



Republika e Kosovës
Republika Kosova
Republic of Kosovo



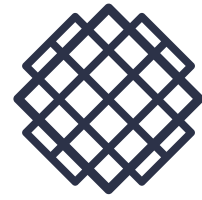
Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

ANNUAL AUDIT REPORT 2022

August, 2023



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List of Abbreviations

AG	Auditor General	TSA	Treasury Single Account
PAK	Privatisation Agency of Kosovo	KOSTT	Transmission, System and Market Operator
TAK	Tax Administration of Kosovo	PPRC	Public Procurement Regulatory Commission
RAEPC	Regulatory Authority of Electronic and Postal Communications	MESPI	Ministry of Environment, Spatial Planning and Infrastructure
CRA	Civil Registration Agency	MFLT	Ministry of Finance, Labour and Transfers
EMA	Emergency Management Agency	MPA	Ministry of Public Administration
IDA	International Development Association	MIA	Ministry of Internal Affairs
CPA	Central Procurement Agency	MESTI	Ministry of Education, Science, Technology and Innovation
WB	World Bank	MH	Ministry of Health
EU	European Union	ME	Ministry of Economy
EBRD	European Bank for Reconstruction and Development	CHU/IA	Central Harmonisation Unit/Internal Unit
GDP	Gross Domestic Product	IAU	Internal Audit Unit
BRK	Budget of the Republic of Kosovo	POE	Publicly Owned Enterprises
CBK	Central Bank of Kosovo	BO	Budget Organisation
CEB	Council of Europe Development Bank	PRB	Procurement Review Body
CK	Customs of Kosovo	AFS	Annual Financial Statements
DDG	Donors Designated Grants	UCCK	University Clinical Centre of Kosovo
IMF	International Monetary Fund	AFR/BRK	Annual Financial Report on the Budget of the Republic of Kosovo
IFI	International Financial Institutions	AAR	Annual Audit Report
INTOSAI	International Organisations of Supreme Audit Institutions	RTK	Radio Television of Kosovo
AC	Audit Committee	KFMIS	Kosovo Financial Management Information System
PIFC	Public Internal Financial Control	ISSAI	International Standards of Supreme Audit Institutions
COPF	Committee for Oversight of Public Finances	IPSAS	International Public Sector Accounting Standards
ICMM	Independent Commission for Mines and Minerals	HIS	Health Information System
MTEF	Medium Terms Expenditures Framework	SRC	Civil Registry System
KEK	Kosovo Energy Corporation	VAT	Value Added Tax
CEC	Central Elections Commission	IT	Information Technology
LPFMA	Law on Public Financial Management and Accountability	NAO	National Audit Office
LPP	Law on Public Procurement		



Word of the Auditor General



Kosovo citizens have constantly been contributing through various mechanisms and forms to filling the state budget in order that the collected public money is returned to them through quality services in infrastructure, health, education, security and better life in general.

Considering the great importance that the best possible use and stewardship of public money and assets has, the various global societies have historically given special weight to the oversight and revision of public finance management processes. Officers in charge for the management of public funds must ensure that taxpayers' money is spent efficiently, effectively and in compliance with the legal framework to the benefit of citizens.

Whereas, tax-paying citizens have the right to be informed about where and how their financial contributions are spent.

In this respect and in line with the constitutional and legal mandate, the Auditor General has submitted the Annual Audit Report on the Budget of the Republic of Kosovo for year 2022. This report provides a summary of key outcomes of the audit work performed by the National Audit Office during year 2022, which includes the audit opinion, findings and recommendations.

For the audit season 2022/2023, the National Audit Office has managed to fulfil its audit plan with an increased quality of its outcomes. A total of 123 audits have been carried out, of which: 86 financial and compliance audits of budget organisations; 11 audits of publicly owned enterprises; 9 audits of projects funded by the World Bank and other donors; 2 audits on information classified by the law as RESTRICTED; and 15 performance audits. Due to the circumstances created, the Office has not carried out the audit of four municipalities in north of the country.

As well as this year, the National Audit Office has extended its scope covering institutions and areas of high public interest, which had not been subject to state audit for consecutive years. In addition, considering the importance of the governmental projects and activities directly related to the improved welfare of the citizens, particular emphasis has been put to the performance audits.

The financial and compliance audits were mainly focused on the quality of financial reporting, efficiency and effectiveness of internal control systems, compliance of the auditee's decisions with the legal framework, as well as other value for money related issues.

It should be noted that the quality of financial reporting is not at the expected level yet. Although, compared to 2021 improvements have been made at both budget organisations and POEs levels. However, heads of institutions should pay particular attention to enhancing the quality of financial reporting in order to increase the trust of the readers of financial reports.

Challenges still remaining are: transactions and activities carried out in compliance with the legal framework, adequate classification of expenditures, assets recording and management, outstanding liabilities, procurement procedures and contracts management, increase in accounts receivable. These shortcomings has been accompanied by other findings, but at a lower frequency, the outcomes of which have been summarised further in the report.

Strengthening of internal controls over the management of infrastructure projects is more than necessary to ensure that they are managed in compliance with the legal framework. In the publicly owned enterprises, the management and reduction of losses had significantly improved for 2022, given that only one of them had an increasing trend of losses. However, the high level of short-term and long-term liabilities remains a challenge.

When it comes to the financial performance of the state budget, compared to 2021, the generated revenues have increased by around 6%. Expenditures have also increased by over €246 million. According to the historical trend of the last three years, it can be observed that receipts and payments have continuously increased. The Government of Kosovo has maintained the budget deficit ceiling within the limits set in the law. Whereas, the public debt, compared to last year's, has increased by about 4%, but still remains within the legal limits. However, inefficient use of funds received as external loans remains a challenge, mainly due to problems in the management of infrastructure projects.

Moreover, performance audits on activities, programs, and operations at both central and local levels concerning areas of importance to the economy, healthcare, social welfare, information technology, public procurement and other areas, have shown the lack of efficiency, accountability and effectiveness as well as failure to achieve value for money spent and services to citizens.

For the purpose of having the shortcomings addressed and processes improved, we have issued 900 recommendations. In this regard, I would like to take the opportunity of calling on all the heads of institutions to undertake concrete actions so they could reflect upon and provide the needed assurance that the public funds are being spent in accordance with legal framework and for the intended purposes. Meanwhile, I would like to encourage the Assembly of the Republic of Kosovo to use our audit outcomes as an important information for holding the managers of public funds to account.

The Auditor General
Vlora Spanca

Prishtina, August 2023.

Executive Summary

The Annual Audit Report on the Kosovo's Budget execution is based on Article 23, paragraphs 3 and 4 of the Law no.05/L-055 on the Auditor General and the National Audit Office and the Law on Public Finance Management and Accountabilities.

This reports provides the Assembly, Government and other stakeholders with:

- The audit outcomes of the Government's annual report on the Kosovo Budget execution for year 2022; and
- Relevant conclusions and recommendations from all the individual audits carried out during the 2022/2023 audit season.

Pursuant to the constitutional mandate, articles 137 and 138, as well as the legal mandate, article 6 and 18 of the respective law, the National Audit Office has conducted 123 audits during the 2022/2023 audit season and issued the respective audit reports. Of these, 86 financial and compliance audits of budget organisations, 11 audits of Publicly Owned Enterprises, 9 audits of World Bank Projects and other donors, 2 compliance audit of RESTRICTED classified information, and 15 performance audits. The outcomes of these audits have been summarised further in this report.

In the Auditor General's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph, the Annual Financial Report on the Budget of the Republic of Kosovo for year 2022 give a true and fair view in all material respects. For more details, see Chapter 1 Audit Opinion.

While auditing the Government's Annual Report on Kosovo Budget execution for year 2022, NAO has found issues related to the quality of financial reporting, controls, and financial management.

Our views on the key areas are the following:

Budget planning and execution - According to the revised/final budget for year 2022, receipts/revenues were planned in the amount of €3,010,500,000, and increase of €105,500,000 compared to the initial budget. Whilst €2,628,561,000 or 87% of the final budget was spent. Compared to the outturn of 2021, receipts have increased by €137,588,000 or around 6%.

The final budget of expenditures was in the amount of €3,158,870,000, whilst €2,625,009,000 or 83% of the final budget was spent. Compared to the outturn of 2021, expenditures have increased by €246,283,000, yet the capital investments budget was spent at just 60%.

Cash by the end of 2022 increased by €3,545,000 compared to the cash balance of 2021. The cash balance in the bank account of the Budget of the Republic of Kosovo as of 31 December 2022 was €445,734,000.

Based on the historical trend over the last three years, we may conclude that payments have recorded a continuous increase.

Budget deficit – the budget deficit, during 2022, was within the statutory ceilings and the revenue collection level has considerably improved and the demand for funding has decreased, according to the budget outturn. For year 2022, the total estimated deficit was €-333,506,000 or -3,88%, according to the revised budget. In addition, the surplus was to the tune of €13,917,000, or 0.16% of the GDP, according to the budget outturn at the yearend.

Public debt¹ – By the end of 2022, the public debt has amounted to €1,753,200,000 or around 20% of the GDP. Of which, €641,200,000 are external debt and €1,112,000,000 domestic debt. Compared to the previous year's, the total debt has increased by €70,310,000 or around 4%, but still remains within the ceilings established in the law.

However, inefficiency has been identified when it comes to spending of funds obtained from external borrowing. This was mainly as a result of problems with the management of infrastructure projects, be it planning or implementation. The consequences of Covid-19 have continued to have the same effects as in 2022 with regard to the management of these projects.

Accounts receivable – have increased by €62,897,519, or around 8% compared to the previous year. We found that the accounts receivable in 2022 have been understated by €1,887,506. The total amount of accounts receivable presented in the AFR-BRK was €840,946,133 (of which €607,974,066 of the central level and €232,972,067 of the local level). The increase in accounts receivable indicates that public institutions have not undertaken the right measures to collect them.

Outstanding and contingent liabilities – Compared to the previous year, outstanding liabilities have decreased by €41,098,513, or around 22%. This is a positive indicator for the state budget management. According to the AFR-BRK, they are €149,734,697. Despite the above, the increase in contingent liabilities amounted to €109,606,877 or about 46% compared to the previous year. This increase has occurred at the local level mainly. This represents a challenge for the state budget due to the budget burden in the future, particularly due to the additional expenses that this category includes.

Payments by court ruling/enforcement for year 2022 were in the amount of €46,349,349. Compared to 2021, there is a slight decrease of €5,568,280 or 11%, but still at a high level. This type of expenditures continues to be a challenge to the state budget, particularly in the additional costs deriving from these procedures.

Non-financial assets – the audit outcomes show that the disclosures on non-financial assets for year 2022 have not provided sufficient assurance that the public institutions have full control over the assets and monitor their management. Information on non-financial assets presented in the assets management systems, KFMIS and e-assets for year 2022 are incomplete. Their balance has been incorrectly reported in the amount of €55,865,029, whilst in 2021 the error was in the amount of €83,507,406². According to this, public institutions has apparently taken measures of improvement, yet the assets management remains further a challenge.

1 Public debt information has been presented in this report based on the Annual Bulletin for year 2021 on Public Debt, published by MFLT/Treasury.

2 In 2022, MESPI rectified the error in the register by writing off the assets worth €71,801,641 (roads maintenance)

Outcomes from the individual audits

Budget Organisations – The quality of financial reporting is not at the expected level, given that 86 audits of the AFS of budget organisations have found material misstatements in 33 of them, thus resulting in modified/qualified opinions. Whilst, the other 53 have resulted in unmodified opinion. However, the quality of financial reporting has improved compared to the previous year, considering that in 2022, there were 13 less budget organisations that were issued a modified opinion. A true and complete presentation of the financial information increases the readers' reliability on financial reports.

Publicly Owned Enterprises – Although the quality of financial reporting has improved compared to last year, in the publicly owned enterprises it is not at the expected level either. Of the 11 audits of the AFS of the POEs, unmodified opinion was given to 1 of them, whilst modified opinion was given to the other 10 (7 qualified and 3 adverse opinions). Financial Management and Control in the POEs needs to be further improved, considering that the 2022 AFS of the 10 of them contained material misstatements. When it comes to compliance with the applicable laws and regulations, two POEs have made progress by carrying out their activities and transactions in accordance with the legal framework, whilst the other enterprises had not, in certain cases, carried out their transactions and activities in compliance with applicable laws and regulations. Moreover, in regard to the financial performance, only one enterprise has shown a negative trend in the increase of losses, whilst other enterprises had a decreasing trend of losses, therefore operating with profit. The audit recommendations have been implemented at a satisfactory level.

Performance, IT and Procurement Audits – Audits carried out during 2022 have identified shortcomings in significant areas of the economy, healthcare, social welfare and public procurement sectors which indicate the lack of efficiency, accountability and failure to achieve value for money and services to citizens.


Various shortcomings have been identified in the support to small and medium enterprises and the capital investments in water companies. Shortcomings have been identified in the state justice system with regard to protection of the victims of violence, examination of cases and recording of incidents. Public procurement continues to be poorly managed, procedures have not been effective and efficient and in certain cases value for money has not been achieved. Infrastructural projects, such as the construction of roads, stadiums and houses for returnees, have been accompanied by numerous shortcomings from project planning over to implementation. Donor funded projects have not been properly managed in certain cases either. In addition, improvement measures should be taken for the outpatient treatment program.

In the field of information technology, the responsible institutions lack adequate control measures, thus undermining the integrity of the system. The management of IT projects by the Information Society Agency and the Kosovo Agricultural Institute has led to unnecessary expenses, causing damages to the budget. While, the electronic procurement system has had positive effects on enhancing the controls, efficiency and transparency in public procurement, shortcomings have been identified in the operation and continuous maintenance of the stability and integrity of this system.

Implementation of recommendations – Based on the individual audit reports, we may conclude that 49% of the recommendations given in 2021 have been fully implemented. Compared to 2020, the situation regarding the implementation of the recommendations was almost identical. The

level of implementation of the recommendations given in the Auditor's Annual Report on the AFR-BRK for year 2021, still remains low, regardless of the increase marked compared to 2020. Of the 36 recommendations given in the AAR of 2021: 5 have been implemented, 3 were under implementation, 21 have not been implemented and 7 are no longer applicable.

CHAPTER - I
AUDIT OF THE ANNUAL
FINANCIAL REPORT ON
THE BUDGET OF THE
REPUBLIC OF KOSOVO FOR
YEAR 2022

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1. Audit Opinion

NAO has audited the AFR/BRK for the year ended at 31 December 2022, which includes the Statement of cash receipts and payments, the Consolidated statement of comparison of budget with execution, the Consolidated statement of cash and fund balance, Explanatory notes as well as Annexes.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section, 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 2022, 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

- **Inadequate classification of expenditures** – Despite the improvements made, during 2022 we have found payments of €10,396,792 classified under inadequate categories of expenditures, of which: €5,631,136 were as a result of inadequate budgeting and €1,004,649 as a result of BOs themselves. The category mostly affected by inadequate classification of expenditures was the Capital Investments by €8,580,748 and the others by €1,816,044.
- **Payments to employees based on the Brussels agreement** – During 2022, the Government paid €792,955 to employees (from the Serbian community engaged based on the Brussels agreement) who did not clock in/out and did not perform for the respective ministries.
- **Assets** - By the end of 2022 the total of net assets was €9,357,170,485. While carrying out individual audits, we found that assets were understated by €55,865,029 compared to the value presented in the AFR/BRK. The biggest problems faced in this category were: incomplete recording of assets, recording of final assets as ongoing investments regardless of the technical acceptance, and poor application of depreciation rates.
- **Accounts receivable** - The citizens' and businesses' debts towards the Government amounted to €840,946,133. The lion share of these uncollected debts of €607,974,066 were from the central level and €232,972,067 from the local level. During the individual audits we found that accounts receivable were understated by €1,887,506 compared to the amount presented in the AFR/BRK.
- **Outstanding liabilities** - BO's outstanding liabilities towards the suppliers and other economic operators by the end of 2022 were in the amount of €149,734,697. The lion share of €129,448,861 were from the central level whilst €20,285,836 from the local level. During the audit we found that the outstanding liabilities were understated by €130,775 compared to the amount presented in the AFR/BRK.
- **Contingent liabilities** - In addition to these financial liabilities, there are also contingent liabilities resulting from the lawsuits filed against budget organisations and are expected to receive the judicial epilogue in the future. The estimated potential amount is around €347,003,930€ (€197,233,674 at the central level and €149,770,256 at the local level). During the audit we found that the contingent liabilities were overstated by €16,086,386.

A more detailed description of the issues presented in the Basis for Opinion section is given in the respective chapters of this report.

Emphasis of Matter

The National Audit Office has not carried out the audit of the Municipalities of Mitrovica North, Zubin Potok, Leposaviq, and Zveqan for the year 2022. Although NAO sent out the Letters of Engagement, we could not carry out the audits because of the non-presence of municipal clerks, inability to be provided with the work conditions and the documentation to be audited, and these municipalities' failure to prepare the AFS. Our audit opinion has not been modified in this respect.

A more detailed description of the matters presented in the Basis for Opinion section, is found further in this report.

We recommend the Government to ensure:

- Through MFLT, that the requirements for complete and true reporting in the statements of disclosures are fulfilled; and
- Through the respective ministries, that all necessary actions to engage employees are taken by providing work conditions and ensuring attendance at work as well as continuous monitoring as foreseen in the legal acts.

2. Legal framework, audit scope and methodology

Legal Framework

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, conducts the annual audit of the Government's Annual Financial Report for the execution of the budget of Kosovo.

The audit of the Government's AFR 2022 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 (Articles 6 and 18);
- 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 2022/2023;
- 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.

The Kosovo's budget accounting and reporting system is based on the cash basis. Cash management is organised through the Treasury Single Account, according to LPFMA. The Treasury Single Account is a system of bank accounts used for revenue collection and expenditure execution, which is managed and controlled by the Treasury. Budget organisations have been delegated with their responsibilities concerning the collection of revenues and spending. In spite of this, MF Regulation no.01/2017 requires budget organizations to keep separate accounting records based on which they should prepare their financial statements and report to the MFLT/Treasury.

The Annual Financial Report for the State Budget consists of three main statements together with explanatory notes as well as other annexes, which are prepared by the Treasury based on the KFMIS entries.

When consolidating the AFR-BRK the notes for the following annexes: Annex 8 – Assets under €1,000; Annex 9 – Stocks; Annex 10 – Receivables; Annex 12 – Outstanding invoices; Annex 13 – Contingent liabilities; Annex 17 – Number of employees outside the payroll; and Annex 18 – Number of employees with service contracts, are based on the records from the individual financial statements of budget organisations.

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 86³ budget organizations had discrepancies with the requirements of Regulation No. 01/2017 on Annual Financial Reporting, in terms of format, structure, and reporting deadlines.

Of the 90 BOs planned to be audited for 2022; 86 had submitted the financial statements within the legal deadline of 31 January 2022, whilst 4⁴ northern municipalities had not submitted their AFS at all.

Audit Scope and Methodology

The Ministry of Finance, Labour and Transfers/Treasury, on behalf of the Government, is responsible for the preparation and fair presentation of the Annual Financial Report on the Budget 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.

The Acting Director General of Treasury submitted the Annual Financial Statements for year 2022 to the Government for approval, within the statutory deadline, 23 March 2022, and in the format required Law on Public Finance Management and Accountability (LPFMA as amended and supplemented) and in accordance with IPSAS. These statements were rectified on 27 July 2023.

The National Audit Office is responsible for carrying out regularity audits (financial and compliance) which include examination and evaluation of the Government's AFR. 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 the AFR/BRK give a true and fair view of the financial situation for the reporting period in all material respects;

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

4 Municipality of Mitrovica North, Leposaviq, Zubin Potok and Zveqan

-
- Whether the AFR/BRK 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 AFR/BRK; and
 - Whether the Government has taken appropriate measures to implement the audit recommendations for the previous year and earlier years.

The 2022 AFR/BRK audit 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 AFR has been produced and producing of an audit strategy that mainly focuses on addressing the specific risks for the opinion while providing an acceptable level of assurance for the statements obtained as a whole.

The selected approach also reflects the evaluation of the results from the audits of some annexes of the AFR which are consolidated from the individual financial statements, such as assets, liabilities, accounts receivable, public debts, and other annexes.

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 we deemed necessary for the effective conduct of the audit.

The following sections of this 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 2022, but certainly provide an acceptable level of assurance.

3. Budget Deficit

According to the Law no. 03/L-048 on Public Finance Management and Accountability, Article 46, as amended and supplemented, the Minister shall submit to the Government the final report on budget, including a report on revenues and expenditures, which provides comparative data over the years regarding adherence to the deficit ceiling⁵, including: the causes behind deviations and funding of deficits if any, or the causes of budget surpluses and investment of these surpluses if any.

The LPFMA no.04/L-194, Article 22.A.1, stipulates that no law on budget appropriations shall include an overall deficit exceeding 2% of the forecasted GDP.

