in accordance with the legislation and to be timely informed for project development; and</p> <p>To reduce as much as possible the procurement procedures for contracts with minimum value so through other procedures to ensure a more open competition and to ensure the most favourable market prices.</p>	<p>No cases of unresolved issues regarding the evaluation commissions have been identified.</p>	<p>Not implemented</p>
<p><b>13. Applicability of laws and legal challenges</b></p>	<p><b>Government/ Ministry of Finance/ and Ministry of Economy</b></p> <p>The Government to initiate the amendment of the Law on POEs and to make the relevant legal harmonization of the dates of financial audit reporting, or to specify/ clarify the predominance of the regulations determined by one or the other law that regulates this issue;</p> <p>The Government should make a legal interpretation of the mandate and competencies of the KCFR related to the audit of the AFS of POEs when audited by the NAO. This interpretation must be binding on the KCFR, or otherwise initiate the amendment of the KRFA law to eliminate the above-mentioned contradictions; and</p>	<p>The previous government had initiated the amendment of the law on POEs, but since it is now a legislature and a new government it must be initiated again from the beginning.</p>	<p>Not implemented, we have not received any legal interpretation from the Government on the competencies of the KCFR.</p>

<p><b>Municipalities/ MLGA</b></p>	<p>The Government in cooperation with the Ministry of Finance, in accordance with the laws in force and the decision of the Government to take the necessary steps to transfer the budget from the municipalities to the EMA, respectively to the MIA.</p>			<p>There is no change in the situation, the situation remains the same.</p>
<p><b>Municipalities/ MLGA</b></p>	<p>The mayors of Zvečan, Leposaviq and Zubin Potok should ensure the implementation of revenue collection laws, which aim primarily at enforcing legal requirements and increasing the quality of services for the citizens of the respective municipalities. At the same time, they should initiate without delay the drafting of internal regulations for taxes, fees and charges of citizens for services provided to the public.</p>			<p>There is no change in the situation, it remains the same.</p>
<p><b>Ministry of Education and Science</b></p>	<p>The Minister of Education should take immediate measures to stop all illegal payments for the compensation of internal commissions in the above-mentioned universities, and to demand that their statutes be harmonized by law.</p>			<p>Not implemented</p>

**14 Performance audits**

**The parliament of Kosovo**

Through the Public Finance Oversight Committee, the Budget and Finance Committee and relevant committees in relevant areas, review performance audit reports and hold the heads of public institutions accountable for implementing the audit recommendations given in the performance reports.

The Assembly of Kosovo, through relevant committees has taken action to address performance audit reports and information technology by seeking accountability and holding accountable the heads of audited organizations.

Consequently, in the period April-June 2021, the Public Finance Oversight Committee reviewed seven (7) performance and information technology audit reports (5 performance reports and 2 IT audit reports). For each report during the addressing, the COPF has invited the heads of the organizations and in some cases the Assembly

<p><b>Government/ Municipalities</b></p>	<p>Analyse the recommendations that have resulted from performance audits and prepare and monitor action plans for their implementation. Monitoring the implementation of recommendations should be done by assigning and holding accountable the relevant functions in the organization through regular reporting.</p>	<p>Committees of the relevant fields have also participated. The COPF has issued its recommendations, as well as three reports have been sent and discussed in the plenary session of the Assembly of the Republic of Kosovo.</p>		
			<p>Despite the commitment in the Kosovo Treasury-Ministry of Finance action plan that the Government and relevant ministries will take action to review the progress of implementation of the recommendations, they have not shown that they have taken any action regarding this recommendation. With the exception of the preparation of individual action plans by some audited organizations.</p> <p>Out of 21 organizations responsible for drafting and submitting the action plan, 11 of them have drafted and submitted, while 10 others have not prepared action plans for the implementation of recommendations given in performance audits and information technology during the period September 2020 - July 2021.</p>	