Whilst, Article 22.A.3 stipulates that for the purpose of maintaining a total debt significantly below the debt ceiling laid down in Law on Public Debt, the Assembly shall, every fifth fiscal year, review and therefore adjust, if needed:

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

Due to the impact of Covid-19 pandemic on some of the macrofiscal parameters, the Government has taken the Decision no. 03/02, dated 05.06.2020, to temporary change some of the fiscal rules, set forth by the Law no.03/048 on Public Finance Management and Accountability, amended and supplemented. Sections 1 and 2 of the Decision require the Assembly of the Republic of Kosovo to temporarily increase the deficit ceiling up to 6.5% and reduce the usable bank balance level up to 3% of GDP.

To cover the proposed increase in deficit, the Ministry of Finance has identified additional sources of funding, i.e. internal and external sources of financing, through securities, international loans and grants.

IKOJ9088888 Article 22.A.4. stipulates that the deficit ceiling may be adjusted earlier if such adjustment is aimed at stabilizing the forecasted total debt level significantly below the debt ceiling. According to fiscal rules, the budget deficits are funded through borrowing funds and one-off revenues of PAK. The Government has adhered to the above-mentioned requirements and for the same purposes planned to borrow €503,000,000. This amount was planned to cover the expenditures which were higher than the planned revenues.

We analysed the deficit estimates in Annex 1 of the AFR on the disclosure of data in the table of budget deficit for 2022 and found no discrepancies.

5 22.B.3. notwithstanding paragraph 2. Article 12 (22A) of this Law, the municipalities' share in the Deficit Ceiling shall remain unchanged in the event the Deficit Ceiling is temporarily increased in accordance with paragraph 1. of this Article, unless the Assembly decides to increase the individual share of one or more municipalities up to the full extent of paragraph 2. Article 12 (22A) of this Law.

Table 1- Budget deficit estimates⁶ for year 2022 (in '000 €)

	Initial Budget 2022	Reviewed budget 2022	Outturn 2022 according to AFR
1. Budget revenues	2,365,000	2,430,494	2,493,528
Tax revenues	2,162,000	2,230,400	2,284,077
Tax returns	(59,000)	(61,506)	(67,069)
Non-tax revenue	239,000	239,100	256,532
of which: Concession tax	17,000	17,000	18,404
of which: Royalties	30,150	30,200	29,857
Budget support from grants	11,000	10,500	10,250
Designated donors grants	12,000	12,000	9,738
2. Budget spending	2,748,000	2,898,000	2,539,615
Wages and Salaries	671,000	671,000	652,641
Goods and Services	373,000	373,000	333,374
Utilities	31,000	31,000	25,950
Subsidies and Transfers	895,000	1,045,000	1,064,068
Capital Expenditures	704,000	704,000	419,253
of which: funding from regular budget	570,000	570,000	401,960
of which: capital spending from the clause	113,000	113,000	17,293
of which: Liquidation from PAK	21,000	21,000	
Reserve	21,000	21,000	
Interest fee	41,000	41,000	35,039
Designated donors grants	12,000	12,000	9,290
3. Total Deficit/surplus	(383,000)	(467,506)	(46,087)
4. Expenditures exempted under the fiscal rule	139,000	134,000	60,004
Expenditures from carried-forward OSR			42,711
Expenditures from receipts designated for PAK	5,000		
PAK liquidation funds	21,000	21,000	
expenditures funded from the investments clause and PAK	113,000	113,000	17,293
5. Overall deficit under the fiscal rule (5=4+3)	(244,000)	(333,506)	13,917
6. Overall deficit/surplus in %	(2.90)	(3.88)	0.16
7. Forecasted GDP	8,405,000	8,593,900	8,593,900

6 For the purpose of calculating the budget deficit, grants, borrowing and other receipts are not included

As shown from the table above, the estimated overall deficit under the initial budget was -€244,000,000 or -2.90% whilst the estimated deficit under the revised budget was -€333,506,000 or -3.88%. According to the audit, the surplus by the end of the year was in the amount of €13,917,000 or 0.16% of the GDP.

The budget deficit ceiling set forth both in the Law on Budget and the revised Law on Budget for year 2022 has been adhered to. In addition, the outturn of the budget deficit ceiling has decreased from -0.64% compared to the previous year, whilst in 2022 there was a surplus of 0.16% of GDP, as a result of the revenues collection.

4. State Debt and State Guaranties

The state debt consists of the domestic and foreign debts. Domestic debt means the state debt issued or contracted by a creditor within the country⁷, whilst foreign debt⁸ means the stated debt issued or contracted through an international agreement and/or financial agreement with the a creditor based abroad.

The Republic of Kosovo has been receiving foreign debts since 2009, whilst since 2012 started to receive domestic debts by issuing securities.

The portfolio of the total state debt as of the end of 2022 consists of the domestic and foreign debts as well two state guarantees⁹. To date, the Republic of Kosovo has neither municipal debts nor municipal guarantees issued.

By the end of 2022 the state debt amounted to €1,753,200,000, an increase of €70,310,000 or around 4.18% compared to the previous year. During the last two years, the state debt declined compared to the GDP, from 21.92% at the end of 2021 to 19.91% at the end of 2022.

The Law no.03/L-015 on Public Debts stipulates that in no event shall the outstanding principal amount of total debt exceed 40% of the GDP. The Ministry of Finance, Labour and Transfers (MFLT) has fully adhered to the set statutory threshold on public debts for year 2022.

Table 2- Domestic and foreign debt over the last three years

Description	Year 2022	Year 2021	Year 2020
Foreign debt	641,200,000	576,750,000	525,800,000
Domestic debt	1,112,000,000	1,106,140,000	961,900,000
Total state debt	1,753,200,000	1,682,890,000	1,487,690,000
State guarantees	29,610,000	30,630,000	31,650,000
Debts and guarantees (% of GDP)	19.91	21.92	22.44
GDP from KAS	8,954,870,000	7,816,580,000	6,771,600,000

The state debt consist of 63% from domestic borrowing and 37% from external borrowing. The Government has state guarantees in the amount of €29,610,000¹⁰.

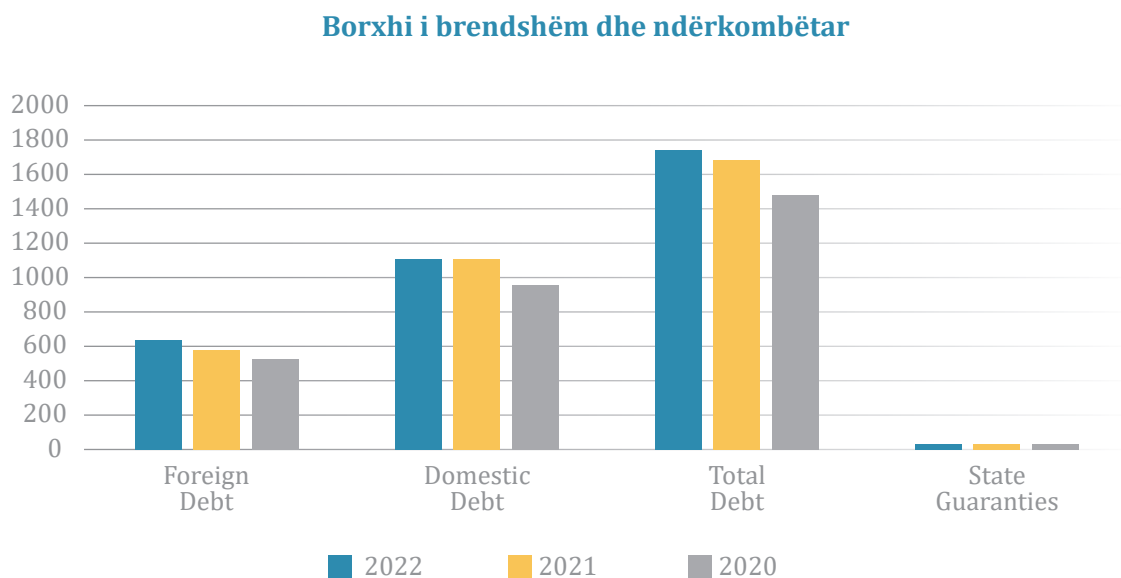
⁷ Subject to the laws of the Republic of Kosovo;

⁸ Subject to the laws of a legal jurisdiction other than that of the Republic of Kosovo;

⁹ State guaranties represent potential liabilities, which then become actual debts only when the public entity fails to pay the guaranteed contractual liabilities;

¹⁰ The current guarantee for Urban Traffic - Pristina is €5.61 million and the Guarantee for the Second Credit Line for the Deposit Insurance Fund in Kosovo is €24 million.

Chart 1 – domestic and foreign debt (in million €)



Domestic Debt

The Republic of Kosovo started to receive domestic debt by issuing securities since January 2012. This type of borrowing has served as the main catalysts in financing the budget deficit.

By the end of 2022, the domestic debt was €1,112,000,000, an increase of €5,850,000 compared to the previous year as a result of the securities issued. During 2022 have also been issued €217,750,000 for refunding the maturity of securities issued in the previous years.

Table 3 – Domestic debt over the last three years

Domestic debt (net)	Year 2022	Year 2021	Year 2020
New emissions	5,850,000	144,250,000	169,950,000
Domestic Debt Stock	1,112,000,000	1,106,140,000	961,900,000
Domestic Debt (% of GDP)	12.42%	15.07%	14.20%

Securities are held by commercial banks and the Pension Trust as the Primary Participant. Securities are also held by other physical and legal investors (businesses and private individuals).

Table 4 – Holders of securities

Instrument	Year 2022	Year 2021	Year 2020
Commercial Banks	279,510,000	327,390,000	272,480,000
Pension Funds	550,270,000	490,470,000	450,120,000
Public Institutions	213,560,000	228,370,000	198,860,000
Insurance Companies	45,910,000	41,420,000	33,800,000
Others	26,800,000	22,400,000	10,010,000
Total	1,116,050,000	1,110,050,000	965,270,000

Foreign Debt

By the end of 2022, the foreign debt was €641,200,000, an increase of €64,450,000 or 11.18% compared to the previous year. The highest amounts were withdrawn from the European Union (EU), International Development Association (IDA), Council of Europe Development Bank (CEB) and the European Bank for Reconstruction and Development (EBRD). The foreign debt has been borrowed for the purpose of financing projects in education, agriculture, cadastre, energy, health, water, treatment of wastewater, district heating, banking, roads and railways rehabilitation and for supporting the budget.

Table 5 – Foreign debt over the last three years

Description	Year 2022	Year 2021	Year 2020
Total foreign debt	641,200,000	576,750,000	525,800,000
Central government	564,190,000	532,300,000	479,500,000
Sub-borrowed debt	47,010,000	44,440,000	46,290,000
External debt (% of GDP)	7.46%	7.86%	7.76%
GDP from KAS	8,954,870,000	7,816,580,000	6,771,600,000

The main creditors of the foreign creditors are: the World Bank through IDA by 34% of the shares; the International Bank for Reconstruction and Development (IBRD) by 16% of the shares; and the European Union (EU) by 16% of the shares.

By the end of 2022, budget organizations have continued to withdraw funds of €111,010,000 for projects financed by the foreign debt. Withdrawals from direct loans were €97,660,000, whilst publicly owned enterprises have withdrawn funds of €13,350,000 from loans sub-loaned by the Ministry of Finance, Labour and Transfers. The highest amounts were withdrawn from the IDA, CEB and EIB.

During 2022, four (4) loans/financial agreements were ratified by the Assembly, whilst six (6) were not ratified.

New financial agreements were concluded in 2022 to finance projects in the energy, railway, district heating sectors and the public sector.

Tabla 6 – Ratified loans in 2022 (in million €)

Loan/Project	Creditor	Agreement date	Currency	Amount	Type of loan	Implementing BO	Status
Fostering and Leveraging Opportunities for Water Security Program	IDA	13.07.2021	EUR	25.10	Direct Loan	MMPHI	Ratified
Mitrovica Wastewater Development Project	EBR	10.12.2021	EUR	13.50	Direct Loan	MMPHI, Komuna e Mitrovicës, KRU Mitrovica	Ratified
Mitrovica Wastewater Treatment Plant	EIB	10.12.2021	EUR	19.80	Direct Loan	MMPHI, Komuna e Mitrovicës, KRU Mitrovica	Ratified
Development Policy Financing for public finances and sustainable growth	IDA	21.04.2022	EUR	50.60	Direct Loan	MFLT	Ratified

Shortcomings in using the foreign loans

According to annex 21.1 of the AFS of the BRK for the disclosure of the foreign debt, the funds for seven (7) projects/loans in the total of €177,900,000, ratified during the years 2017 to 2022, have been withdrawn at all.

Ratified loans the funds of which were not disbursed until the end of 2022:

1. Prishtina Wastewater Treatment Project in the amount of €66,000,000. Creditor is NATIXIS; project implementer is the Ministry of Economy; year of ratification 2017 (implementation deadline December 2026);
2. Gjilan Wastewater Development Project in the amount of €11,000,000. Creditor is EIB; project implementers are ME/Municipality of Gjilanit/RWC Hidromorava; year of ratification 2020 (implementation deadline March 2026);
3. Energy Efficiency Measures Project of €2,500,000 in the municipalities of Prishtina, Gjakova and Gjilan. Creditor is KFW; project implementers are the respective municipalities; year of ratification 2016 (implementation deadline 30 May 2021);
4. Emergency Covid-19 Project for Kosovo SMEs in the amount €40,000,000. Creditor is EIB; project implementers are MFLT/FKKG; year of ratification 2021 (implementation deadline January 2024);
5. Mitrovica Wastewater Treatment Plant Project in the amount of €19,800,000. Creditor is EIB, project implementer is the Municipality of Mitrovica; year of ratification 2021 (implementation deadline December 2026);
6. Mitrovica Wastewater Development Project in the amount of €13,500,000. Creditor is EBRD; project implementer is the Municipality of Mitrovica; year of ratification 2021 (implementation deadline December 2026); and
7. Fostering and Leveraging Opportunities for Water Security Program in the amount of €25,100,000. Creditor is IDA; project implementer is MESPI; year of ratification 2022 (implementation deadline November 2025).

Ratified loans the funds of which were disbursed with delays by the end of 2022:

For eight (8) loans in the amount of €174,930,000 ratified during the year 2014 - 2020, with implementation deadlines over the years 2021 to 2023, the disbursement of funds by the end of 2022 was just €74,530,000.

1. The M2 Millosheva-Mitrovica Highway Extension Project of €18,630,000: Creditor is FOZHN and project implementer is MESPI. The unwithdrawn amount for this loan is €14,520,000; year of ratification 2014 (implementation deadline December 2022);
2. The Prishtina-Mitrovica Highway Project of €14,900,000: Creditor is FSZH and project implementer is MESPI. The unwithdrawn amount for this loan is €9,940,000; year of ratification 2014 (implementation deadline December 2022);
3. Regional Roads Rehabilitation Project of €29,000,000: Creditor is EBRD and project implementer is MESPI. The unwithdrawn amount for this loan is €23,120,000; year of ratification 2016 (implementation deadline August 2023);

4. Additional Funding for Agriculture and Rural Development Project of €20,800,000: Creditor is IDA and project implementer is MAFRD. The unwithdrawn amount for this loan is €5,080,000; year of ratification 2018 (implementation deadline December 2022);
5. Real Estate and Geospatial Infrastructure Project of €14,600,000: Creditor is IDA and project implementer is ME. The unwithdrawn amount for this loan is €14,380,000; year of ratification 2018 (implementation deadline August 2023);
6. Competitiveness and Export Readiness Project of €14,300,000: Creditor is IDA and project implementer is MTI. The unwithdrawn amount for this loan is €11,520,000, year of ratification 2018 (implementation deadline October 2023);
7. Kosovo Digital Economy Project of €20,700,000: Creditor is IDA and project implementer is ME. The unwithdrawn amount for this loan is €10,640,000; year of ratification 2018 (implementation deadline June 2023); and
8. Kosovo Railway Line 10, Southern Segment Hani i Elezit-Kosovo Rehabilitation Project of €42,000,000: Creditor is EIB and project implementers are MESPI and INFRAKOS. The unwithdrawn amount for this loan is €11,200,000; year of ratification 2016 (implementation deadline December 2022).

For the above-mentioned projects, the implementing organizations of the respective projects report every quarter to MFLT, and the latter reports on the progress of the same projects every 6 months to the Government. We have found that the reports from the projects implementing units are formal and non-literal, lacking details of the causes behind the obstacles faced on site during projects implementation in order to reflect the concrete actions to eliminate them.

Entry in to loan agreements and delayed withdrawal of available funds was as a result of poor planning, expropriation process, and lack of governmental capacities to timely and effectively use the funds from borrowing. As a result, the Government is constantly paying the commitment fee for these unused loans.

In 2022, the Government has paid €337,327 of commitment fee as a result of timing discrepancy between the loans allocation and projects implementation for 11 effective loans covering the ratification years 2016-2021, which stipulates commitment fees to be paid for loan funds not withdrawn by the borrowers. Notwithstanding the decline by €94,235 compared to the previous year, these fees are still being paid as a result of delayed withdrawal of funds.

The Modernization of the Education System in Kosovo through e-Education Project in the amount of €4,900,000, from the creditor UniCredit (implementation deadline December 2017) and the implementer of which was MESTI, had not been reported on in the last two years to the Ministry of Finance as to whether the technical acceptance of this project was made despite the fact that funds had been fully disbursed. It is worth noting that the paid interest expenses for this project are €50,000 per year.

State Guarantees

By the end of 2022, the portfolio of the state guarantees of the Republic of Kosovo consists of two state guarantees issued. State and Municipal guarantees are handled as debts when calculating the Debt/GDP indicator.

The Guarantee issued during 2016 in the amount of €10,000,000, through which the Republic of Kosovo, provides a guarantee for the POE Trafiku Urban on the loan offered by EBRD. By the end of 2022, the borrower has returned the credit to the tune of €4,390,000.

In the end of 2016, the Republic of Kosovo issued another international guarantee in the amount of €24,000,000, which was made available to the Kosovo Deposit Insurance Fund for the second credit line offered by EBRD. These funds from the second credit line are available should the need for disbursement arise.

Table 7 – Situation of state guarantees

Description	Year 2022	Year 2021	Year 2020
State Guarantees	29,610,000	30,630,000	31,650,000
EBRD-guarantee for Prishtina's Urban Traffic	5,610,000	6,630,000	7,650,000
EBRD-guarantee for Second Credit Line Guarantee for DIFK	24,000,000	24,000,000	24,000,000
State guarantees (% of GDP)	0.33%	0.39%	0.47%

We recommend the Government

- To ensure that, prior to taking decisions on funding project through borrowing, detailed analyses are conducted and proper preparations are made for the projects in order to ensure the most efficient use of these funds; and
- To ensure that setbacks in and failure to initiate or implement the projects are subject to ongoing reviews with the respective projects implementing budget organisations and that the causes and reasons are analysed reflecting the undertaking of concrete actions to reduce/eliminate them so that they can be implemented and lead to benefits for the citizens.

We recommend the Minister of Finance, Labour and Transfers

- To address all the challenges faced in the implementation of the projects funded by the borrowing, based on the Treasury quarterly reports and in cooperation with the line ministries. MFLT should, at any time and whenever convenient, suggest to the Government the proper measures to overcome these challenges; and
- To provide clear instructions to the BOs on including the capital investments plans to be funded from the borrowing. MFLT should not initiate the negotiation unless all preparations are made and they do provide sufficient and documented assurance that they will be implemented at the right time and manner.

5. State Budget Analysis

The data presented in the Annual Financial Report of the Budget of the Republic of Kosovo reflect the initial and final projections of the 2022 Budget and the receipts and payments against the respective budget allocations. During 2022, the budget was revised with a single change made by increasing the Economic Recovery Programs budget by €150,500,000.

The initial projections for revenues/receipts were worth €2,905,000,000, according to the Law no. 08/L-66 on Budget Appropriations. Whilst, according to the final budget, revenues/receipts were in the amount of €3,010,500,000, or €105,500,000 higher than the initially planned. Receipts for 2022 were in the amount of €2,628,552,000 or 87% of the final budget. Compared to the outturn of 2021, receipts have increased by €137,579,000, or about 6%.

The budget increased in these sources of financing: tax revenues by €65,500,000, and funding from borrowing by €40,000,000.

Budget projection on revenues/receipts was deemed by the Government as necessary for the following reasons:

Indirect revenues increased by €74,900,000 as a result of the increase in revenues from the VAT and customs duty due to the increase in inflation in the first quarter of 2022, at 8.2% in average. As part of this increase in the indirect revenues, revenues from excise duty decreased by €6,900,000 following the revision due to the decreasing trend of imports of fuels as a result of the increase in the fuels prices.

Direct revenues decreased by €6,200,000, mainly in the personal income tax revenues, as a result of the Law on Minimal Wage awaiting to be adopted by the Assembly, which was expected to have negative impact on the personal income tax. Meanwhile, tax refunds were decreased by €2,800,000 following the revision.

A budget increase had been planned for the borrowing as well, namely external funding by €40,000,000, due to the need for additional funding as a result of the expenditures planned under the Economic Recovery Program in the revised budget.

The budget transfers through the Government's Decisions during the year led some budget organisations to increase the budget in certain economic categories and projects and some other budget organisation to decrease it. The budget increase through Government's decisions occurred in the categories of Wages and Salaries, Goods and Services, Subsidies and Transfers whilst in the category of capital expenditures the budget was decreased.

The initial budget for expenditures was €2,915,500,000, whilst the final budget was €3,158,870,000, of which €2,625,009,000 or 83% was spent. Compared to 2021, expenditures increased by €246,283,000.

The following table gives more complete information on the initial and final budget projections.

Table 8 Consolidated statement of budget comparison with execution (in '000€)

No.	Budget items	Outturn	According to the Law on Final Budget	According to the Law no. 08/L-066 for year 2022
1	Direct taxes	413,829	392,600	399,000
2	Indirect taxes	1,870,248	1,870,800	1,763,000
3	Returns	-67,069	-61,500	-59,000
4	Non-tax revenues	256,532	239,100	239,000
5	Grants and assistance	19,988	22,500	23,000
6	Funding through borrowing	112,201	543,000	503,000
7	Other receipts	22,823	37,000	37,000
Total receipts		2,628,552	3,010,500	2,905,000
1	Wages and Salaries	652,641	683,206	671,000
2	Goods and Services	333,374	397,840	373,000
3	Utilities	25,950	30,430	31,000
4	Subsidies and Transfers	1,064,068	1,114,919	895,000
5	Capital Expenditures	419,253	698,686	704,000
6	Reserves	-	1,920	21,000
7	Interest	35,039	41,000	41,000
8	Other	94,684	190,870	179,500
Total payments		2,625,009	3,158,870	2,915,500
Increase/decrease in the bank balance		3,544	-148,370	-10,500

Pursuant to the Law on Budget Appropriations for the Budget of the Republic of Kosovo for year 2022, Article 4.3, projections and fiscal medium-term assumptions, as well as allocations for the Fiscal Year 2022, with projections for two (2) following years, shall be summarized for information in Table 1 and 1.1 attached with this Law. Whilst pursuant to section 2 of the same article, macro-fiscal projections and assumptions for the budget shall be based on the macro fiscal framework.

The Med-term Expenditures Framework published in May 2022 has stipulated a new revenues projection for year 2022. The tables for the fiscal projections were not attached to law amending and supplementing the Law no. 08/L-066 on Budget Appropriations for year 2022.

This was as a result of MFLT's and Government's failure to attach the tables when sending the law to the Assembly.

We recommend the Government

To ensure that the Law on Budget Appropriations and the amendments supplements thereon are sent to the Assembly together with the tables on amended/supplemented fiscal projects attached.

5.1. Analysis of revenues/receipts by economic categories

Revenues/receipts were in the amount of €2,628,552,000 or 87% of the final budget. The following table shows detailed information on the initial and final budget as well as the outturn of revenues/receipts over the last three years.

Table 9 - Receipts by source according to AFR/BRK (in '000 €)

Receipts	Initial budget	Final budget	Outturn 2022	Outturn 2021	Outturn 2020
Direct taxes	399,000	392,600	413,829	342,165	267,247
Indirect taxes	1,763,000	1,837,800	1,870,248	1,664,685	1,272,735
Returns	-59,000	-61,500	-67,069	-58,912	-32,999
Non-tax revenues	239,000	239,100	256,532	236,116	181,201
Grants and assistance	23,000	22,500	19,988	16,801	43,078
Funding from borrowing	503,000	543,000	112,201	269,586	389,031
Other receipts	37,000	37,000	22,823	20,533	86,355
Total	2,905,000	3,010,500	2,628,552	2,490,973	2,206,647

Direct taxes

Direct taxes consist of four categories: corporate income tax; personal income tax; property tax, as well as other taxes. The outturn of direct taxes was in the amount of €413,829,000 or 105% of the amount planned in the annual budget.

The main sources of the direct taxes are: personal income tax with €215,560,097 or 52%; corporate income tax with €159,942,370 or 39%; property tax with €34,554,041 or 8%; and other taxes with €3,772,930 or around 1%. From these, the personal income tax and the corporate income tax were collected by the TAK, whilst the property tax by the municipalities. Compared to 2021 and 2020, direct taxes have increased by 21%, and 55% respectively.

The property tax outturn for year 2022 was lower than the previous year's by €1,704,000. In four municipalities: Mitrovica North, Leposaviq, Zvečan, and Zubin Potok no property tax revenues were collected at all. This is an occurrence that has been going on year after year as a result of failure to implement the applicable law and failure to draft internal regulations on taxes, fee, and charges for the public services delivered to the citizens.

Indirect taxes

The main sources of indirect taxes are: value added tax; customs duty; excises and other indirect taxes. The total outturn for this category of revenues was €1,870,248,000 or 102% of the amount planned in the annual budget. The collected VAT was €1,220,007,000 or 65% of the total outturn; excise tax €517,264,000 or 28%; customs duty €132,663,000 or 7%, and other indirect taxes €314,000 or 0.02%. Compared to 2021, indirect taxes increased by €205,563,000 or 12%, whilst compared to 2020 they increased by €597,513,000 or 47%.

Tax refunds

Tax refund is a reimbursement to taxpayers who have overpaid their taxes. 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, refunds were planned in the amount of €61,500,000, whilst the refunds by the end of the year were €67,068,807 or 109% of the plan or around 3% of the total of collected taxes. Of these, TAK has refunded €64,671,039, whilst Customs has refunded €2,397,768.

Compared to 2021, this year's tax refunds were by €8,157,000 or 14% higher, whilst compared to 2020 by €34,070,000 or 103%.

Non-tax revenues

The category of non-tax revenues includes all types of administrative and other taxes, different types of fines, receipts from inspections, use of public property, service fees, licences, rental of public property, concession tax, mining rent etc.

Non-tax revenues are collected by the central level, local level, independent budget agencies, and the publicly owned enterprises.

Based on the Law on Budget, non-tax revenues for year 2022 were planned to the tune of €239,100,000. Of which, €142,100,000 were planned from the central level, €46,400,000 from the local level, €30,200,000 from the mining rent, €17,000,000 from the concession tax, €3,400,000 from the interest.

The total amount of non-tax revenues outturn during 2022 was €256,532,000 or 107% of the plan. Of which, €149,310,000 was collected by the central level; €55,596,000 by the local level; €29,857,000 from the mining rent; €18,404,000 from the concession tax; and €3,365,000 from the interest of the loan to POEs.

When comparing the outturn of these revenues with the budget, we may conclude that the plan has been implemented at 105% at the central level and 120% at the local level. When analysing the trend of the last three years, we may conclude that non-tax revenues have increased by €20,425,000 or around 9% compared to 2021, and by €75,340,000 or around 42% compared to 2020.

Grants and assistance

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 constitute part of the total budget revenues for financing various projects.

Based on the Law no.08/L-066 on Budget Appropriations for year 2022, Grants including the budget support ones, were planned in the amount of €22,500,000. The same amount was also planned with the final budget, whilst the outturn was to the tune of €19,988,000 or 89%. In 2021 the outturn was €16,801,000, whilst in 2020 was €43,078,000.

By the end of 2022, the unspent funds from donors amounted to €12,730,371 (representing the unspent funds accumulated over the years). Inefficient use of donors funds under the terms set out in the agreement increases the risk of receiving less grants in the future.

Funding from borrowing

As a source for financing budget payments, with the Law no.08/L-066 on Budget Appropriations for year 2022, the Government had planned to finance part of the payments from the borrowings.

Pursuant to the Law no.08/L-066 on Budget Appropriations for year 2022, receipts from borrowing were planned in the amount of €503,000,000, whilst with the revised law the amount of financing from borrowing was increased to €543,000,000 or 8% higher than initially planned. This was due to the need for additional funding to maintain the budget deficit as a result of projections to increase the expenditures in the category of Subsidies and Transfers, namely the Economic Recovery Program.

External borrowing was planned to the tune of €423,400,000, whilst €106,347,000 or 25% of the plan was executed. This happened because the Assembly had not ratified the agreements for certain projects and the borrowing was arranged for prior to creating the conditions that would provide for the implementation of these projects, such studies, proper analyses, and resolving of expropriation-related problems, so these funds could be efficiently used.

Domestic borrowing was planned in the amount of €120,000,000, of which €5,854,000 or just 5% of the plan was executed. This was because of the positive banking balance and, as a result of the existence of liquidity, the securities have not been issued.

The borrowing outturn was by €157,385,000 lower compared to 2021 and by €276,830,000 compared to year 2020.

Other receipts

Other receipts consist of one-off financing from PAK, repayment of loans from publicly owned enterprises, dedicated revenues and deposit fund. According to the Law no.08/L-066, other receipts were planned in the amount of €37,000,000, whilst the budget for this category was not reviewed. This amount consists of: repayment of loans from publicly owned enterprises with €11,400,000 and designated revenues with €4,500,000.

The outturn was to the tune of €22,823,000, of which: repayment of loans from publicly owned enterprises was €11,387,000 or 50% of the plan, designated revenues was €5,888,000 or 26% of the plan, receipts from deposits was €5,548,000 or 24% of the plan.

5.2. Analysis of expenditures by economic categories

The final budget for total expenditures was to the tune of €3,158,870,000, whilst the outturn was €2,625,009,000 or 83% of the budget. Compared to 2021, payments increased by €246,269,000, whilst compared to 2020 they increased by €290,066,000.

Table 10 – Statement of payments compared to the last two years (in €'000)

Description	Initial budget	Final budget	Outturn 2022	Outturn 2021	Outturn 2020
Wages and Salaries	671,000	683,206	652,641	667,312	660,768
Goods and Services	373,000	397,840	333,374	302,410	276,995
Utilities	31,000	30,430	25,950	25,287	22,168
Subsidies and Transfers	895,000	1,114,919	1,064,068	842,570	867,794
Capital Expenditures	704,000	698,686	419,253	419,807	379,713
Interest expenditures	41,000	41,000	35,039	30,881	27,505
Reserves	21,000	1,920			
Other	179,500	190,870	94,684	90,473	100,000
TOTAL	2,915,500	3,158,870	2,625,009	2,378,740	2,334,943

Expenditures incurred by categories and the comparisons with previous years are the following:

Wages and Salaries

In the overall budget structure, they are presented as one of the categories with the highest percentage of expenditures, by around 25%. The budget for 2022 was to the tune of €683,206,000, whilst expenditures were €652,641,000 or 95.5% of the budget. Compared to last year's, expenditures decreased by €15,483,000 mainly due to the reduction in allowances to employees from the economic recovery package.

Goods and Services

In the structure of overall budget expenditures, their share is around 13%. The budget for 2022 was to the tune of €397,840,000, whilst expenditures were €333,374,000 or around 84% of the budget. Compared to last year's, expenditures increased by €27,135,000, as a result of purchases of books and artworks, purchases for the state reserves, rent, fuels for vehicles and power generator, abroad travelling etc. Payments upon court rulings decreased by €4,400,000 compared to last year's.

The main items in this category constituting the largest share of expenditures are: other outsourcing services with €61,000,000, medical supplies with €51,555,000, fuels with €31,066,000, purchase of books with €17,634,000, rent with €12,488,000€ etc.

Utilities

The budget for 2022 was €30,430,000, whilst expenditures were €25,950,000 or about 85% of the budget. The items included in this category are: electricity, water, waste, central heating and landline expenditures.

Subsidies and Transfers

In the structure of overall budget expenditures, their share is around 41%, thus constituting the category with the highest percentage of expenditures. The budget for 2022 was to the tune of €1,114,919,000, whilst expenditures were €1,064,068,000 or 95% of the budget. Compared to last year's, expenditures in this category increased by €221,171,000. Such increase was reflected in these economic codes: subsidies to public and non-public entities, basic pensions, subsidies for child allowance, subsidies to unemployed women after childbirth.

The main items in this category, constituting the lion share of expenditures are: subsidies to public entities with €233,109,000, subsidies to non-public entities with €98,269,000, basic pensions with €209,849,000, basic contributed pensions with €141,070,000, pensions to war veterans with €81,110,000 etc.

Payments from this category for the management of the Covid-19 totalled to €233,504,085. Of these, €44,542 from emergency package and €233,459,543 from the economic recovery package.

Capital Investments

In the structure of overall budget expenditures, their share is around 16%. The final budget for this category was €698,686,000, whilst expenditures were €419,253,000 or 60% of the budget. Compared to the last year's, expenditures decreased by €4,688,000. Capital investment funds are designated to finance project in infrastructure, highways, rural roads, education, health, cultural and sports projects as well as other public services.

This low level of outturn was due to the requesting units' failure to initiate their request or the prolonged procurement procedures as a result of EOs complaints filed to PRB. Some of the contracts for works have been terminated due to EOs' failure to execute the works and unresolved ownership issues is a challenge that is being repeated every year, thus leading to the prolongation of the contracted works.

Low level of implementation of capital projects is found in the following budget organisations: Ministry of Environment, Planning, Spatial and Infrastructure with 55%, Ministry of Economy with 38%, Ministry of Industry, Entrepreneurship and Trade with 16%, Ministry of Finance, Labour and Transfers with 38% (contingencies are not included for capital transfers), Municipality of Pristina with 28%, and Municipality of Fushë Kosova with 26 % etc.

Interest expenditures and other payments

The budget allocated for this category was €231,870,000 in total, whilst €129,723,000 have been spent. These expenditures relate to: interest, payments for debt repayment, sub-borrowings and return of deposits.

We recommend the Government

To ensure that capital projects planning is subject to an analysis on the organization's capacity to manage projects in accordance with the initial plans. Controls over projects planning and budget execution need to be strengthened in order to have the projects implemented in time and the objectives achieved. A harmonization of cash flow with project planning is necessary to address the low levels of financial outturn of capital projects.

5.2.1. Inadequate classification of expenditures

According to the Financial Rule no.01/2013 Spending of public funds, expenditures should incur under the adequate codes as set forth in the Chart of Accounts. In addition, the AI 19/2009 on the Chart of Accounts requires from the CAO and CFO to ensure that all the transactions are recorded in KFMIS according to the structure in the chart of account and classifications set forth in this AI.

During 2022, we found misclassification of expenditures amounting to €10,396,762 in 35 budget organisations, of which €8,514,156 or 82% in the local level (23 municipalities) and €1,882,636 or 18% in the central level (12 BOs).

Compared to the previous year, the amount of expenditures classified under inadequate categories has been reduced by €2,754,131 or around 27% (in 2021 they amounted to €13,150,923). The reduction is more noted in the payments made as a result of inadequate budgeting of expenditures.

The following table shows the inadequate classification of expenditures made in different economic categories.

Table 11 – Inadequate classification of expenditures in economic categories

Incorrect category	Right category	Influenced by BO	Wrongly budgeted	By court rulings	Total
Wages and Salaries	Wages and Salaries	83,231	39,437	478,734	601,402
	Subsidies and Transfers	121,007	115,557	49,309	285,873
	Capital Investments	222,552	174,593	111,221	508,366
Total Goods and Services		426,790	329,587	639,264	1,395,641
Subsidies and Transfers	Wages and Salaries	0	0	338,613	338,613
	Goods and Services	0	0	0	0
	Capital Investments	0	81,790	0	81,790
Total Subsidies and Transfers		0	81,790	338,613	420,403
Capital Investments	Wages and Salaries	200,000	0	1,740,035	1,940,035
	Goods and Services	247,657	5,158,601	863,200	6,269,458
	Subsidies and Transfers	130,202	61,158	179,895	371,255
Total Capital Investments		577,859	5,219,759	2,783,130	8,580,748
Total misclassifications for 2022		1,004,649	5,631,136	3,761,007	10,396,792

As shown in the table above, the most affected category was that of Capital Investments by €8,580,748 or 83% of the total, followed by Goods and Services by €1,395,641 or 13%, and Subsidies and Transfers by €420,403 or 4%.

Inadequate classification of expenditures was mainly as a result of inadequate budgeting by €5,631,136 or 54%; payments made by Treasury through court rulings by €3,761,007 or 36%; and the expenditures made by the budget organisations themselves in the wrong economic categories by €1,004,649 or 10%.

When analysing the inadequate classification in terms of over/underspending in the economic categories, the situation is the following:

Table 12 – Over/understatement of economic categories

Economic Category	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Investments
Overstatement	0	1,395,641	420,403	8,580,748
Understatement	2,880,050	6,269,458	657,128	590,156

When comparing the above information, we may conclude that the Capital Investments is the most overstated category and the Goods and Services is the most understated category.

The following table shows the BOs with the highest amount of inadequate classification, budgeted and through court rulings.

Table 13 – Central level

Entity	Incorrect category	Correct category	Financial amount	Nature of expenditure
MESTI	Capital Investments	Goods and Services	€1,100,887	Expenses for the renovation of the amphitheatre hall, purchase of musical instruments and inventory for the school, purchase of equipment for the security of educational facilities, etc.
MESPI	Capital Investments	Goods and Services	€190,027	Supply with containers
MH	Capital Investments	Goods and Services	€90,040	Supply of medical refrigerators and beds, purchase of laboratory equipment
MAFRD	Capital Investments	Goods and Services	€58,286	National program for the inventory of agricultural lands, servicing and calibration of laboratory equipment.

Table 14 – Local level

Entity	Incorrect category	Correct category	Financial amount	Nature of expenditure
Municipality of Prishtina	Capital Investments	Goods and Services	€2,453,137	Payments for the maintenance and greening of public spaces, road signals, river cleaning, etc.
Municipality of Ferizaj	Capital Investments	Goods and Services	€924,341	Paving roads with gravel, maintenance of premises and construction of parks, supply with water pumps, etc.
Municipality of Glogoc	Capital Investments	Goods and Services	€702,915	Payment by court rulings for the compensation of jubilee salaries.
Municipality of Gjilan	Capital Investments	Goods and Services	€605,692	Technical maintenance of municipal facilities, repair and maintenance of public lighting and summer maintenance of existing roads.
Municipality of Podujeva	Capital Investments	Goods and Services	€401,980	Payment by court rulings for the compensation of jubilee salaries.

We recommend the Government

To provide for effective controls over the budgeting processes, through MFLT, in order to ensure that expenditures are planned in the adequate economic categories, in accordance with the LPFMA and IPSAS.

5.3. Analysis of expenditures by function

Expenditures by function include public services, defence, public order and security, economic affairs, environmental protection, housing and community amenities, health, recreation, culture and religion, education, and social protection.

Table 15 – Statement of payments by function in three years (in €'000)

KF	Description	Year 2022	Year 2021	Year 2020
01	Overall public services	472,062	277,401	287,820
02	Defence	48,822	91,802	59,653
03	Public order and security	213,930	210,480	204,834
04	Economic affairs	409,042	358,492	462,356
05	Environmental protection	7,880	9,491	14,780
06	Housing and community amenities	46,951	39,303	37,227
07	Health	238,150	275,780	261,683
08	Recreation, culture and religion	54,068	60,712	51,790
09	Education	346,711	340,335	313,146
10	Social protection	666,960	602,693	550,685
	TOTAL¹¹	2,504,576	2,266,488	2,243,974

The total of expenditures by function was in the amount of €2,504,576,000, marking an increase of €238,088,000 compared to the last year.

Expenditures by function have been presented based on KFMIS notes. The analysis of expenses indicates that there are some expenditures which were not correctly classified by function. The most prominent case is the recorded expenditures of €88,955,010, which belong to the defence while they were wrongly recorded under the general public services

We recommend the Government

To ensure, through MFLT, that the budget is planned and executed according to the respective function codes in order to enable a true presentation of expenditures.

¹¹ The total does not include other payments: debt payment, lending to POEs and returns from deposit funds

5.4. Analysis of the economic recovery package

Expenditures for managing the pandemic have been appropriated through the Economic Recovery Program and allocated with the designated codes (00098 and 00099) in the chart of accounts. These funds were allocated upon Government decision in line with the authorisations provided in the Law on Budget for year 2022 for the purpose of implementing the measures foreseen in this program.

To this end, a total of €270,250,122 were budgeted for year 2022, whilst €258,432,932 or around 96% of the budget funds were spent.

Table 16 – Total of payments from codes 00098 and 00099

Description	Budget 2022	Outturn 2022	Outturn 2021	Progress
Economic Recovery Program (code 00098)	259,862,246	254,170,426	229,143,042	98%
Emergency Package (code 00099)	10,387,876	4,262,506	4,883,645	41%
Total	270,250,122	258,432,932	234,026,687	96%

The total of these expenditures was €258,432,932 or 96% of the planned budget, which compared to the previous year increased by €24,406,245 or about 10.5%. This increase was influenced by the Economic Recovery Package (00098) with €25,027,384, whilst the Emergency Package (00099) was cut by €621,139.

About 98% of the funds spent within the Economic Recovery Package (00098) were spent by the Central Level, and most of the expenditures incurred as follows:

- Ministry of Economy spent €133,210,918 or around 52% of the total expenditures incurred from this program, of which €79,210,918 were spent to implement the measure 3.7 “Support to overcome the energy crisis”, namely to subsidise the energy for the end users. Whilst €54,000,000 were spent to implement the measure 4.6 “Support to POEs”, namely to cover the energy consume of (non-technical losses) in north of Kosovo to stop the deviations and to pay the debts of KOSTT towards the European interconnection system;
- MFLT spent €72,442,541 or around 29% of the total expenditures incurred from the Economic Recovery Package. Of which, €57,113,550 or around 79% were spent to implement the measure 3.6 “Support to household liquidity” whilst the other share of expenditures incurred by the respective measures includes the subsidies to unemployed women after childbirth, child allowances, electricity bills, payments to public sector’s and POEs’ employees students etc.;
- MAFRD spent €17,991,508 or around 7% of the total expenditures incurred from this program. The funds were spent to implement the measure 2.5 “Revitalising rural agriculture and agro-tourism”; and
- MIET spent €15,925,670 or around 6% of expenditures from the Economic Recovery Package to implement the measure 2.1 “Subsidy for the investment loans”, measure 2.4 “Support to export”, and measure 3.8 “Boosting the state’s reserves”.