<p><b>15 Publicly owned enterprises</b></p>	<p><b>Boards of Directors/ Shareholders of Enterprises</b></p> <p>The Boards of Directors of the respective POEs should analyse the causes that have influenced the Modification of the Opinion and take all necessary actions so that the issues that have influenced the public opinion can be corrected or prevented. Also, ensure that effective processes are in place to confirm that the drafting of the 2020 AFS addresses all issues raised by the audit of the 2019 AFS; AND</p> <p>Shareholders hold accountable the Boards of Directors of the respective POEs and hold them accountable for the proper and correct preparation of the AFS, as well as the implementation of recommendations in all areas.</p>	<p>BDs have made assessments of the causes and risks that have led to the modification of opinions, but the opinions of most POEs remained the same this year.</p> <p>The shareholders have held the BDs accountable and in most cases have changed and replaced them by appointing temporary BDs until they are elected by competition.</p>	
<p><b>15.4 Analysis of the financial situation in publicly owned enterprises</b></p> <p><b>Government/ Ministry of Economic Development/ Municipalities</b></p>	<p>In cooperation with the Boards of Directors, to analyse the financial results of publicly owned enterprises, with special emphasis on those who have been operating at a loss for years, taking measures for their reorganization, analysis of short-term liabilities and drafting strategic plans with concrete remedial measures; and</p> <p>Shareholders to review the performance of Boards of Directors, and where there are delays in fulfilling tasks, to take measures to increase accountability and accountability.</p>	<p>The government in some cases due to insufficient performance had dismissed some of the BDs of Central level POEs.</p>	<p>Not implemented, we have not received any analysis of government financial results for POEs</p>

## Annex II: Explanation of the Different Types of Opinion Applied by NAO

*extract from ISSAI 200)*

### Form of opinion

#### *Unmodified opinion*

It is formulated when no misstatements or non-compliance were detected or misstatements and/or non-compliance were detected, a single one or aggregate, that do(es) not equal or exceed the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions do(es) not equal or exceed the level of lower materiality established for this class of transactions. It is also formulated if there is no limitation of scope or a limitation of scope may not lead to omission of (a) material misstatement(s) and/or non-compliance).

Limitation of scope occurs when an auditor 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 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.

#### *Modifications to the opinion in the auditor's report*

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 and/or non-compliance, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement and/or non-compliance.

A modified opinion may be:

- Qualified
- Adverse, or
- Disclaimer

### *Qualified opinion*

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that equals or exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions equals or exceeds the level of lower materiality established for this class of transactions. It is also formulated if there is a limitation of scope that may not lead to omission of (a) material misstatement(s).

### *Adverse opinion*

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that pervasively exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions pervasively exceeds the level of lower materiality established for this class of transactions.

“Pervasive is a term used, in the context of misstatements and/or non-compliance, to describe the effects of misstatements and/or non-compliance on the financial statements or the possible effects on the financial statements of misstatements and/or non-compliance, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor’s judgment:

- (a) Are not confined to specific elements, accounts or items of the financial statements
- (b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- (c) In relation to disclosures, are fundamental to users’ understanding of the financial statements.

### *Disclaimer of opinion*

It is formulated when limitation of scope, i.e. inability to obtain sufficient appropriate audit evidence, is material and pervasive.

## **Emphasis of Matter paragraphs and Other Matters paragraphs in the auditor's report**

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.

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.

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 III: Confirmation Letter

REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA/REPUBLIC OF KOSOVO Qeveria e Kosovës / Vlada Kosova / Government of Kosovo Ministria e Financave / Ministarstvo za Finansije Ministry of Finance Arkiva - Arhiva - Archive			
Klasa Org. Org. Jedin. Org. Unit:	01/400	Nr. Prot. Br. Prot. Prot. No.:	1335/2021
Nr. i faqeve Broj stranica No. pages:	✓	Data Datum Date:	27/08/2021
Dolles PRISHTINE/A			



**Republika e Kosovës**  
Republika Kosova – Republic of Kosovo  
*Qeveria – Vlada – Government*  
Ministria e Financave, Punës dhe Transfereve - Ministarstvo za Finansija –  
Ministry of Finance, Labor and Transfers

### LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2020 dhe për zbatimin e rekomandimeve

Për: Zyrën e Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare Vjetore të Buxhetit Republikës së Kosovës, për vitin e përfunduar me 31 dhjetor 2020 (në tekstin e mëtejshëm “Raporti”);
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t’ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për zbatimin e tyre.