The rest of this package's funds were spent to support the payments and allowances to health workers, certain cultural projects, grant scheme for craftsmanship, etc.

With regard to the local level, the funds spent from the Economic Recovery Package was €4,494,219 or about 2% of the total expenditures from this program. These funds were generally spent to compensate staff payments (in the health, social welfare and education sectors) according to the decisions of the central level.

Table 17 – Payments from the Economic Recovery Package (code 00098) by economic categories

Economic Category	Budget 2022	Outturn 2022	Outturn 2021	Progress
Wages and Salaries	10,854,674	10,822,922	22,750,147	100%
Goods and Services	10,110,000	9,887,961	17,134,297	98%
Utilities			23,894	
Subsidies and Transfers	238,897,572	233,459,543	189,234,704	98%
Total	259,862,246	254,170,426	229,143,042	98%

About 92% of the budget spent on the Economic Recovery Package was paid from the category of Subsidies and Transfers, an outturn of 98% in this category. The rest of the spent funds were paid from the category of Wages and Salaries, an outturn of 100%, and from the category of Goods and Services, an outturn of 98%.

Expenditures for the management of the Covid-19 pandemic - Emergency package (00099) - namely about 97% of them, relate to funds allocated and spent for the needs of the Ministry of Health.

Table 18 – Payments for the management of Covid-19 pandemic – Emergency Package (00099) by economic categories

Economic Category	Budget 2022	Outturn 2022	Outturn 2021	Progress
Wages and Salaries	270,537	188,727	68,740	70%
Goods and Services	9,377,169	3,733,330	3,693,413	40%
Subsidies and transfers	50,000	44,542	695,812	89%
Capital investments	690,170	295,907	425,680	43%
Total	10,387,876	4,262,506	4,883,645	41%

6. Statement of cash and balance sheet

The closing cash balance includes the unspent amounts of funds from the: main accounts, development trust fund, money in transit, IFI quota, accounts of diplomatic missions of the Republic of Kosovo, cash (cash register) and open advance payments.

Funds for specific purposes consist of: designated donor grants, carried-forward own source revenues, development trust fund, designated revenues, other funds (mainly various types of deposits) and unspent funds from borrowing during 2022 and carried forward to 2023.

The Government manages the funds by using 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 by 31 December 2022 was €445,734,000.

Table 19 Statement of cash and balance sheet (in '000 €)

State Budget bank accounts	Year 2022	Year 2021	Year 2020
Central Bank of Kosovo	419,664	423,322	316,897
IFI quota	8,210	3,734	1,741
Development Trust Fund	3,256	2,636	1,971
Money in transit	10,845	6,946	4,851
Money in accounts of DM	2,527	2,068	1,751
Cash (cash register)	1,233	3,484	2,744
A. Total: financial assets in cash	445,734	442,189	329,955
Balance sheet	Year 2022	Year 2021	Year 2020
Designated donor grants	15,505	15,818	9,752
OSR transferred to Central Level	2,584	1,436	1,765
OSR transferred to Local Level	90,005	80,078	55,994
Development Trust Fund	7,974	7,354	7,078
Designated revenues	2,285	467	52
Other revenues	24,807	19,812	15,894
Unspent funds from borrowing	16,751	5,131	3,941
B. Funds for specific purposes	159,911	130,095	94,475
C. Undistributed	285,824	312,094	235,480
Total funds (B+C)	445,734	442,189	329,955

The balance of current accounts held with the CBK for year 2021 has increased compared to the previous year. The closing cash for year 2022 increased by €3,545,000 compared to the balance for year 2021.

Cash in the Central Bank of Kosovo is €419,664,000 or 94% of the total of cash.

The table above shows that the amount of local level's OSR carried forward as unspent revenues is increasing every year. This year it has increased by €9,927,000 compared to the previous year. Unspent funds from borrowing have also increased by €11,620,000 compared to the previous year.

7. Explanatory Notes

7.1. Non-financial capital assets, non-capital assets and stocks

MF Regulation no.02/2013 on Assets Management by Budget Organisations requires from all BOs to keep records of non-financial assets in order to constantly renew or update them, depending from the new purchases/acquisitions or systematic examination of useful life. Non-financial assets by accounting classification are divided into:

- Capital assets with a useful life of more than one year and worth over €1,000, and the ownership and control of the benefits therefrom remain to the BO;
- Non-capital assets with a useful life of more than one year and worth less than €1,000, and the ownership and control of the benefits therefrom remain to the BO; and
- Stocks or spare equipment and stationeries.

Non-financial capital assets and non-capital assets

Assets are managed through two centralised systems: KFMIS Accounting Register, as an integrated system within the MFLT, where assets worth over €1,000 are recorded, maintained, valued and reported; and the E-assets system/application, which is an integrated asset management system within the MIA, where all budget organisations must record, manage and report on non-capital assets worth under €1,000 and stocks/spare equipment and stationeries.

The audit results show that the disclosures on non-financial assets in 2022 did not provide sufficient assurance that BOs have complete controls over and monitor the assets and their management. Moreover, the information on non-financial assets in the KFMIS and e-assets is incomplete. The same asset management practices are still present at both the central and local level institutions, although recommendations on improving the non-financial assets management and increased controls thereon have been given for years.

Budget Organisations have reported different values of assets in their individual AFS. These amounts have then been consolidated in the AFR. When auditing the individual statements, we have found mismatches between the reported amounts and audited amounts.

Table 20 – Non-financial capital and non-capital assets

Assets	Institutions	Assets value in AFR-BRK	According to audit	Net understatements
Capital assets over €1,000	Central level	2,971,789,183	3,011,978,102	(40,188,919)
	Local level	6,283,260,268	6,302,170,598	(18,910,330)
Capital assets under €1,000	Central level	35,975,101	36,201,877	(226,776)
	Local level	21,722,392	21,735,002	(12,610)
Stocks	CL+LL	44,423,541	40,949,935	3,473,606
Total		9,357,170,485	9,413,035,514	(55,865,029)

The table above shows that the non-financial assets in total were understated by €55,865,029¹² (assets over €1,000 were understated by €59,099,249, asset under €1,000 were understated by €239,386, and stocks were overstated by €3,473,606). As well as in the previous years, there were shortcomings in the reporting of this year's assets balance (in 2021 they were overstated by €83,507,406).

It is worth noting that this year, progress has been made in the correction of assets registers; as it was the case with MESPI, which had corrected errors amounting to €71,801,641 resulting in their overstatement (payments on road maintenance recorded over the years as an asset). In addition, the Ministry for Community and Returns had corrected the assets register by transferring assets worth €21,415,168 to the individual beneficiaries.

Central level

According to individual audits, some BOs have not recorded in their registers assets that did meet the criteria to be considered as such. As a result, the net value presented in the AFR-BRK has been understated by €40,415,695. The Ministries with the highest impact on this error were: MESPI with the understatement of assets by €53,022,764; and ME and MESTI with overstatements of assets by €10,000,000 and €3,020,964 respectively.

The reasons behind such large discrepancies are the following:

- Incomplete recording of assets owned by budget organisations;
- Keeping of final assets as ongoing investments, although technically accepted; and
- Inadequate application of depreciation rates.

Identified errors or mismatches in the balance of capital and non-capital assets have resulted in the overstatement/understatement of assets in 17 central level organizations (11 ministries and 6 independent agencies) or 35% of the central level institutions.

¹² Capital and non-capital understatements amounted to €78,064,670, and overstatements amounted to €22,199,635

Other shortcomings in assets control and management most often encountered in individual audits are:

- 10 institutions have not reconciled the records between the annual stocktaking report and the ledger, whilst in one case the stocktaking was not carried out at all;
- In 16 institutions, the e-assets system has not been operating; and
- In 6 institutions assets were incorrectly recorded as ongoing investments.

Local level

According to individual audits, some municipalities did not include all the assets in their registers. As a result, the value of assets presented in the AFR-BRK has been understated by €18,922,940. Municipalities with the highest impact on this error were Mitrovica North and Deçan. The Municipality of Mitrovica has understated the assets by €12,161,440 (according to the municipal evaluation commission). This amount was not presented in the KFMIS assets registers, thus resulting incomplete. In addition, some of the assets (land and different facilities), which were listed but not evaluated by the Municipality, have been disclosed in the AFS without their value, which might have a material impact. Meanwhile, the Municipality of Deçan understated the assets by €6,152,406, which were mainly related to the construction of roads and investment maintenance.

Of the total of 34 audited municipalities, 15 have overstated/understated the assets presented, or 44% of the municipalities have not made a true presentation of capital and non-capital assets.

Other shortcomings in assets control and management most often encountered during individual audits of the assets of municipalities are:

- In 12 municipalities, there were shortcomings in the assets depreciation and assets recorded as ongoing investments;
- In 8 municipalities, there were shortcomings in the assets stocktaking (assets not recorded, partly recorded and recorded with delay); and
- 6 municipalities have failed to reconcile the information between the stocktaking report and the assets ledger and the e-assets system was not used.

Stocks for the central and local level

Stocks and spare equipment and stationeries were €44,423,541, according to AFR-BRK and €40,949,935, according to individual audits, an overstatement of €3,473,606. This was due to misreporting by UCKK. It is worth noting that by the end of 2022, six municipalities and one independent institution have reported stocks at zero value.

We recommend the Government

- To provide for sufficient trainings, through MFLT, for the assets' officers and the CFO regarding the assets recording process and their true presentation in the individual financial statements; and
- Through MIA, to ensure that the e-assets system is used by all budget organisations.

7.2. Accounts receivable

Accounts receivable (LA) include the amount of rights of budget organizations against parties for the provision of services as a result of their activity. These accounts originate from the invoiced and uncollected amounts from the organizations.

Accounts receivable constitute an important item in the financial management. BOs are obliged to keep records which serve as the basis for financial reporting. While records are mainly kept manually, they are consolidated afterwards for both the budget organisations' need to prepare financial reports and for the consolidated financial statements.

The total amount accounts receivable presented in the AFR-BRK was €840,946,133 (of which €607,974,066 from the central level and €232,972,067 of the local level). Meanwhile, the amount of accounts receivable according to the audit was €842,833,639, an understatement of €1,887,506 (€2,096,414 were understated at the local level and €208,908 were overstated at the central level).

Based on the AFR 2022, the accounts receivable have increased by €62,897,519 or around 8% compared to the previous year. While the trend in these accounts has been increasing, actions taken to collect them have not proven to be sufficiently efficient. On the other hand, it should be noted that the ageing of these accounts undermines the possibility for collecting them.

Table 21 – Summary of accounts receivable for the last three years (in €)

Accounts receivable	According to audit 2022	According to AFR-BRK 2022	According to AFR-BRK			Comparison 2022-2021 in %
			2022	2021	2020	
Central level	607,765,158	607,974,066	607,974,066	564,294,945	481,470,171	7.74%
Local level	235,068,481	232,972,067	232,972,067	213,753,696	213,018,462	8.99%
Total	842,833,639	840,946,133	840,946,133	778,048,640	694,488,633	8.08%

Accounts receivable at the central level

Accounts receivable's amount presented in the AFR of 2022 by the central level were €607,974,066, whilst according to the audit it was €607,765,158, an overstatement of €208,908.

The total amount of accounts receivables is constituted with 97% by the Ministry of Finance, Labour and Transfers with €525,307,512, the Independent Commission for Mines and Minerals with €36,842,200, the Ministry of Internal Affairs with €28,628,737. Compared to the previous year, accounts receivable are characterised by an increasing trend of 8%.

Accounts receivable at the local level

The amount of accounts receivable presented in the AFR 2022 for 34¹³ municipalities was €232,972,067, whilst according to the audit it was €235,068,481, an understatement of €2,096,414.

Such difference was as a result of unfair presentation of accounts and the shortcomings in recordkeeping.

Accounts receivable of the local level mainly consists of property tax, business tax, waste tax, rent and other. The total amount of accounts receivable is constituted by the Municipality of Prishtina with the share of 30%, the Municipality of Peja with 9%, Municipality of Prizren with 8%, Municipality of Ferizaj with 7% etc. Compared to the previous year, accounts receivable have increased by around 9%.

The municipalities with the highest amounts of understated accounts receivable (differences between the consolidated statements and the amounts according to the audit) are the following:

- Municipality of Gračanica with €1,418,765, as they presented the records of 2022 only and did not include the records accumulated from the previous years; and
- Municipality of Ferizaj with €955,841, as they did not fully disclose the records and an accurate database on accounts receivable was lacking.

The municipalities with the highest amounts of overstated accounts receivable (differences between the consolidated statements and the amounts according to the audit) are the following:

- Municipality of Prishtina with €152,231, affected by the technical errors and double amounts;
- Municipality of Glogoc with €38,773, as a result of uploading errors in the revenue management system; and
- Municipality of Vitia with €32,761, as a result of failure to update the records in the property tax systems following the inclusion of three properties owned by the institutions of the Republic of Kosovo, which are exempted from the property tax.

We recommend the Government

To reconsider, in coordination with MFLT and MLGA, the current debts collecting mechanisms, their structure, age, and the chances for collecting such debts. In addition, it should provide for a complete and fair reporting and consolidation of accounts receivable.

13 Municipalities of Mitrovica North, Zubin Potok and Leposaviç have not reported on the accounts receivable

7.3. 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-based accounting, the balance of outstanding liabilities can only be disclosed in the financial statements, all the more when the approach of collecting information outside the KFMIS leaves room for potential errors in their reporting and disclosure.

The law on budget and the secondary legislation on spending the public money restricts BOs from entering into liabilities, given that they are not allowed to make the purchase order for goods/services unless the funds are available. But, such requirement is not always adhered to.

Outstanding liabilities according to AFR-BRK were to the tune of €149,734,697, whilst according to our audit they were €149,865,472, resulting in an understatement of €130,775. According to AFR 2022, liabilities have decreased by €41,098,513, or around 22% compared to the previous year.

The largest amount of paid-off liabilities related to the previous-years expropriations to the tune of €13,313,645 (the largest payments were at the Ministry of Environment, Spatial Planning and Infrastructure by €12,008,026), the BOs themselves have paid liabilities to the tune of €27,784,868. This was as a result of the Government giving priority to the payment of liabilities.

Table 22 – Outstanding liabilities over the last three years

Outstanding liabilities	According to audit 2022	AFR-BRK 2022			Comparison 2022 - 2021/ in %
		2022	2021	2020	
Central Level	129,155,623	129,448,861	160,143,779	325,769,202	-19%
Local Level	20,709,849	20,285,836	30,689,431	34,085,635	-34%
Total	149,865,472	149,734,697	190,833,210	359,854,837	-22%

Central Level outstanding liabilities

The amount of outstanding liabilities at the central level was overstated by €293,228 compared to the AFR-BRK, according to the audit.

Local Level outstanding liabilities

As a result of incorrect presentation of liabilities in the individual AFS, errors incurred in the total of liabilities in the AFR-BRK as well. The amount of outstanding liabilities at the local level was understated by €424,013 compared to the AFR-BRK, according to the audit.

The municipalities with the highest amounts of liabilities are Gjilan with €4,599,011, or 22% of the local level debts, and Ferizaj with €3,102,831, or 15%.

Untrue disclosure of liabilities do not give a fair presentation of the balance sheet of the BOs and the Government, which may lead to inadequate decision-making during the budgeting process. Poor controls over the data reconciliation may undermine the correct and complete identification and reporting of liabilities, thus putting the reliability of the statements to question.

We recommend the Government

To ensure that MFLT has put in place controls by monitoring the BO's reports on outstanding liabilities, and that measures are taken when statutory deadlines are not adhered to.

Contingent Liabilities

Contingent liabilities are disclosed under the liabilities. They represent different claims by the plaintiffs, which are likely to create liabilities for the organizations in the future, depending on the court rulings which might be in favour of the plaintiffs. These relate to compensations on expropriation, debts, material damage, wages and other related financial implications.

Contingent liabilities of 2022 amounted to €347,003,930 according to AFR-BRK, whilst according to the audit they were to the tune of €330,917,544. Based on these analysis, the contingent liabilities were overstated by €16,086,386 in total: the total overstatement of contingent liabilities was €21,183,696 and the understatement was €5,097,310.

The overstatement of this category was due to errors in disclosing them in the individual AFS and lack of proper communication between the BOs and the state's attorney. These liabilities have increased by €109,606,877, or around 46% compared to the previous year, according to AFR-BRK. The positive trend of these liabilities and lack of due diligence in their reporting is concerning.

Table 23 – Summary of contingent liabilities

Contingent liabilities	According to audit 2022	According to AFR-BRK 2022			Comparison 2022 - 2021/ in %
		2022	2021	2020	
Central level	194,228,186	197,233,674	180,476,478	165,869,909	9%
Local level	136,689,358	149,770,256	56,920,575	80,743,148	163%
Total	330,917,544	347,003,930	237,397,053	246,613,057	46%

Central level contingent liabilities

Contingent liabilities of the central level were to the tune of €197,233,674, according to AFR-BRK, whilst according to the audit they were €194,228,186, an overstatement of €3,005,488. Institutions with the highest amounts of overstated/understated contingent liabilities are the following:

- Ministry of Economy understated the contingent liabilities by €4,741,404;
- Health Insurance Fund overstated the contingent liabilities by €4,675,715;
- Ministry of Internal Affairs overstated the contingent liabilities by €1,599,862; and
- Ministry of Environment, Spatial Planning and Infrastructure overstated the contingent liabilities by €1,422,109.

Ineffective communication between responsible officers of the ministries and state's attorney, errors in handling of contingent liabilities and poor controls over monitoring of the progress of court cases were the most frequent reasons behind the overstatement or understatement of the contingent liabilities.

Local Level contingent liabilities

Contingent liabilities towards the municipalities were of different natures, starting from jubilee salaries over to expropriations lawsuits. The amount of local level contingent liabilities was €149,770,256 according to the AFR-BRK, whilst according to the audit it was €136,689,358, an overstatement of €13,080,898€.

Municipalities with the highest amount of overstated contingent liabilities are the following:

- Municipality of Prishtina overstated the contingent liabilities by €11,847,843 as a result of doublings and due to different procedural actions year after year;
- Municipality of Graçanica overstated the contingent liabilities by €865,542; and
- Municipality of Deçan overstated the contingent liabilities by €561,043 due to lack of communication between the municipal departments.

Ineffective communication between the finance sector and legal representatives of municipalities, errors in handling the contingent liabilities and poor controls were the most frequent reasons behind the overstatement of contingent liabilities at the local level.

Untrue disclosure of contingent liabilities has led to incomplete and unfair presentation of the balance sheet. Thus, the disclosed information on these liabilities has been misleading to the stakeholders.

We recommend the Government

To ensure, through the Ministry of Justice (State Advocacy Office) and in coordination with BOs legal offices, that the complete and true value of the contingent liabilities is verified, in order to provide true disclosures in the AFR. When discrepancies of records exist, the reasons behind these discrepancies should be identified and the same should be rectified.

7.4. Payments through court rulings and enforcement

Pursuant to LPFMA, Article 40.1, whenever a court issues an order or judgment requiring a public authority to pay any type of monetary compensation to a person, and the order or judgment is not subject to appeal by the public authority or the public authority has not properly or timely exercised its right to appeal, the court shall immediately provide a copy of such order or judgment to the Ministry of Justice and the respective Ministry for the execution of the said payment.

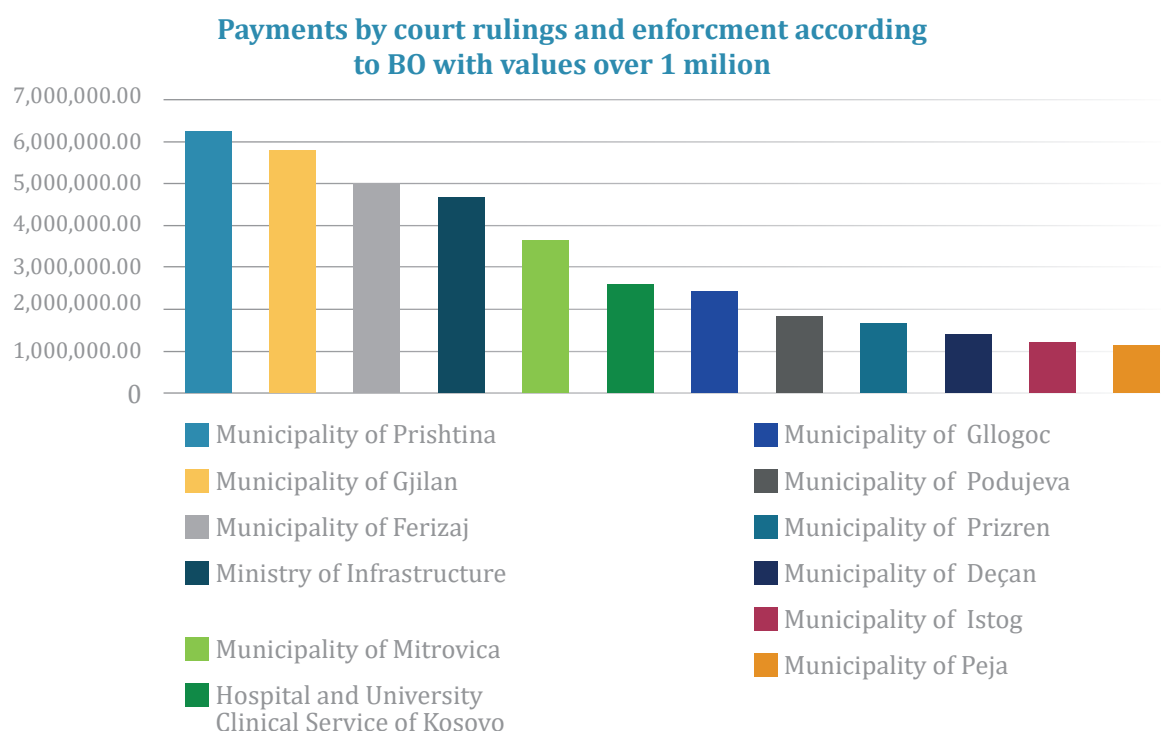
Payments by court rulings and private bailiffs for year 2022 were to the tune of €46,349,349. Compared to 2021, they have slightly decreased by €5,568,280 or 11%, but still remain at a high level. While the causes behind this situation are the same as those of the previous years, we may say that addressing of such causes by the responsible persons has not been at adequate level.

Table 24 – Payments by court rulings and enforcement (in €)

Payments by categories	2022	2021	2020
Wages and Salaries	16,075,491	19,998,545	73,976
Good and Services/Utilities	5,142,784	10,697,725	12,881,930
Subsidies and Transfers	1,274,649	1,237,288	259,151
Capital Investments	23,856,425	19,984,071	16,750,254
Total:	46,349,349	51,917,629	29,965,311

Budget organizations' failure to timely meet the obligations has resulted in extra costs to the state budget due to the costs of judicial (enforcement) procedures and interest expenses. Such extra costs have damaged these BOs' budgets and consequently the objectives they were supposed to achieve wherewith. Considering that capital investments constitute the lion share of these expenses, many projects have remained unimplemented as a result of these costs.

The following chart shows 12 budget organisations where payments in amounts larger than €1 have been executed, thus constituting over 81% of the amount of payments executed based on court rulings, or over €37 million.



In analysing expenses based on court decisions in KFMIS and based on individual audits of BOs, we found that for most of these payments, Treasury the expenses on the principal debt from those on court enforcement procedures, as foreseen in the Chart of Accounts.

However, Treasury has kept other records on the splitting of these expenditures outside the KFMIS. Based on this information, the total of payments through court rulings/enforcement beyond the principal debt were to the tune of €7,467,532, or 16%.

Table 25 – Payments through court rulings/enforcement by government level (in €)

Payments by categories	2022	2021	2020
Central level	9,887,292	20,010,276	15,324,361
Local level	36,462,057	31,907,353	14,640,950
Total	46,349,349	51,917,629	29,965,311

Payments through court rulings at central level

Payments of central level organisations were to the tune of €9,887,292, or 21% of the total court rulings. The lion part of these court rulings were mainly related to expropriation payments as a result of the complaints of owners involved in the expropriation process and the rest to the remuneration of employees with the jubilee and farewell wages, which were foreseen according to the collective contract but not budgeted from the category of salaries.

Payments through court rulings at local level

Payments of central level were to the tune of €36,462,057 or 79% of the total. The lion part of these court rulings were mainly related to the remuneration of employees with the jubilee and farewell wages, which were governed in the collective contract but not budgeted from the salary category and to the delayed payment of invoices by the BOs due to the responsible officers' neglect or lack of budget.

We recommend the Government

To examine, through relevant institutions, obligations and responsibilities of BOs arising from valid collective agreements and take appropriate action. Depending on these obligations and budget capacities, it should ensure that budget organizations do adequate budget planning, in order to avoid unnecessary expenses from eventual litigations. In addition, it should take actions to prevent or resolve numerous litigations, through the parties involved in the expropriation process.

We recommend the Ministry of Finance, Labour and Transfers

In coordination with the Treasury Director, the Minister should ensure that, when executing payments based on court rulings/enforcement, expenses on the principal debt is separated from those on court enforcement procedures, as foreseen in the Chart of Accounts.

7.5. Employment data

According to Law no.08/L-066 on Budget Appropriations for year 2022, the planned number of employees at the central and local level was 87,311, whilst the number of employees according to AFR-BRK was 80,086. Based on the payroll system data, it is noted that the number of employees in December 2022 was 82,277 or 2,191 more than the number presented in the AFR-BRK.

In the AFR-BRK, Treasury only presented the number of employees according to the rates report, excluding employees who, on the payroll for December, were accounted with zero (staff on maternity leave, unpaid leave, KSF reservists, etc.). Moreover, this also included the municipal staff arranged in the education sector, who were not assigned with full working hours as well as employees arranged depending on the date of commencement or removal from payroll.

The number of current employees according to the rates report does not present the real number of employees in the public administration who have contractual relations (employees who are part of the Payroll) with budget organisations, thus resulting in untrue and unfair presentation.

Employees outside the payroll

According to AFR-BRK for year 2022, the number of employees outside the payroll was 622 (central level 545, local level 77). The highest number of employees outside the payroll was found to be in UCKK by 305, MFLT 38, Municipality of Glogoc 32 etc.

Compared to last year, the number has decreased by 1,441, mainly because the Ministry of Health did not longer require staff to manage the Covid-19 pandemic.

Employees with special service agreements (SSAs)

According to AFR-BRK for year 2022, the number of employees engaged through SSAs was 1,511. Compared to last year, this number has significantly decreased by 62,372, as a result of the staff engaged by CEC for the elections of 2021.

According to individual audit reports for year 2022, staff was engaged through SSAs for specific cases, but there were also cases when they were engaged in regular job positions. There were also cases when respective procedures for their engagement has not been applied.

The highest number of employees engaged with SSAs at the central level was in the MFLT with 357 people, of which 344 were engaged as surveyors in the Kosovo Statistics Agency.

Whilst at the local level, we found the following shortcomings:

- The Municipality of Prishtina had engaged 201 employees through SSAs without applying the normal recruitment procedures. Following the termination of the first contracts (four-month term) the same were provided with renewed contracts for another four months;
- The Municipality of Deçan had engaged 103 employees through SSAs in different departments of the municipal administration and the health sector. To hire these employees, the Municipality did not conduct the formal procedures of recruitment and procurement for SSAs. Instead, they were engaged based on six-months termed decisions, renewed on yearly basis. They were not engaged on special services or specific duties but rather on regular job positions; and
- The Municipality of Vitia, had engaged 80 persons through SSAs to staff regular job positions in the municipal administration without conducting any of the procedures, either procurement or the regular recruitment process.

We recommend the Ministry of Finance, Labour and Transfers

To ensure that the reporting on current employees presents the actual number of employees in the public administration, including all those who have entered into a contractual relationship with the respective budget organisations and are part of the payroll management system (Payroll).

Chapter - II
**SUMMARY OF INDIVIDUAL
AUDITS RESULTS - 2022**



1. Summary of opinions, conclusions and recommendations

NAO for 2022 has completed 86¹⁴ financial and compliance audits for the central and local levels. The audits were performed based on the methodology on financial and compliance audits, in line with the Auditing Standards (ISSAIs). Based on this methodology, we have given audit opinions on the Financial Statements, and we have given audit conclusions to each budget organisation (BO) regarding their compliance with authorities.

The audit of 86 individual AFS, 53 have resulted with unmodified opinion and 33 with modified/qualified opinion. Compared to 2021, there is an improvement in the quality of financial reporting, given that for year 2021 we have given 46 unmodified opinions, 42 modified, and 2 adverse ones.

With regard to compliance conclusions, 41 audit reports have resulted with the conclusion that budget organisations have complied with the applicable laws and regulations, whilst 45 other have not complied with the applicable laws and regulations. Compared to year 2021, there is an improvement when it comes to the management of expenditures and revenues in compliance with the applicable legal framework given the fact that in 2021 we gave 35 unmodified conclusions, 49 modified and 6 adverse ones.

The overall conclusion is that the BOs at both central and local level have made improvements concerning the financial reporting and the compliance with the legal framework.

Table 26 – Number of recommendations by categories for year 2022

No.	Economic categories	Central level	Local level	Total
1	Annual Financial Statements	10	6	16
2	Wages and Salaries	21	12	33
3	Goods and Services and Utilities	49	51	100
4	Common issues (G&S and CI)	7	22	29
5	Capital Investments	30	75	105
6	Subsidies and transfers	8	31	39
7	Revenues	7	27	34
8	Outstanding liabilities	13	18	31
9	Contingent liabilities	10	9	19
10	Accounts receivable	10	40	50
11	Assets	49	46	95
11	Internal Audit	5	15	20
	Total	219	352	571

14 Municipalities of Mitrovica North, Leposavic, Zubin Potok and Zveqan were not audited for year 2022 and are not included in this number

In the individual audit reports for 2022, we have given 571 recommendations for the improvement of each area where shortcomings and errors have been identified. Out of 571 recommendations, 244 are new ones, 271 repeated and 56 partly repeated. The categories with the highest level of recommendations are Capital Investments, Goods and Services and Assets.

The financial and compliance audit has been focusing on the public procurement area considering that during 2022, a number of 10,290 contracts were entered into, an increase of 4% compared to the previous year. A total of 162 contracting authorities (CAs) have conducted procurement activities leading to the conclusion of these contracts. The Central Procurement Agency has developed the procurement activities on behalf of 16 independent institutions.

In 2022, the budget organisations have signed 7,714 procurement contracts, constituting 75% of the total number of contracts. Publicly Owned Enterprises have signed 2,576 contracts or 25% of the total number of contracts. The audit results related to this category of expenses, other expenses, and the recommendations on improvement on the identified shortcomings have been presented separately for the central and local levels as the following.

2. Central Level

2.1. Audit opinions and issues for their modification

NAO has finalised 52 financial and compliance audit reports for year 2022 on the central level, which includes the ministries and independent institutions.

The audits were performed based on the methodology on financial and compliance audits, in line with the Auditing Standards (ISSAIs). Based on this, we have given the audit opinions on the financial statements in line with ISSAIs and have made conclusions regarding the compliance with authorities for each BO. The audit opinions on the annual financial statements of BOs at central level have been presented in the following table.

Table 27 – Type and number of opinions for the central level for year 2022

Auditees	Unmodified Opinions	Qualified Opinions	Total
Central Level ¹⁵	9	14	23
Independent Institutions	26	3	29
TOTAL	35	17	52

Out of the 52 AFS of the central level (including independent institutions), 35 have been given unmodified opinions and 17 qualified opinions.

The key matters leading to the qualification of the audit opinions are the following:

- Poor classification and reporting of expenses, mainly as a result of budget funds not appropriated under the adequate categories in the Law on budget;
- Untrue information on capital and non-capital assets, as a result of their understatement either due to inadequate recording or failure to record the assets in the accounting register. On the other hand, there are cases when the registers include assets that are not owned by the BOs, thus leading to overstatement;
- Employees have been paid based on the Brussels agreement this year too. As a result, in 2022 the total amount of these payments was €792,955, which was made regardless non-attendance at work at all. The number of employees for this category of employees was 129 (MESPI 64 employees, MIA 20, MCR 20 and MIET 25) who were paid throughout the year, whilst 52 employees were paid only for the first half of 2022 (MESTI had provided the work conditions to 32 employees and they attended work, and MCYS had stopped the payments/salaries of 20 employees in the second half;
- Untrue information on contingent liabilities as a result of having understated them due to incomplete recording. On the other hand, there were cases of overstatement as a result of uncompleted matters in the register; and

¹⁵ Central level institutions are: 15 Ministries, OPM, Office of the President, Assembly of Kosovo, Health Insurance Fund, UCCK, TAK, Customs and RTK

- Untrue information on outstanding liabilities as a result of failure to enter the received invoices as liabilities.

2.2. Conclusions on compliance and issues for their modification

Compliance conclusions on the central level BOs are presented in the following table:

Table 28 - Type and number of opinions for the central level for year 2022

Auditees	Unmodified conclusion	Qualified conclusion	Total
Centrale level ¹⁶	10	13	23
Independent Institutions	27	2	29
Total	37	15	52

Of the 52 central level AFS (including independent institutions) 37 have been given unmodified conclusions and 15 have been given qualified conclusion.

The key matters leading to the qualification of the conclusions are the following:

- Delayed payment of liabilities: invoices were not paid within the statutory deadline of 30 days. These shortcomings were as a result of lack of internal controls over the invoice payment management;
- Failure to adhere to the payment execution steps as required in the Regulation no.01/2023 on Spending of public funds: invoices had been received prior to the commitment of funds and purchase order;
- Lack of beneficiaries reasoning on the subsidies, as stipulated in the agreements;
- Selection of the economic operator who did not fully meet the eligibility criteria set forth in the Tender Dossier;
- Development of the Negotiated Procedure Without Prior Publication for transport vehicles and delayed delivery of goods; and
- Failure to adhere to the Operational Rules and Guideline on Public Procurement when it comes to contracts management.

The above issues have occurred as a result of the inadequate functioning of the internal controls of budget organizations and irresponsibility at work by the relevant officers. Compliance with the applicable laws and regulations has improved compared to last year as from 17 qualified conclusions and one adverse conclusion, this year have been given 15 qualified and none adverse conclusions.

¹⁶ Central level institutions include: 15 Ministries, OPM, Office of the President, Assembly of Kosovo, Health Insurance Fund, UCCK, TAK, Customs and RTK

2.3. Other financial management and compliance issues

The most frequent issues recurring from year to year in central level institutions, based on economic categories, excluding the issues that had an impact on the opinion and the compliance conclusion are presented as follows:

Wages and Salaries

Staffing of regular managerial positions with deputies beyond the statutory deadline as a result of concrete actions by the relevant ministries/agencies on drafting new regulations for staff reorganization in accordance with the structural changes having occurred.

Goods and Services

Shortcomings in the bid evaluation process, the selection of bidders by the evaluation commission as eligible and rewarding them with contracts regardless of having not met the criteria set forth in the tender dossier.

Capital Investments

Delayed execution of works in capital projects as a result of failure to stick to the dynamic plan. This was also as a result of entry into contracts without resolving the expropriation of lands beforehand and poor designing of executive projects.

Subsidies and Transfers

Beneficiaries of pensions and social assistance amongst the employed persons, pensions paid after death, and more than one pension benefited from the pension schemes. This is a phenomenon that has been found every year. However, there is an improvement compared to the previous year and these payments have been reduced. These shortcomings continue to occur due to the lack of final interpretation of the laws on pension schemes, as well as the merger of the Ministry of Finance, Labour and Transfers.

Assets

- Shortcomings in the assets stocktaking process, such as failure to reconcile the assets registers with the stocktaking report and, in some cases, failure to conduct the stocktaking process at all. As a result, disposed assets, which recorded in the stocktaking report, had not been written off of the assets registers. The prepared reports were often incomplete, thus lacking all the information as required in the assets regulation.
- Failure to use the e-assets system. As a result, some budget organisations were still keeping records of non-capital assets in internal books. This was due to insufficient commitment of budget organisations to put the e-assets system to operation and use it.

Revenues

- In the Customs of Kosovo, we found cases when the custom duties in TARIK did not fully match with those in the ASYCUDA system. This was a due to Customs' failure to update the list of tariff codes and sub-codes between the two systems.
- In TAK, we found 29 cases that taxpayer's applications for tax refunds have not been handled within the statutory deadline. Shortcomings were also found in the revenues collection and management, such as fiscalisation process not completed and inefficient management of accounts receivable/old debts.
- Despite the efforts made by TAK, the complete fiscalisation of all businesses still remains a challenge. The number of businesses not yet fiscalised, and required by the law to be equipped with cash registers by the end of 2022 was 12,537. The lion share of these businesses, 8,974 ones, consists of microbusinesses having an annual turnover of up to €5,000. Compared to last year, the number of taxpayers with no cash-registers has decreased (in 2021 the number of these taxpayers was 13,656).

2.4. Recommendations given

The 52 individual audit reports of 2022 on the central level resulted in a total of 219 recommendations on improving each area where shortcomings and errors were identified. Of the 219 recommendations: 112 are new recommendations; 84 have been repeated; and 23 have been partly repeated. The following table shows the recommendations given in the last three years.

Table 29 – Number of recommendations to the central level over the three years

Auditees	Year 2022	Year 2021	Year 2020
Central level ¹⁷	165	185	244
Independent Institutions	54	55	43
Total	219	240	287

The data presented in the table show the decreased number of recommendations compared to the previous year. This indicates an improvement in the management, thus resulting in less recommendations given for 2022. The institutions that have been given less recommendations compared to last year are: University Clinical Hospital Service of Kosovo, Ministry of Internal Affairs, Ministry of Education, Science, Technology and Innovation, Ministry of Environment, Spatial Planning and Infrastructure, Radio and Television of Kosovo, etc.

¹⁷ Central level institutions include: 15 Ministries, OPM, Office of the President, Assembly of Kosovo, Health Insurance Fund, UCCK, TAK, Customs and RTK

3. Local Level

3.1. Audit opinions and issues modifying them

NAO has finalised 34 financial and compliance audit reports for the local level for the year 2022. The audit was initiated by NAO for four (4) of the municipalities in north. However, there was lack of working conditions to conduct the audit due to existing circumstances¹⁸.

The audits have been conducted based on the methodology for compliance and financial audit, to be in line with the Audit Standards (ISSAI). Therefore, on this basis, we have provided audit opinions for the Financial Statements, in accordance with the ISSAIs, as well as conclusions regarding compliance with the authorities for each BO. Audit opinions regarding the AFS of the BOs are presented in the table below.

Table 30 – Type and number of opinions for the local level for 2022

Auditees	Unmodified opinion	Qualified opinion	Unaudited municipalities	Total
Municipalities	18	16	4	38

As shown in the above table, the individual audits of BOs have resulted in 18 unmodified opinions and 16 modified opinions. In percentage, for the audited municipalities, 47% of the audit opinions are modified, compared to 2021 (24 or about 67% modified opinions). Therefore, it can be concluded that the positive trend of opinions is by 20%. Namely, a considerable number of BOs have taken into consideration our previous year recommendations regarding the preparation of the AFS. However, in some municipalities, there are still issues with errors in the reporting and disclosure of the required information in the AFSs.

Reasons for the modified audit opinions were mainly:

- Improper classification and reporting of expenditures caused by payments through court/enforcement officers' decisions mainly for remuneration of jubilee salaries and meals as well as improper budget planning for certain economic categories;
- Untrue information for capital and non-capital assets caused by their understatement due to failure to record them in the accounting books. On the other hand, there were also cases of assets not owned by the municipality be presented in the assets registers;
- Overstatement of accounts receivable due to unfair billing of debtors;
- Overstatement of contingent liabilities which have been doubled or cases of incorrect reporting; and
- Payments for incomplete works; items part of the progress payments were not executed at all whilst the progress payments were made in full, and in some cases payments were made for goods that was not received at all.

¹⁸ Municipalities: Mitrovica North, Leposavić, Zubin Potok and Zvečan

In some cases, modification of opinion occurred due to BOs external impacts for which the BOs have not had the opportunity to rectify. These cases were due to identified misclassifications in some municipalities¹⁹ related to the payment of jubilee salaries, based on the collective contract, relate to payments executed by the Treasury through court/enforcement decisions, for which the Municipalities had scarce budget for payment due to failure to allocate a budget for this purpose. Other issues with an impact on audit opinions were due to poor controls in municipalities regarding projects' management or of responsible officials for the identification or recording of certain reporting accounts, which are presented in the AFS.

3.2. Compliance conclusions and issues modifying them

For 2022, NAO has given 34 compliance conclusions for the local level. Compliance conclusions are presented in the table below.

Table 31 – Type and number of conclusions for the local level for 2022

Auditees	Unmodified conclusion	Qualified conclusion	Unaudited municipalities	Total
Municipalities	4	30	4	38

According to the table, out of 34 audited municipalities, 30 are qualified conclusions and 4 unmodified conclusions. In percentage, 88% are qualified audit conclusions, which shows that most of the municipalities have problems regarding the compliance with the authorities or transactions are not in compliance with the legal requirements.

However, it is worth noting the fact that compared to the previous year, the local level has performed better in 2022. Whilst there were five (5) adverse conclusions in the 2021 audit reports, there are no adverse conclusions on compliance with the legal framework and regulations in force for 2022. Which shows that the municipalities have undertaken actions and there were only certain cases not in accordance with the legal framework.