Z. Hekuran Murati

Ministër i Financave, Punës dhe Transfereve

Data: 27 gusht 2021 / Prishtinë



# Annex IV: Main Government Financial Statements 2020

For the year ended on 31 December 2020

		2020	2019	2018
		Treasury Single Account	Treasury Single Account	Treasury Single Account
	Note	'000	'000	'000
<b>RECEIPTS</b>				
Direct Taxes				
Corporate Income Tax	2	85,279	94,593	86,797
Personal Income Tax	3	157,966	165,616	152,820
Property Tax	4	22,707	27,277	24,195
Other Direct Taxes	5	1,294	4,773	3,692
		267,247	292,259	267,504
Indirect Taxes				
Value Added Tax	6	770,145	845,647	799,020
Customs Duty	7	101,618	130,326	123,747
Excise tax	8	398,072	435,496	418,903
Other indirect taxes	9	2,900	3,822	2,460
		1,272,735	1,415,291	1,344,130
Tax returns				
Tax returns	10	-32,999	-45,507	-47,880
		-32,999	-45,507	-47,880
Non-tax revenues				
Taxes, charges and others from BOs, Central Government	11	103,486	121,405	110,398
Taxes, charges and others from BOs, Local Government	12	42,716	50,050	46,350
Concession tax	13	2,651	11,083	8,792
Royalty	14	29,362	29,385	25,233
Interest revenues (loans to POEs)	15	2,986	2,691	2,092
		181,201	214,614	192,865
Borrowing				
External state borrowing	16	211,389	35,041	11,334
Receipts for sub-borrowing service	17	7,688	7,901	8,250
Internal state borrowing	18	169,955	115,322	102,434
		389,031	158,264	122,018

Grants and donations				
Donor Designated Grants	19	9,048	7,987	8,319
Grants for Budget Support	20	34,030	11,500	-
		43,078	19,487	8,319
Other receipts				
Deposit Fund	21	1,018	2,081	3,612
Return of loans by Publicly Owned Enterprises	22	11,387	10,876	10,876
Dedicated Revenues	23	2,473	5,555	10,493
One-off PAK financing	24	71,476	150,002	86,146
One-off KPST financing	25		-	11,590
<b>Total receipts</b>		<b>2,206,647</b>	<b>2,222,922</b>	<b>2,009,673</b>
<b>PAYMENTS</b>				
Operations				
Wages and salaries	26	661,343	616,921	592,587
Goods and services	27	280,007	273,312	229,057
Utilities	28	22,168	24,866	23,441
		963,518	915,099	845,085
Transfers				
Subsidies and transfers <sup>1</sup>	29	868,480	627,959	558,778
Capital expenditures				
Property, plant, equipment, transfers <sup>2</sup>	30	384,471	533,773	533,064
Other payments				
Debt Servicing	31	115,713	74,633	40,741
Returns from deposit funds	32	2,761	1,082	1,890
<b>Total Payments</b>		<b>2,334,943</b>	<b>2,152,546</b>	<b>1,979,559</b>
<b>Cash increase/decrease</b>		<b>(128,295)</b>	<b>70,376</b>	<b>30,115</b>
<b>Cash at the beginning of the year</b>	<b>33</b>	<b>458,251</b>	<b>387,874</b>	<b>357,760</b>
<b>Cash at the end of the year</b>	<b>33</b>	<b>329,955</b>	<b>458,251</b>	<b>387,874</b>

1 Includes expenditure approved in KFMIS by MEST in the amount of 270 thousand euros, for which the exit transaction from the TSA occurred in 2021.

2 The capital expenditures include the amount of EUR 2,077,995.90 as an unauthorized outflow of funds from the capital category of the budget organization Ministry of Infrastructure (Note 30). This amount of funds from the accounting point of view is treated as a request for funds and is presented in Annex 11.