Reasons for qualified conclusion were mainly:

- Engagement of officials with special service agreement without conducting procurement procedures;
- Failure to verify 20% of the taxable properties as required by Law due to lack of human resources capacity;
- Shortcomings in carrying out the procurement procedures, such as unclear technical specifications in the tender dossiers, contract concluded based on the weighted price (wrong), failure to publish the contracts in the e-procurement system, as well as poor contract management;
- Shortcomings in contract management, including failure to sign the contract management plans, delays in projects' dynamic, failure to confiscate the tender performance security, payments for incomplete works, oversupply with contracted quantities and use of inadequate contracts that led to exceeded value compared to the estimated one;

¹⁹ Municipality of Podujeva, Fushë kosova, Gllokovc, Prizren, Deçan, Gjakova, Vitia, Istog, Mitrovica South.

- Additional enforcement costs were paid due to municipalities' failure to carry out obligations on time. This situation occurred as a result of municipalities being subject to EO's lawsuits due to failure to pay for the provided works or services;
- Lack of annual plans for subsidizing NGOs, errors in the evaluation of applications, inadequate beneficiaries' selection process, not carrying out defined methods or criteria;
- Poor management of assets recording by understating or overstating the assets registers;
- Delays in payments of invoices (liabilities); and
- Commitment of funds after receipt of invoices;

Poor functioning of internal controls in municipalities and the respective officials' irresponsibility at work, as well as municipalities' failure to undertake concrete actions to prevent the identified issues have led to the above-mentioned issues.

3.3. Other issues of financial and compliance management

In addition to issues with an impact on the financial opinion and compliance conclusion, NAO has also raised issues about financial and compliance management for 34 municipalities in the individual reports for 2022.

Identified issues relate to different economic categories which were mainly identified in the municipalities' individual reports. In addition to the specified issues, it is important to also mention the growing trend of accounts receivable from year to year, failure to use the e-assets system and failure to carry out the assets' stocktaking process prior the preparation of the AFS, lack of action plans and low level of implementation of IAU's recommendations, as well as dysfunctional audit committees.

Wages and Salaries

Identified shortcomings or irregularities presented in the individual audit reports in the category of wages and salaries are as follows:

- Shortcomings in the evaluation process of candidates' selection. Evaluation committees had not selected the candidates based on the results of the written tests and interviews. The evaluation committee had not fairly evaluated the candidates as a result of undue diligence;
- Keeping job positions staffed with acting officers, despite the legal requirement to terminate the employment relationships with temporary acting officers, this legal requirement had still not been complied to. This occurred because the management had not managed to carry out selection procedures for employees with regular employment contracts, for the job positions staffed with acting officers;
- Officials outside the payroll during 2022 (at the yearend), there were cases when the municipalities had not managed to record all employees in the payroll. This occurred due to an increased number of classrooms in education more than those planned for the enrolment of students in the 10th grades for the school year 2022/2023, which was a result of teachers' absence and maternity leave; and

-
- Lack of authorisations for overtime payments to officials. The municipalities have not complied with the rules for authorisation and have not kept proper records regarding the performance of work outside working hours.

Goods and Services

Identified shortcomings or irregularities presented in the individual audit reports in the category of goods and services are as follows:

- Project initiation without sufficient commitment of funds. In some cases, the municipalities had entered into contractual obligations without sufficient committed funds. This was as a result of poor controls over the initiation of procurement procedures;
- Failure to adhere to the steps for processing payments according to the Financial Rule. Initially the progress payment and invoices for works/ goods and services received were submitted prior to issuing the purchase order. This was due to poor controls by the procurement office in the proceeding of the purchase order;
- Exceeded contracted quantities over the allowed 30% limit for public framework contracts. The exceeding was done based on the rationale of enabling the completion of projects according to the specifics and needs encountered on site during their implementation;
- Use of the negotiated procedure without publication of the contract notice and without meeting the criteria required for this procurement procedure. This was due to responsible officials' negligence.

Capital Investments

Identified shortcomings or irregularities presented in the individual audit reports in the category of capital investments are as follows:

- Changes over 10% of contracts' value without applying procurement procedures. These changes relate to the implemented quantities in certain items which were mainly approved by the procurement office and the mayor without applying procurement procedures. This occurred due to poor knowledge regarding the amendments in the public procurement rules;
- The municipalities had initiated procurement procedures and had concluded employment contracts without prior drafting of the construction executive projects. Carrying out the procurement procedures without the executive projects was due to requesting units' negligence and poor controls;
- It has been identified that, in some cases, the municipalities have not archived the contracts' management and the evaluation of the contractors' performance through the e-procurement system. This was a result of projects' managers negligence;
- Payment execution for specific projects from other projects' budget. In some cases, the municipalities have used project funds for purposes other than what they were planned for. In these cases, there is no approval from the Municipal Assembly for re-appropriation of funds and budget reallocation from one capital project to another. Officials have not given any explanations regarding the non - implementation of the legal requirement. However, this situation is repeated. Such actions are due to poor project planning and the need for budget funds;

- Selection of the ineligible economic operator without meeting the set criteria in the tender dossier. This was a result of poor internal controls in the tender evaluation process, not in accordance with the set criteria in the tender dossier and contract notice; and
- Delays in the completion of works have been identified in the projects for the construction of local roads. No information or reasons have been given regarding the delays in the completion of projects in the final reports drafted by the projects' supervisors. This was due to lack of controls over the public contracts' management.

Subsidies and transfers

Identified shortcomings or irregularities presented in the individual audit reports in the category of subsidies and transfers are as follows:

- The municipalities had not drafted the annual plan for NGO's financial support for 2022 as foreseen by legal requirements;
- There were cases when the providers of the financial support had not appointed a responsible official who should monitor the projects' implementation. In addition, there are also cases of NGOs not having submitted financial and narrative reports;
- Inadequate segregation of responsibilities. In the applications' evaluation committees for subsidising sports clubs, associations and NGOs for 2022, there were cases of the member of the committee and the certifying official being the same person. The municipality has not considered this as illegal or as a conflict of interest; and
- Subsidising NGOs without a public call. Some NGOs, winners of subsidies, (for sport, culture and municipal organisation of retirees) have been selected based on the Municipal Assembly Decisions, without prior announcement of the public call.

Municipality's poor controls over the implementation of criteria according to the legal requirements have led to the above-mentioned findings.

Revenues

Identified shortcomings or irregularities presented in the individual audit reports in the category of revenues are as follows:

- By analysing the 2022 property tax database, we have drawn our conclusions from the final taxpayers' lists, which have the wrong ID number (blank or wrong numbers) in the ProTax database. In addition, in some cases for these taxpayers, the criterion for primary residence has been applied twice to the same taxpayers. This was a result of failure to update the taxpayers' information in the system;
- Use of public properties without compensation and with expired contracts. This situation occurred due to the fact of not taking actions for years in addressing this issue;
- In cases of taxpayers having filed complaints regarding the inaccuracy of property tax invoice, their review was delayed by exceeding the statutory deadline, one to three months, for review. Poor internal controls have led to delayed complaints' review; and
- The municipalities had not complied with the statutory deadline for issuing construction permits. Delays in the review of applications for construction permits were identified. Moreover, there were also delays in the issuance of environmental permits. According to the municipalities, delays occur due to the high number of requests and the lack of human

capacities within the strategic planning directorate (especially the sector for issuing municipal environmental permits) and the urbanism directorate for reviewing requests on time.

3.4. Recommendations Given

In the individual reports of the municipalities, for 2022, 352 recommendations have been given for the improvement of each area where shortcomings and errors were identified. The given recommendations for the past three years are presented in the table below.

Table 32 - Number of recommendations for the local level for three years

Auditees	Year 2022	Year 2021	Year 2020
Municipalities	352	438	367

The data presented in the above table indicate a decrease in the number of recommendations compared to the previous year. This shows that there was better management this year, which resulted in a lower number of recommendations given for 2022.

The municipalities with the highest progress regarding recommendations are: Istog, Mitrovica South, Prizren, Shtime, Rahovec, Mamusha, Gjakova, Kaçanik and Kamenica.

It should be noted that the four municipalities that have not been audited are not included in these data. Although, a total of 29 recommendations were given for these municipalities for the year 2021.

4. 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. In addition, it helps the organisation in meeting its objectives by a systematic, disciplined approach in evaluating and improving the efficiency of the risk management, control and governance. 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.

The Central Harmonization Unit for Internal Audit is the coordinator of the entire internal audit process which, among other things, monitors public sector entities for the internal control of public finances. Regarding the decisions undertaken by the BOs' management on the implementation of the internal audit recommendations, we noticed that 41% of the recommendations were fully implemented, whilst the rest were under implementation or not implemented. Furthermore, the carried-out audits compared to those planned was 94%.

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. Based on these criteria, 60 of the 86 OBs that were obliged to have an IAU had established the unit, excluding here the four municipalities in the north of the country. In addition, the same regulation sets out the minimum number of auditors that the BOs should have. Based on this criteria we have identified that 31 BOs or 52% had fewer auditors than the regulation provides.

Establishment of Audit Committees (CA) in all organisations still remains a challenge. Out of 60 BOs that had the IAU, two (2) of them (MESPI and the Municipality of Shtërpca) had not established the Audit Committee, whilst two (2) have a dysfunctional Audit Committee (the municipalities of Skenderaj and Novoberda). Moreover, the Audit Committees in eight (8) BOs had held less than four (4) meetings or did not comply with the AI 01/2019. Also, eight (8) 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 IAU work or advising the respective BOs.

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

The internal control system is still not at a satisfactory level to fully meet the objectives for ensuring the management that the internal control mechanisms are designed and effectively operate to prevent errors and mistakes.

We recommend the Government

- To ensure, through MFLT (CHUIA), that all BOs which are obliged to establish the IAU to establish it 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
- To ensure, through MFLT (CHUIA) all BOs establish Audit Committees to support the achievement of IAU objectives and that these Committees are effective in holding meetings, contribute to increasing accountability and strengthening the role of IA and also drafting the annual report as required by IA.

Chapter - III
**PERFORMANCE,
PROCUREMENT, IT
AND PUBLICLY OWNED
ENTERPRISES AUDITS**

An abstract graphic consisting of numerous thin, light blue lines that curve and flow from the left side towards the bottom right corner of the page. The lines are closely packed and create a sense of movement and depth against the dark blue background.



1. Performance, Procurement and IT Audits

National Audit Office continues to put special focus on performance audits as an important factor in changing and improving citizens' lives. Performance audits assess how efficiently and effectively public funds are being used and to the citizens' benefit. The Assembly and citizens will be able to hold accountable public funds managers through audit results.

For the 2022-2023 audit season, areas of economic importance, health, social welfare, as well as topics of public procurement and IT systems have been covered. During the selection of audit areas, the goals of the United Nations Agenda for Sustainable Development 2030 were also taken into account.

During the reporting season, 15 performance audit reports, including procurement and IT, have been carried out. A total of 195 recommendations have been given in these reports. Reports, topics and their content are presented below.

1.1. Performance Audits

NAO aims to promote efficiency, accountability, effectiveness and transparency of public administration through performance audits. Five (5) audits, including different topics, have been conducted in this area. Within these audits, 74 recommendations have been given for the auditees. The content of these reports, including the purpose, findings and audit message are presented as follows.

Topic: Financial and operational performance of PE Trepça J.S.C

Trepça J.S.C. is a Central Publicly Owned Enterprise with 80% of the shares owned by the Government of Kosovo and the other 20% belonging to the Trepça's employees. Taking into account the impact and importance of this wealth resource for Kosovo in the overall economic development of the country, employment generation, export growth and GDP, the National Audit Office has audited the financial and operational performance of Trepça J.S.C. for the period 2019-2021 with a focus on the production process.

The aim of this audit was to assess whether POE Trepça has established adequate controls and systems which support the achievement of positive financial and operational performance, with an emphasis on the production process. If not, what are the causes that lead to low productivity, lack of profitability.

Audit message: *Trepça J.S.C. has failed to establish adequate internal systems and controls which would support the achievement of positive financial and operational performance, with an emphasis on the production process. As a result, it had failed to be efficient and effective in the exploitation and processing of mining resources, with the aim of overcoming the operation with an average monthly loss of €620,307 and achieving profitability.*

Trepça J.S.C. has failed to establish the appropriate preconditions for operation which would ensure efficient and profitable exploitation of mining resources. Production plans were not implemented according to operational and dynamic planning, business plans, annual reports as well as regulations of BUs of Flotation Mines Kopaonik-Leposavic were not approved by the Supervisory Board. Outdated technology and infrastructure in Trepça J.S.C and the lack of capital investments have led to low productivity. Large leakages (losses) of metals in the sterile (tailings) during the ore flotation process were as a result of outdated technology and the lack of capital investment and non-standardization of the work process in flotations. Moreover, Trepça J.S.C. had failed to ensure optimal management of human resources in the production process.

Rental proceeds in the Privatisation Agency of Kosovo for the 2012-2021 period

The Privatization Agency of Kosovo (hereinafter PAK) is an independent public body, which carries out its functions and responsibilities with full autonomy. The Agency enjoys full legal capacity, in particular the capacity to enter into contracts, to acquire, hold and dispose of property and has all implied powers to fully discharge the tasks and powers conferred upon it by the present law; and to sue and be sued in its own name.

The objective of this audit was to assess whether PAK has managed the properties and other assets in compliance with the applicable legislation.

Audit message: *PAK had not made sufficient efforts to properly manage public properties and assets. The lack of actions in regards to the management of properties leased by the Agency indicates that the internal control system was not at the appropriate level. As a result, the Agency had not managed to ensure that the proceeds from the leased property be more than those generated.*

The properties and other socially owned property assets leasing process was not developed in accordance with the purpose of the Law on PAK to preserve and increase the value of the assets administered by PAK. Based on the internal acts, in certain cases the Agency had entered into contracts with illegal usurpers or users. There were cases when properties were leased without defining the usage purpose or due to poor monitoring, the leased property was exploited for purposes of extracting and processing limestone, alienating it to an irreversible state. Lease contracts had been extended with the same terms and prices for years. It was noted that the prices of some of the contracts compared to properties in the surrounding areas were lower. Despite being under its competence, the Agency had not applied the direct negotiation method to change the potential contractual terms of the contracts, including their prices. In some cases, the Agency had no supervision of the properties under its administration, thus as a result, the public property was used by entities that had no contractual relationship with the Agency at all. Moreover, when using lease procedures, criteria set for public announcement was not in accordance with the regulation for leasing of socially owned enterprises' assets.

Support to small and medium-sized enterprises from MIET/KIESA

Small, micro and medium-sized enterprises (SMMEs) play a very important role in the economy and are most often regarded as engines of a country's economic growth and development. In 2019, these enterprises constituted the overwhelming majority (99.8%) of the European Union (EU) businesses, employing around 64.4% of the employees in the EU's economy. In Kosovo, SMMEs constitute the backbone of the economy. These enterprises constitute around 99.8% of all enterprises in the country and 75.5% of the total employment in the Kosovo's economy.

The audit objective was to examine the activities of MIET/KIESA for achieving the appropriate results when it comes to supporting and increasing the capacities of SMMEs and Economic Zones.

Audit message: *MIET/KIESA has not achieved the appropriate results when it comes to supporting and building the capacities of SMMEs and Economic Zones. The public calls are not based on SMMEs' needs analyses and the system for the calls, evaluation and monitoring is accompanied by significant deficiencies that need to be improved. Moreover, the established economic zones fail to meet the needs of enterprises, leaving investors waiting for years to expand the business spaces and increase the production and employment.*

SMMEs have been supported without conducting any market analysis or any development policy on the support to these enterprises by the competent actors. The Government has not managed to put the Free Economic Zones and the American Economic Zone to function regardless of having taken the decision to establish them. These zones have been established by the Government without conducting any analysis or feasibility study that would have grounded their establishment. The Calls for Support to SMMEs are not based on the needs analyses and the applications evaluation process is not flawless. Projects are not continuously monitored and the established criteria have not been met by the beneficiaries as a result of MIET and KIESA's failure to coordinate.

The impact of capital investments in the reduction of water losses and the expansion of services to citizens from the RWCs

Water is one of the main and vital elements for all forms of life and also for people's life. Supply of clean, safe and good quality water is vital for any developing society. In our country, drinking water supply is regulated through public authorities such as the Regulatory Authority for Water Services and Regional Water Companies, as licensed providers of water supply services and wastewater treatment.

The aim of this audit was to assess whether the Regional Water Companies in coordination with the Water Services Regulatory Authority have managed to properly assess the needs required for the implementation of Capital Investments, in order to reduce losses and improve water services to the citizens. At the same time, whether measures have been taken by the Water Regional Companies and the Water Services Regulatory Authority to ensure that these Capital Investments are being implemented and intended goals are being achieved.

Audit message: *Capital investments' planning, implementing and monitoring process has not been properly managed by the Water Regional Companies and Water Services Regulatory Authority. Thus, resulting in failure to achieve the set objectives timely and adequately. In addition, some of these objectives deviate from what was planned. Planning not based on needs and detailed reasoning indicates weaknesses in investment prioritisation. Consequently, there are significant delays and failures in the implementation of projects, resulting in the ineffective use of citizens' fees. At the same time, as a result of this, the expansion of water services and the treatment of waste water in the service areas by the Regional Water Companies, continues to be accompanied by problems and poor performance, and for this reason, citizens in certain areas do not have access to water services from the Regional Water Companies. Water losses are evident and imply financial losses.*

Regional Water Companies have poor planning of Capital Investments, whilst the Regulatory Authority for Water Services approves capital projects without a detailed and convincing rationale of the projects and without any prioritisation by the companies. The paid fees by the citizens for the capital investments in the Regional Water Companies are not being used properly. Meanwhile, the capital investments monitoring in the Regional Water Companies is at a low level.

Effectiveness of institutions in processing of domestic violence cases

According to international conventions, domestic violence is one of the forms of serious violations of human rights. Domestic violence is a phenomenon that mostly happens out of the public eye, but its consequences affect the wider community and is the root cause of a wider range of social anomalies. The processing of domestic violence cases is conducted by a number of institutions such as: Kosovo Police, Office for Protection and Assistance to Victims, Basic Prosecutor's Office, Basic Courts, Centres for Social Work and Shelters, which offer different services in certain stages

The objective of this audit was to assess whether the responsible institutions have undertaken the appropriate activities and measures to process the cases of domestic violence.

Audit message: *The responsible public institutions have undertaken a series of actions to process the domestic violence cases. However, satisfactory results have not been achieved for the protection and rehabilitation of victims. To reach the effectiveness of the services offered, more institutional commitment is required. The state system has shortcomings in assigning of primary investigators, involvement of victims' defenders, timely review of cases by judicial bodies, as well as registration of reported cases. The victims do not have social support, in particular their support is lacking in the economic aspect. Also, programs for the treatment of perpetrators and promoting awareness are missing.*

During the intervention and provision of emergency services, the police respond in optimal time, but shortcomings have been identified in assigning of police investigators, lack of procedures for monitoring the protective orders, failure to convey information to the victims' defenders, as well as shortcomings in the registration of cases. The delays in processing domestic violence cases are evident in the institutions of justice, namely the Courts. The national database for the recording of reported domestic violence cases is still not fully operational. Moreover, there is a lack of group counselling, treatment programs for perpetrators and family protection guidelines which affects in raising society's awareness.

1.2. Procurement Audits

The National Audit Office aims to promote efficiency, effectiveness, and economy in particular, as well as transparency of public administration through performance audits. Six (6) audits have been carried out in this area which include different topics. Within these audits, 52 recommendations have been given to the auditees. The content of these reports, including audit purpose, findings and messages are presented as follows.

Negotiated procurements without publication of the contract notice in the Ministry of Environment, Spatial Planning and Infrastructure in 2021

The practice of signing annex contracts is a frequent occurrence in public procurement, almost every contract is followed by an annex contract. Often, in addition to the annex contract, the Contracting Authority should initiate a new procurement activity, in order to fully complete a project. Only in 2021, the Ministry of Environment, Spatial Planning and Infrastructure (MESPI) had contracted around six million euros for 26 annex contracts with a negotiated procedure without publication of the contract notice, whilst we have audited 13 annex contracts over 4 million euros. This audit covered the procurement procedures for the annex contracts which MESPI had concluded in 2021 as well as for the base contracts concluded in 2018-2019.

Audit message - *Annex contracts concluded by MEPSI were insufficient to complete the started projects; they have not managed to be completed within a reasonable timeframe; as well as two out of the three completed projects have not been technically accepted although they are accessible to the citizens.*

The cost of the 13 annex contracts we have carried the audit for was over 4 million euros, whilst for only four of these projects, the estimated additional cost beyond the annex contracts value is over 4.3 million euro and is not final because there is another project that needs additional work. Although certain working days were foreseen, the calendar days within which these working days would have to take place were not defined. This led to these projects not being implemented with the potential intensity. In the best-case scenario, projects have been completed within 2.8 years, whilst in the worst-case scenario the works have not been completed for more than 3.8 years (planned to be completed within 200 work days). The acceptance committees have found considerable flaws in the completed projects, therefore they still have not accepted them. The committees have requested the improvement of flaws. However, until now no actions have been taken regarding this, except for withholding a part of each progress payment, which constitutes 23% respectively 15% of the contracts' value.

The main causes that have led to this situation are: acceptance of inadequate projects by the project drafters or municipalities, MESPI's insufficient review; inadequate reviews/lack of geo-mechanical and geodetic studies for road construction contracts/projects; inadequate identification of needs during project drafting and changes of projects after contract conclusion; and failure to appoint accountable and professional managers in implementing the contract managers' respective tasks.

Economy and efficiency in the construction of houses for returnees

The Republic of Kosovo has continuously faced the migration of its citizens, especially during the last decades. The goal is for the Government of Kosovo to offer its citizens the opportunity to return to their homeland. In order to integrate them as easily as possible, various policies are drawn up which aim to create basic living conditions. One of these basic rights is access to housing. Housing is a crucial issue for social stability, health and qualitative development of human well-being. Housing is a social right of citizens in most developed countries.

Based on international law and the legal framework of the Republic of Kosovo (RKS), displaced persons are guaranteed the right to return to their country of origin.

The main prerequisite for the resettlement of returnees is the provision of support that includes: house reconstruction (complete reconstruction and minor repairs), food aid, hygiene items, basic furniture, assistance for economic development, income generation, employment as well as support with construction materials.

The audit included the contracts for the construction of houses from the Ministry for Communities and Return for the period 2017-2022 and their amount is over €8.2 million. The audit included the assessment of needs, the setting of the estimated value of the contract, the achievement of economy during the contracting and construction of houses and the efficiency in the fulfilment of these contracts.

Audit message - *Following the audit, it has been concluded that the Ministry for Communities and Returns was not economical in contracting the construction of houses. Shortcomings were evident in the real and reasonable assessment of needs and market price research has not been done.*

The procurement procedures started without having the right information for the beneficiaries and their housing status. Such practice has been used in the second contract as well, despite the problems encountered in the first contract. The ministry contracted the construction of houses for €832,033 more expensive than the market prices. Optimal results have not been achieved, therefore the Ministry's efficiency in the construction of houses for the returnees has not been achieved. The combination of off-plan construction under main projects, inconsistencies in items, payments for incomplete works and slow progress in fulfilling the second contract has hampered the Ministry's ability to provide adequate housing for the returnees.

Renovation and reconfiguration of the City Stadium in Mitrovica, Gjilan and Gjakova

Adequate sports infrastructure is the basic condition for improving the quality of sports activities as well as raising the sport to the level of acceptable international standards. The infrastructure has a positive impact on more active participation in sports and as a result improves the health, productivity and well-being of young people who play sports. The Ministry of Culture, Youth and Sports as well as the municipalities of the Republic of Kosovo are responsible for creating conditions for sports activities.

This audit covered three stadium renovation/reconfiguration projects. Through this audit, we assessed whether MCYS together with the Municipalities of Mitrovica, Gjilan and Gjakova were efficient in the management of projects for the renovation/reconfiguration of stadiums.

Audit message: *The Ministry of Culture, Youth and Sports together with the Municipalities of Mitrovica, Gjilan and Gjakova had not been efficient in managing the renovation/reconfiguration of the stadiums. This occurred because of the necessary prerequisites not being provided in time.*

The set goals have not been achieved during the renovation and reconfiguration of these stadiums due to the fact that several years have passed (from four to seven) since the beginning of the process, and the stadiums are still far from being completed and functional. Their non-completion and load of the only stadium which meets the UEFA criteria lead to the risk that the Kosovo National football team and sports clubs will be forced to play matches in a country in the region. The main shortcomings related to establishing the prerequisites such as conceptual and main projects, failure to carry out the expropriation on time, failure to be equipped with a construction permit and inadequate categorizing.

Functioning of the Municipal Performance Grant and the management of Donor-funded projects for the year 2021

In 2017, the Ministry of Local Government and Administration and the Swiss Agency for Development and Cooperation had agreed on establishing and funding a performance grant system for municipalities. The general purpose of the Municipal Performance Grant is to encourage municipalities to improve governance processes, which together with the improved policy framework will lead to the delivery of better services to citizens.

This audit assessed the functioning of the grant distribution system over the years 2018-2021 and the implementation of 2021 projects. The audit included MLGA and the municipalities: Drenas, Vushtrri, Skenderaj, Lipjan, Mitrovica South, Leposaviq, Shtërpca, Prizren and Peja.

Audit message: *The audit has concluded that the functioning of the Municipal Performance Grant (divided into two approaches) has resulted in shortcomings which require attention to be paid to. The funds allocated by MLGA require additional approval, the double registration of the project as ongoing investment, the return of funds as a surplus and the lack of criteria for determining which municipality will benefit from which source. Procurement activities for projects funded by Donors during 2021 had different shortcomings.*

Failure to include projects in the procurement plan; splitting of tenders into LOTs which resulted in higher prices; failure to confiscate the tender's performance security, signing of contracts without specifying the site in advance; and different shortcomings in contracts' management are some of the shortcomings that have been identified in the implementation of projects funded for 2021. Moreover, even though the intended results for the implemented projects were achieved, the municipalities have not provided sufficient evidence to have integrated the marginalized groups in these initiatives, except for the facilitating policies and strategies of the municipalities.

Efficiency and effectiveness of the Program for the Treatment of Patients Outside Public Health Institutions

The Program for the Treatment of Patients Outside of Public Health Institutions was designed to financially support the citizens with the health services which are not provided in public health institutions. The National Audit Office conducted a performance audit for this program, the objective of which was to assess the functioning of financial management and governance

practices of the Health Insurance Fund and identify the root causes of recurring problems. The Health Insurance Fund was subject to audit and the process, starting from the patient's application to the financial reconciliation of the payment for years 2019-2022, was audited.

Audit message - *Neither the Health Insurance Fund nor the Executive Board were effective in the process of the management of the whole subsidy cycle of patients for treatment outside public health institutions.*

The patients were not treated equally, neither in the application process, nor in the approval process, nor in the case of payments for the health services they received. Inconsistent and different practices were identified in the patients' application process and treatment, starting from different criteria for the same cases to the amount allocated for the treatment. There were delays in the approval of cases as well as their payments. Outstanding liabilities and contingent liabilities had not been properly managed and reported and not all financial reconciliations with the health institutions had been made. As a result, the Fund and the Executive Board had not treated all patients equally, had limited the provision of services only to specific institutions/countries and had failed to properly and optimally manage the budget.

The main reasons that brought the Fund in this situation are: poor internal controls, continuous organisational changes and lack of clarification of the legal framework.

Follow-up audit of recommendations given in the performance audit reports published during 2018

Supreme Audit Institutions (SAIs) play a vital role in seeking accountability from the Government in relation to the public funds administration. In addition, the latter also help in increasing transparency of government's activities.

The purpose of the recommendations in performance audits is to improve the implementation process and the effective operation of government's systems, programmes and activities. The recommendations are addressed to the auditees and their implementation serves as a mechanism for remedying these shortcomings and making the systems more efficient and effective in achieving the objectives.

Through this audit we have assessed the level of implementation of recommendations given in the performance audit reports published during 2018 and whether the recommendations have had an impact in improving the identified situation.

The scope of this follow-up audit were 7 performance audit reports published in 2018. In these audits were included 39 audited entities with 99 recommendations given.

Audit message: *The implementation of some recommendations at the individual level of the audited entities in three of the seven performance audit reports had an impact on the improvement of the identified situation. However, taking into account that the recommendations for these reports were given in 2018, that is, about five years since the situation identified at that time, the engagement of the audited entities to implement the given recommendations are not sufficient.*

The follow-up audit disclosed that for seven performance audit reports, 37% of the recommendations given have been fully implemented, whilst 25% of the recommendations have been addressed and are in different stages of implementation. Whereas, the rest have either not been implemented, are no longer applicable or even we could not assess them due to no response from the audited entities. Out of 123 given recommendations, 45 have been implemented, seven are in the final stage of implementation, ten are under implementation, five have not been implemented, 14 are no longer applicable for the addressed entities (other entities hold responsibility for 9 of them whilst five are no longer applicable), whereas we have not received any response from the audited entities for 42 recommendations, whether actions have been taken or not, for the implementation of those recommendations

1.3. IT Audits

The National Audit Office is paying special attention also to IT audits. This season, information systems with an impact on public institutions and services to citizens are included. Four (4) audits were conducted in this field and 64 recommendations were given to the audited entities. The content of these reports, including audit purpose, findings and messages are presented as follows.

Information Systems in the Regional Water Company - Prishtina

The Regional Water Company Prishtina is the largest water service provider in Kosovo and covers about 37% of the total consumers in Kosovo. In order to develop the company's activity and achieve its objectives, RWC Prishtina has continuously invested in IT and has developed several applications, starting from accounting, invoicing, mobile billing applications, etc.

The National Audit Office has conducted the IT audit at the Regional Water Company Prishtina, in order to assess whether the management structures of the enterprise ensure that the IT resources support the goals and strategy of the enterprise by providing an effective environment to maintain data integrity and continuity of IT systems.

Audit message: *The enterprise has not provided an effective control environment to maintain the integrity and continuity of the IT systems, thus having a negative impact on the complete achievement of the enterprise's goals and diminishing the reliability of the enterprise's systems.*

IT governance in the Regional Water Company Prishtina has not proven to be effective. There is a lack of IT strategic planning, policies and procedures, and an adequate IT organizational structure has not been established. Regarding information security, the Company has not taken measures and has not developed appropriate mechanisms to ensure that information is not exposed to compromise or unauthorized detections.

In addition, the enterprise does not have sufficient assurance that it can continue its operation using IT and its assets in case of any natural or similar disaster.

The application's input controls are not put into operation in compliance with the rules of the Water Services Regulatory Authority (WSRA) allowing incorrect and incomplete data to be entered and also having a lack of communication between systems. Users' activities (audit trails) were not complete in systems and there was no continuous monitoring of these activities.

Project Management for IT Systems in the Agency of Information Society

The Agency of Information Society is a central body of the state administration that is responsible for the development, implementation, and oversight of information and communication technology processes in the institutions of the Republic of Kosovo.

The National Audit Office has conducted the IT audit to assess how the Agency of Information Society manages IT and communication systems projects and how effective it is in project assessment including the initiation process, planning, implementation and monitoring. The Agency of Information Society has continuously developed IT and communication projects with the aim of digitizing services and facilitating their access for state institutions and citizens.

Audit message: *The development process of IT projects has not been properly managed by the Agency. This has led to failure to deliver the services, incorrect handling of information security causing unnecessary expenses and damage to the budget. The shortcomings in the implementation of projects that are interrelated as well as between institutions have led to the increase of expenses in this field at country level.*

The Agency's management has not ensured good IT governance. It has not carried out sufficient analyses to identify the needs and solve problems with new and prioritized projects. There are delays in projects' implementation, lack of a risk management plan, poor budget orientation and also risk exposure by stopping internet services for the institutions of the Republic of Kosovo.

In projects' development, the Agency has shortcomings in monitoring and communication with the stakeholders in the institutions of the Republic of Kosovo and it has not done risks' assessment nor planned actions to prevent or reduce them. This has led to failure to deliver the services according to the project plan, as well as paid about €506 thousand for services and licenses that were not delivered nor used.

The agency has not carefully handled information security, causing ambiguity in cases of classification of information and their disclosure without evaluating and declassifying them in advance. It has not specified the requirement for limiting traffic from unsafe regional interconnections for our country. Moreover, it has not complied to the signing of the confidentiality declaration for all the staff of the economic operators who have access to the information and state infrastructure of IT.

E-procurement electronic system

The development of the public procurement system is one of the strategic priorities of the Government of the Republic of Kosovo as part of the national structural reforms and within the framework of the Public Administration Reform. The use of information technology for the public sector, particularly the procurement system, is a driving element for increasing efficiency and effectiveness during the implementation of procurement legislation.

The National Audit Office has conducted an information technology audit, in order to assess whether the Public Procurement Regulatory Commission has effectively managed IT operations, to ensure that the "E-Procurement" electronic system continuously supports the public procurement process and maintains its integrity.

Audit message: *The electronic e-procurement system has helped to increase the efficiency, effectiveness and transparency of the development of public procurement activities. However, deficiencies have been observed in the information technology processes that affect the continuous preservation of the stability and integrity of this system.*

Governance and operations of e-procurement. PPRC lacks sufficient IT professional human resources and there is no proper segregation of duties among the current IT officials. As a result, the performance of key tasks for the system operation is performed by external economic operators, which might increase the risk of creating dependence on third parties. In addition, there is no electronic register/system of the problems and incidents that occur, in order to identify and the possibility to address them.

Input controls and security, the necessary controls or restrictions and the connections with the basic systems of the Republic of Kosovo were not established in the modules of the e-procurement system, in order to prevent the processing of incorrect data, in particular users' data.

Information security policies were not complete in terms of electronic account management. Invalid or fictitious accounts were not identified to be deactivated or closed, while passwords were rarely changed by users. Moreover, instead of official e-mails, users had used private e-mails. About 50% of users did not comply with the terms and conditions for using the electronic procurement system as well as the administrative instructions for official electronic accounts.

In addition, the electronic accounts and the activities carried out from these accounts were not monitored neither by the contracting authorities that are responsible to maintain their users accounts nor by the PPRC as the owner of this platform.

Unnecessary opening of user accounts, failure to close the passive user accounts as well as lack of monitoring of user accounts, among other things, weaken the work of the e-procurement platform, increase the risk of information security threats and increase the possibility of misuse of accounts for activities outside the rules of public procurement.

Management of IT systems in the Kosovo Agricultural Institute

In the last five years (2017-2022), the Ministry of Agriculture, Forestry and Rural Development has carried out projects at the Kosovo Agricultural Institute that have included IT and communication in order to create a system and database for agricultural land stocktaking, as requested by the Institute.

The Kosovo Agricultural Institute (KAI) is a public institution that operates under the direct control and monitoring of the Ministry of Agriculture, Forestry and Rural Development. The Institute is an authorized entity for conducting analyses and tests for the purpose of official certification of agricultural products and products related to agriculture in Kosovo.

The National Audit Office conducted an IT audit to assess how the Ministry of Agriculture, Forestry and Rural Development, namely the Kosovo Agricultural Institute, manages the resources and development processes of IT and communication projects, in order to achieve the goal of the Kosovo Agricultural Institute for the digitization of its processes.

Audit message: *The Ministry and the Institute have not properly managed IT projects in the total amount of €700,766, failing to involve IT professionals in the planning, development and acceptance of the projects. Consequently, two separate systems worth €567,406 have been developed for the same purpose, however, they are not being used. Lack of quality assurance, shortcomings in system configuration, and shortcomings in information system security and continuity have resulted in unnecessary expenses and budget damage.*

The governance of IT by the Ministry and the Institute has not been effective. There are significant shortcomings in identifying and planning requirements for IT projects, resulting in duplication of agricultural land stocktaking information systems and a tripling of the price forecasting compared to the planned value. The IT structure remains undefined and the regulations on the internal organization, role and functioning of the KAI have not been updated. Furthermore, the engagement of IT staff in the development of IT projects has been neglected. Due to poor investment planning for the reviewed contracts, unnecessary expenses, at least €98 thousand, were made.

The Institute has shortcomings in contract management regarding the development and management of projects. The contract manager approved IT products that do not meet the minimum technical specifications defined in the contract. Furthermore, there is a lack of professional IT product acceptance committees and a lack of quality assurance tests. Shortcomings in meeting the technical requirements have been identified in the management of information systems configurations at the Kosovo Agricultural Institute, as they have not complied with the IT standards for configuration and information security. In addition, the retention of business knowledge has not been ensured, having complete dependence on Economic Operators. Consequently, due to poor IT management, there are non-functional systems in the Kosovo Agricultural Institute that are not usable and fail to fulfil the purpose of their purchase and development.

The information security and the business continuity plan for IT projects at the Kosovo Agricultural Institute were not addressed by the Ministry and the Institute. They have not provided mechanisms for data protection and onwards operation of information systems. They lack physical access controls and protection from natural or man-made disasters. Moreover, they do not keep backup copies of information systems, which significantly increases the risk of system interruption and data loss.

We recommend the Government to:

Analyse the recommendations resulting from the performance, procurement and IT audits as well as prepare and monitor action plans on their implementation. Monitoring the implementation of recommendations should be done by appointing and holding accountable the respective functions in the organisation through regular reporting on improvement.

2. Publicly Owned Enterprises Audits

The National Audit Office for 2022 has audited the Annual Financial Statements of 11 Publicly Owned Enterprises (POEs). Out of which, seven (7) were central publicly owned enterprises and four (4) were local publicly owned enterprises.

In 2022, the Kosovo Energy Corporation J.S.C. was audited for the first time by the NAO, whilst the other 10 POEs have been also audited during previous years. The selection criteria for the audit of these enterprises were: budget/revenues size, number of employees, complexity of the service activity, poor financial condition, public interest, etc. Due to the Kosovo Energy Corporation being included in the 2022 audit plan and limitations in human resources, unlike previous years, RWC "Hidroregjioni Jugor" J.S.C and RWC "Hidromorava" J.S.C were not included in the 2022 audit plan, therefore, they were not audited.

Financial management and control in publicly owned enterprises needs improvements, considering that material misstatements were identified in the 2022 financial statements in 10 of them. Therefore, leading to a modified audit opinion. Moreover, the conclusion on compliance was modified due to the auditees not carrying out the transactions in compliance with the laws and regulations in force in certain cases. However, it is worth noting that despite the identified shortcomings, publicly owned enterprises have improved the quality of financial reporting, financial performance and have implemented the audit recommendations at a satisfactory level.

In order to improve the existing processes of preparing financial statements and the current management practices of Publicly Owned Enterprises, we have given a considerable number of recommendations, which have been presented in individual audit reports and addressed to the people in charge of the governance of POEs, as well as to their shareholders. The Unit for Monitoring Publicly Owned Enterprises also monitors their operational activity during the year, but also the aspect of financial reporting and on a regular basis informs the Government of their general situation.

2.1. Audit opinions and issues modifying them

Audit opinions regarding the Annual Financial Statements (AFS) of POEs are presented in the following table.

Table 33 - Opinions given on financial statements of Publicly Owned Enterprises

No.	Audited entities	Level of POE	Audit Opinion		
			2022	2021	2020
1	Post of Kosovo J.S.C.	Central	Unmodified	Qualified	Adverse
2	Kosovo Energy Corporation J.S.C	Central	Qualified	Unmodified	Unmodified
3	Kosovo Railways - InfraKos, J.S.C.	Central	Adverse	Adverse	Qualified
4	HEE "Ibër - Lepenc" J.S.C. - Prishtina	Central	Qualified	Adverse	Qualified
5	Kosovo Railways - TrainKos, J.S.C.	Central	Qualified	Adverse	Qualified
6	Kosovo Telecom, J.S.C.	Central	Qualified	Adverse	Adverse
7	RWC "Prishtina" J.S.C. - Prishtina	Central	Qualified	Adverse	Adverse
8	RWC "Pastrimi", J.S.C - Prishtina	Local	Qualified	Adverse	Adverse
9	RWC "Uniteti" J.S.C. - Mitrovica	Local	Adverse	Adverse	Disclaimer of opinion
10	Public Housing Enterprise J.S.C - Prishtina	Local	Qualified	Qualified	Unmodified
11	Public Enterprise "Termokos" J.S.C. - Prishtina Prishtinë	Local	Adverse	Adverse	Unmodified

Out of 11 audited POEs in 2022, their individual AFSs have resulted as follows: one (1) with an unmodified opinion and 10 with modified opinions (7 qualified opinions and 3 adverse opinions). Compared to 2021, when these POEs had 8 adverse opinions, 2 qualified opinions and one unmodified opinion, we note that the AFSs have better quality. Moreover, out of 8 adverse opinions, this year there are only three (3). Regardless of having improvements, the AFSs of the POEs still had errors in reporting and disclosing the required information in the AFS.

Main issues for modified opinions of central POEs are:

- **In the area of assets:** failure to periodically reevaluate long-term assets; untrue presentation of assets, revaluation reserve, ongoing investments and stocks due to lack of source documents or accounting data; understatement of fixed long-term assets; failure to update and reconcile the assets register with the stocktaking report. Failure to reevaluate assets occurred due to the enterprise not having managed to sign a contract for property revaluation. Whereas, failure to rectify the revaluation reserve occurred due to poor information from the last assets revaluation. Failure to record and reconcile the assets was due to poor communication between the departments in the POEs as well as poor coordination in the process of accepting documentations by donors.

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- **In the area of operative revenues:** failure to apply deduction on paid liabilities for the respective consumers as well as incorrect handling of revenues. This occurred to inability to identify which consumer may be charged with the revenues as well as the shortcomings in the internal control system by the officials when recording and presenting them.
 - **In the area of deferred grant revenues:** failure to record and present the grants; shortcomings in presenting and disclosing the government's grants; untrue presentation of deferred grant revenues. These shortcomings were due to poor communication between the unit for project implementation and the finance office.
 - **In the Annual Financial Statements:** incomplete presentation of explanatory notes on contingent liabilities and untrue presentation of cash flow statement. These occurred due to poor internal controls during the preparation of the AFSs.
 - **Accounts receivable and outstanding liabilities:** recognition of accounts receivable on revenues from interest at the wrong period; discrepancy between tax liabilities in the accounting registers with the suppliers' liabilities balance. These occurred due to negligence in the recording of sale invoices in the appropriate accounting periods and failure to periodically reconcile the payable accounts balance with the suppliers.