*Consolidated statement of the comparison of budget with the execution for the General Government  
For the year ended on 31 December 2020*

	Execution	2020			Budget changes	2019		2018
		Final Budget	Initial Budget			Execution	Execution	
	A	B	C	D=B-A				
	'000 €	'000 €	'000 €	'000 €	'000 €	'000 €	'000 €	
<b>CASH INFLOW</b>								
Direct Taxes	267,247	282,410	312,000	15,163	292,259		267,504	
Indirect Taxes	1,272,735	1,322,392	1,521,000	49,657	1,415,291		1,344,130	
Tax Return	(32,999)	(39,631)	(50,000)	(6,631)	(45,507)		(47,880)	
Non-tax Revenue	181,201	188,913	226,487	7,712	214,614		192,865	
Grants and donations <sup>3</sup>	43,078	46,410	22,500	3,332	19,487		8,497	
Borrowing	389,031	596,200	323,474	207,169	158,264		122,018	
Other receipts <sup>4</sup>	86,355	244,609	124,609	158,254	168,514		122,717	
<b>Total Receipts</b>	<b>2,206,647</b>	<b>2,641,303</b>	<b>2,480,070</b>	<b>434,655</b>	<b>2,222,922</b>		<b>2,009,851</b>	

<sup>3</sup> Budget planning (columns B and C) includes designated donor grants (€ 12 million) as well as grants for budget support (€ 34 million, respectively € 10.5 million in column C), as funds received in the TSA

<sup>4</sup> Includes: dedicated revenues, loan repayments from public companies, one-off revenues of PAK, receipts from deposits, as well as receipts from transferred revenues of municipalities (22 million Euros). This position in budget planning (columns B and C) is reflected in accordance with Table 1 of the Budget Law no. 07 / L-001 and Law no. 07 / L-014 on Amendments to Law no. 07 / L-001, while according to the requirements of accounting standards for the public sector (IFPSAS) in the JRT are not treated as income (but are part of the bank balance in the previous year), while as planned as income - a source of funding (ie only as income) according to the Law on Budget (Table 1), the position of receipts from transferred municipal revenues is presented in this report, as approved by the Law on Budget no. 06 / L-133 and Law no. 07 / L-014 on Amendments to Law no. 07 / L-001, and FI practices from 2019.



*Consolidated statement of financial assets and balance of funds for  
the General Government*

*For the year ended on 31 December 2020*

		2020	2019	2018
		Treasury Single Account	Treasury Single Account	Treasury Single Account
	Note	'000 €	'000 €	'000 €
<b>Financial assets – cash</b>				
Central Bank of Kosovo	34	316,897	444,301	374,663
Quotas in IFI	35	1,741	1,741	1,741
Development Trust Fund	36	1,971	4,754	4,514
Cash in transit	37	4,851	4,632	4,031
Accounts of Embassies of the Republic of Kosovo	38	1,751	1,135	1,074
Cash in hand (safe deposits)	39	2,744	1,687	1,851
<b>Total assets in cash</b>		<b>329,955</b>	<b>458,251</b>	<b>387,874</b>
Specific purposes				
Designated by Donors	40	9,752	8,865	7,803
Own Source Revenues carried forward –central level	41	1,765	5,741	3,931
Own Source Revenues carried forward –local level	42	55,994	49,477	44,308
Development Trust Fund	43	7,078	6,837	7,514
Dedicated revenues	44	52	803	1,706
Other	45	15,894	17,504	16,432
Unspent funds from borrowing <sup>8</sup>	46	3,891	7,000	-
		94,425	96,227	81,695
<b>Undistributed</b>		<b>235,530</b>	<b>362,023</b>	<b>306,179</b>
<b>Total Balance of Funds</b>	33	<b>329,955</b>	<b>458,251</b>	<b>387,874</b>

8 Includes the unspent amount of the loan disbursed for the project: «Rehabilitation of Railway 10 by the European Investment Bank». See Annex 21.1 for details

AUDITOR GENERAL'S REPORT ON  
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