Main issues for modified opinions of local POEs are:

- **In the area of assets:** lack of supporting evidence on long-term assets, untrue presentation of the revaluation reserve, understatement of long-term assets, recognition of ongoing investments as assets in use, failure to record the assets received by donors, failure to reconcile the assets register with the stocktaking report, and failure to reevaluate the enterprises' assets. Shortcomings in assets management occurred due to poor knowledge on asset handling, incorrect use of accounting standards and poor information from the last assets revaluation.
- **In the area of trade accounts receivable:** lack of evidence of accounts receivable and failure to reconcile the accounting notes with the analytical data and letter confirmations, lack of the regulation as well as the non-provision of accounts receivable, presentation of the account receivable as frozen debt. The main reason of shortcomings in accounts receivable was the lack of stocktaking/reconciliation of accounts receivable balances with customers on a periodic basis. The treatment of a share of accounts receivable as frozen debt was as a result of a decision in the past which is not based on the standards of their true and fair treatment and presentation. According to the explanations of the accountable officials, the differences/non-confirmations result from court disputes in lack of evidence, disputes over ownership, debtholder.
- **In trade payable accounts:** discrepancies between the accounting notes of payable accounts and letter confirmations. This resulted due to failure to carry out periodic reconciliations and poor communication of the company with its suppliers.

2.2. Conclusions on compliance and issues modifying them

In addition to financial, we have also audited the compliance aspect, whether the processes and underlying transactions have been in compliance with the established audit criteria and have given compliance conclusions for all of the audited POEs.

Compliance conclusions related to POEs are presented in the following table.

Table 34 – Compliance conclusions given to Publicly Owned Enterprises

No	Audited entities	Level of POE	Compliance Conclusion		
			2022	2021	2020
1	Post of Kosovo J.S.C.	Central	Unmodified	Qualified	Unmodified
2	Kosovo Energy Corporation J.S.C	Central	Qualified	Not applicable	Not applicable
3	Kosovo Railways - InfraKos, J.S.C.	Central	Qualified	Qualified	Not applicable
4	HEE "Ibër - Lepenc" J.S.C. - Prishtina	Central	Unmodified	Qualified	Not applicable
5	Kosovo Railways - TrainKos, J.S.C.	Central	Qualified	Qualified	Qualified
6	Kosovo Telecom, J.S.C.	Central	Qualified	Adverse	Adverse
7	RWC "Prishtina" J.S.C. - Prishtina	Central	Qualified	Adverse	Adverse
8	RWC "Pastrimi", J.S.C - Prishtina	Local	Qualified	Adverse	Adverse
9	RWC "Uniteti" J.S.C. - Mitrovica	Local	Qualified	Qualified	Not applicable
10	Public Housing Enterprise J.S.C - Prishtina	Local	Qualified	Qualified	Not applicable
11	Public Enterprise "Termokos" J.S.C. - Prishtina Prishtinë	Local	Qualified	Adverse	Not applicable

Out of the 11 audited POEs, two (2) conclusions are unmodified (Post of Kosovo J.S.C and HEE "Ibër - Lepenc" J.S.C), whilst nine (9) conclusions are modified. According to the table, it can be noted that about 82% of BOs have a modified conclusion, which indicates they have challenges with compliance with the authorities or financial transactions are not in compliance with the legal requirements.

From the data comparison in the above table, it is worth noting that the Post of Kosovo J.S.C and HEE "Ibër - Lepenc" J.S.C have made positive progress in improving legal irregularities, receiving an unmodified conclusion. Moreover, Kosovo Telecom, J.S.C, RWC "Pastrimi", J.S.C, Public Enterprise "Termokos" J.S.C. and RWC "Prishtina" J.S.C have also shown progress, receiving a qualified conclusion, which last year had an adverse opinion.

Referring to compliance conclusions, the audit's conclusion is that despite the progress during 2022, most of the publicly owned enterprises have had numerous legal irregularities mainly in the areas of operative revenues, assets, salary expenses and overheads for goods and services.

Main issues for modified compliance conclusion of central POEs are:

- **In the area of operative revenues:** shortcomings in managing lease contracts; lack of installation of water meters; consumers' register not in compliance with the WSRA rules, lack of contracts with the consumers.

This occurred due to lack of concrete actions over the years by the management of enterprises and the Board of Directors, inability to install the water meters for all consumers, shortcomings in the recording of consumers and difficulties in identifying them in the case of discharge of payments from the bank account.

- **In the area of operative expenses and salary expenses:** inadequate planning and implementation of the procurement plan, signing of contracts after the completion of works and services, not paying the pension contributions, personal income tax and tax obligations, as well as failure to update the staff's contracts in accordance with salary classification.

Shortcomings in procurement planning have occurred as a result of inadequate planning by the requesting units, termination of contracts and lack of means to initiate procedures with medium and large values as planned, enterprises' financial difficulties to pay the liabilities.

- **In payable accounts** lack of identification of payments received from unidentified clients/consumers. Regarding the lack of identification of payments received from unidentified clients/consumers, it occurred as a result of difficulties in identifying consumers in the case of discharging payments from the bank account.

Main issues for modified compliance conclusion of local POEs are:

- **In the area of Annual Financial Statements and assets:** failure to prepare the business plan, sale of assets out of use and assets register not in compliance with the regulation.

This occurred due to the enterprise's official's negligence, lack of control by the management and negligence in implementing the internal regulations.

- **In operative expenses and salary expenses:** winning bid not in compliance with the requirements/specifications required in the tender dossier, exceeding the number of employees and salary expenses planned in the business plan, hiring employees with fixed-term contracts for specific work and tasks without conducting recruitment procedures.

Shortcomings in the procurement activities were due to the failure of control in the procurement office and due to the negligence of the evaluation committee which had not treated the bid according to the legislation in force for the public procurement. Thus, they were not handled properly.

- **Operative revenues:** lack of contracts with the consumers. This situation has been carried over for years and exists due to consumers' poor cooperation who have repeatedly neglected the company's requests to sign contracts and bring a copy to the company's archive.

2.3. Obligations of Publicly Owned Enterprises for Annual Financial Reporting

During this audit season, we found that 3 of the 11 audited publicly owned enterprises had not prepared their annual financial statements on time, or did not have the statements approved by their management boards within the legal deadline of March 15. Delays beyond the legal deadlines in submitting the final financial statements to NAO were from 9 to 48 days and are presented as follows:

- Public Housing Enterprise - Prishtina, 9 days;
- RWC "Prishtina" J.S.C - Prishtina, 48 days; and
- Kosovo Energy Corporation J.S.C., 42 days.

Regarding the abovementioned delays in submitting the statements, the management's explanations were that the enterprises had not managed to finalize the assets and liabilities stocktaking reports on time, as a result, the necessary corrections were made in the annual financial statements.

We have reported these delays in all individual reports and we believe that in the following years the reporting will be done according to the defined legal framework.

Analysis of the Financial Situation in POEs

Although more details on the publicly owned enterprises' financial situation can be obtained from the statements attached to the individual reports, this chapter summarizes the main indicators of their financial performance and situation at the end of 2022. For analysis purposes, revenues, expenses, financial result, long-term and short-term liabilities have been examined.

Table 35 – The main financial indicators of audited POEs for 2022

No	Audited entities	Revenues	Expenses	Profit/Loss	Short-term liabilities	Long-term liabilities
1	KEK "Kosovo Energy Corporation" J.S.C..	309,655,000	204,538,000	105,117,000	74,840,000	189,432,000
2	Kosovo Telecom J.S.C	52,859,000	56,647,000	(3,789,000)	46,094,000	22,421,000
3	Post of Kosovo J.S.C - Prishtina	10,330,503	11,740,865	(1,410,361)	1,739,778	2,147,607
4	Kosovo Railways - InfraKos, J.S.C.	3,104,732	3,219,394	(114,662)	26,478,741	34,013,896
5	Kosovo Railways - Trainkos, J.S.C sh.a.	2,467,692	3,315,936	(848,244)	2,049,681	1,865,352
6	HEE "Ibër - Lepenc" J.S.C. - Prishtina	9,645,079	9,266,006	379,073	2,687,727	3,999,824
7	RWC "Prishtina" J.S.C. - Prishtina	17,295,033	15,829,672	1,465,362	6,796,198	38,703,825
8	RWC "Uniteti" J.S.C - Mitrovica	2,323,893	2,285,904	37,988	2,726,510	///
9	RWC "Pastrimi", J.S.C. - Prishtina	8,375,937	9,837,459	(1,461,522)	3,524,395	///
10	Public Housing Enterprise, J.S.C.- Prishtina	2,692,473	6,997,561	(4,305,089)	193,824	1,321,595
11	POE "Termokos", J.S.C. - Prishtina	9,984,077	8,081,175	1,902,901	2,702,187	35,840,460

Financial result (profit/loss) – From the above table it can be seen that out of 11 audited publicly owned enterprises, five (5) of them have operated with a total profit of €108.9 million. Thus, three (3) POEs in the central level, two (2) local level, whilst six (6) others have shown a total loss of €11.9 million. Thus, four (4) in the central level, two (2) in local level have resulted with loss.

The POE Kosovo Energy Corporation of the central level had the largest profit, at the amount of €105 million or 96% of the total profit. Whereas, the Public Housing Enterprise of the local level and the Kosovo Telecom of the central level had the largest loss, at the amount of €4.3 respectively, €3.7 million or 68% of the total loss.

However, compared to the previous year, there is a positive trend in 4 POEs in loss reduction, besides PHE, which in 2021 had a profit of €1,013,073, whilst in 2022 had a loss of €4,305,089.

Publicly owned enterprises that have not shown elements of material increase in the level of loss:

- Kosovo Telecom, despite the loss result, its performance shows significant progress. It has managed to reduce loss by €6,918,000, from €10,707,000 which was the loss in 2021 (revised AFS). This year it decreased at around €3,789,000;
- From a loss of €2,961,713 in 2021, Iber Lepenci this year has operated with a profit of €379,073;
- From a loss of €919,156 in 2021 (revised AFS), RWC Prishtina this year has operated with a profit of €1,465,362;
- From a loss of €214,047 in the previous year, this year Infracos has a loss of €114,662, namely there is a decrease of €99,385.

Short-term liabilities - are financial obligations that should be paid within one year and are classified as current liabilities. Short-term liabilities are: account payables, tax payables, short-term loans and other liabilities with a payment term within one year.

The short-term liabilities for the 11 audited enterprises amount to €169 million, which as such should be paid within the year 2023. The central level publicly owned enterprises comprise most of these liabilities (around 86%): (1) Kosovo Energy Corporation with €74.8 million or 44.1%; (2) Kosovo Telecom with €46 million or 27.1%; and (3) Infracos with €26.4 million or 15.6%. whereas the remaining share of €22 million or 13.2% consists of short-term liabilities of 8 other entities.

The liquidation of these liabilities, especially from KR Infracos and RWC Uniteti is almost impossible, because their annual revenues are significantly smaller than the total short-term liabilities. In addition, according to the figures presented in the table, all enterprises will face serious challenges in the liquidation of short-term liabilities.

Long-term liabilities – are financial obligations or non-current liabilities which are listed in the balance sheet as liabilities whose payment term is longer than one year. This includes loans for fixed assets, liabilities to securities, liabilities to commitments or mortgages and other liabilities that should be paid in a term longer than one year.

Long-term liabilities for 11 audited entities at the yearend 2022 were circa €329 million or around 48.5% higher than short-term liabilities. Since the disclosure statement has many information gaps, we were not able to provide any analytical data within how many years these liabilities should be returned, what amount should be returned during 2023, and other information about the timing of their depreciation.

Based on the results of individual audits and from what was stated above, it results that issues of publicly owned enterprises are evident and their financial situation is very challenging. The main issues to pay attention to and which need to be addressed are:

- **Failure to comply with legal deadlines for financial reporting** – It has been identified that in 11 audited enterprises in 2022 there were delays in the preparation and timely submission of financial statements by the management and in their approval by the Board of Directors. Such delays have also affected the review of audit plans;

- **Unfavourable financial results** – Six (6) publicly owned enterprises had a negative financial result, respectively a €11.9 million loss, whilst five (5) have achieved a positive financial result with a €108 million profit. The reported profits are more a result of adjusting the statements at the yearend than of any stable financial business;
- **High amounts of unpaid liabilities** – The total unpaid liabilities of these enterprises amount over €499 million, of which €169 million short-term liabilities which should be paid within a year. Considering the fact that the total revenues were around €428 million, the eventual payment of these short-term liabilities seems quite difficult. When the instalments of long-term loans and other liabilities incurred during 2023 are added to this, the situation might become even more complex.

2.4. Other issues of financial management and compliance

Based on the audit reports during this season, shortcomings have been identified in the area of financial management of publicly owned enterprises. The issues that have had an impact in the financial and compliance management of publicly owned enterprises at the central level are:

- **In the area of assets:** Undefined ownership of fixed assets, inadequate handling of ongoing investments. This occurred due to ownership disputes and negligence.
- **In the area of accounts receivable:** In three enterprises, we have identified shortcomings in the presentation of accounts receivable, failure to carry out a periodic reconciliation with the clients in one case, and lack of source documents. This occurred because the enterprise had not done the periodic reconciliations with the clients and due to manual transfer of invoices during the year from the system of the revenue department to the accounting system.
- **In the area of expenses:** manning of job positions with acting staff, failure to pay employees with the same grade for the same job position, systematisation of the enterprise's employees according to the regulation not approved by the Board of Directors. This occurred due to the need to staff the vacant job positions and being unable to conduct the recruitment process due to the enterprise's restructuring process.
- **In the area of procurement:** the procurement planning process, as well as frequent procurement activities of minimal value. This occurred due to shortcomings in the procurement planning process and non-consolidation of requests from the requesting units.

The main issues that have had an impact in the financial and compliance management of publicly owned enterprises at the local level are:

- **In the area of assets:** inconsistency between the accounting records of assets and the report of the asset stocktaking commission. These shortcomings had occurred due to failure to reconcile the accounting records with the balance after assets recording.

- **In the area of accounts receivable:** invoicing customers with incorrect naming, shortcomings in the presentation of accounts receivable, failure to name customers. This occurred because periodic reconciliations with customers were not done on a periodic basis for accounts receivable.
- **In the area of expenses:** acceptance-handover of services without supporting evidence, shortcomings in the management of public tender procedures and other shortcomings in staff management, manning the positions with acting officers. This occurred as a result of not appointing an official for the supervision and acceptance of delivery of services and not carrying out recruitment procedures to staff the regular positions.
- **In the areas of procurement:** allocation of tenders and failure to apply the open procurement procedure, as well as the procurement of used goods. This occurred because there was a lack of requests from the requesting units, whilst regarding the procedures for the purchase of used trucks, they were carried out in the absence of financial means, etc.

2.5. Previous year recommendations and level of implementation

In the individual reports of 11 POEs for 2022 we have given 134 recommendations on the improvement of each area where shortcomings and errors have been identified.

Table 36 – Number of recommendations given to POEs in 2022

Audited publicly owned enterprises in 2022	New recommendations	Repeated recommendations	Partially repeated recommendations	Total recommendations
Central Level	32	24	2	58
Regional Level	18	25	1	44
Local Level	9	21	2	32
Total	59	70	5	134

In 2022, it can be noted that out of the total recommendations given, 59 are new recommendations, 70 repeated and five (5) partially repeated. This indicates that 52% of the recommendations are repeated from the last year. In contrast to this, we have given 53 less recommendations or 28% compared to last year. In the following table we have presented the recommendations given for 2021 and how they were implemented.

Table 37 - Number of recommendations given to POEs in 2021

Audited publicly owned enterprises	Implemented recommendations	Repeated recommendations	Partially repeated recommendations	Closed recommendations	Year 2021
Central Level	44	24	2	5	75
Regional Level	41	25	1	1	68
Local Level	19	21	2	2	44
Total	104	70	5	8	18720

The data presented in the table indicate that publicly owned enterprises are understanding the importance of audit by improving the rate of implementation of recommendations. Out of the 187 recommendations last year, 58% have been implemented, 39% are repeated and 3% are partially repeated. It is worth noted that 3 public enterprises in particular have shown significant progress in implementing the recommendations, such as: Post of Kosovo with 89% implemented, Public Housing Enterprise 77%, and Kosovo Telecom 76%.

We recommend the Government and the POEs Shareholders Committees to:

- Strengthen the measures of accountability to the Boards of Directors and management in the case of reviewing the financial statements to review in detail the content of the information in the financial statements, and ensure that they are error-free, are supported by accounting evidence and that they meet all the requirements of the applicable financial reporting framework.
- Take measures through the Borad of Directors, to ensure that the re-evaluation process is carried out within an optimal period. Since the main reason for not carrying out the assessment was the lack of funds, the Government and the municipalities should financially support this process.

We recommend the Government and the Shareholders Committees to:

- Ensure that, through the Boards of Directors, the annual reports, including the financial one, are approved by March 15 of the following year, defined by the Law on Publicly Owned Enterprises, and that the financial statements should be ready for audit by the external auditor on the same day.
- Ensure that, through the Board of Directors, the causes leading to losses so far are analysed and depending on the identified factors, policies and improvement measures are proposed, as well as the amount of unpaid liabilities to be analysed and paid in order for complaints/court proceedings from suppliers to be avoided.

20 Last year, 207 recommendations were given, which included the recommendations of RWC "Hidroregjioni Jugor" (8 recommendations), J.S.C and RWC "Hidromorava" J.S.C (12 recommendations).

We recommend the Government to:

- Ensure that, through the Board of Directors, all appropriate/legal actions are taken in order to clarify the status of properties used by publicly owned enterprises, as well as to make the procurement planning process more comprehensive. To ensure that recruitment procedures are conducted for acting job positions, in order to equip them with regular contracts, to strengthen internal controls in order to prevent employees in the same positions from being paid with different grades, as well as comply with the legal requirements during the public tender procedures.

We recommend the Government, Shareholders Municipal Committee to:

- Ensure through the Board of Directors that the enterprises' assets are reconciled with the reports of the stocktaking commissions, to proactively supervise the contract execution process, to take corrective actions so that the invoicing of customers is done correctly. In addition, to analyse the structure and age of accounts receivable.

We recommend the Government and the Shareholders Committees to:

- Take measures of management accountability, through the Board of Directors, for the implementation of the audit recommendations, with a special focus on the clear definition of an action plan, the time frame and the staff responsible for addressing all the recommendations of the NAO.

Chapter IV
**IMPLEMENTATION OF
RECOMMENDATIONS**





Summary on implementation of recommendations

The importance of audit reports lies in identifying weaknesses in governance systems, especially financial ones, 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.

Having received the AAR for 2021, the Government prepared an action plan for the implementation of the recommendations.

At the level of individual audits, most budget organizations do not implement a systematic process for monitoring the implementation of recommendations. Compared to 2021, the number of recommendations given to budget organizations has decreased, yet the level of implementation of recommendations remains almost the same. The number of fully implemented recommendations is at the level of 49%, whilst the rest of the recommendations are under implementation or not implemented yet.

Setbacks in fully implementing the recommendations lead to repetition of controls weaknesses and shortcomings and the systematic recurrence of irregularities from year to year.

The audit impact is measured with the level of implementation of recommendations and is the best indicator to show as to whether the management is improving the existing process and controls over the areas shortcomings have been identified in. NAO, through individual audits, conducts an assessment of 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 more actions need to be taken to improve further.

In the AAR on AFR/BRK for year 2022 we have given a total of 29 recommendations, of which 22 to the Government and 7 to Government/ Boards of Directors/ Committees of Shareholders.

Annex I of the report provides complete information on the progress of the recommendations given in the AAR-2021, while Tables 37 and 38 show the recommendation statistics for individual organizations.

1. Implementation of recommendations given in the 2021 AAR

In September 2021, the Government of Kosovo approved the Action Plan on implementation of the recommendations, which obliges all BOs to implement it. The same was sent to the Assembly of Kosovo/COPF to review the progress on recommendations.

Based on the information collected during the audit process of the budget statements as well as from individual audits, we may conclude that the actions taken by the Assembly of Kosovo, the Government and other institutions, have not been sufficient to ensure a satisfactory level of implementation of recommendations.

Of the total of 36 recommendations given in the 2021 AAR, 5 have been fully implemented, 3 were under implementation, 21 were not implemented and 7 are no longer applicable (the same are either merged with other or no longer relevant). Annex I shows detailed data on the recommendations given in the 2021 AAR.

Failure to implement the recommendations has led to the recurrence of certain weaknesses and irregularities, such as:

- Poor preparation of the AFS;
- Shortcomings in the procurement procedures;
- Shortcomings in assets management;
- Poor management of revenues, expenditures, contingent liabilities;
- Shortcomings in subsidies procedures; and
- Poor functioning of audit committees and IAUs;

2. Implementation of recommendations given in the individual reports for year 2021

Assessment of the implementation of recommendations is a constituent part of the 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 years 2021 and 2020, which are categorized by auditees.

Auditees have been divided into: Central level institutions²¹, Independent Institutions²² and Local level institutions (38 municipalities).

21 Assembly of Kosovo, Office of the President, Office of the Prime Minister, 15 ministries, Health Insurance Fund, Tax Administration of Kosovo, KC and HUCSK

22 Independent institutions include the University of Prishtina and 28 institutions

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

Table 38 – Implementation of AG recommendations for year 2021

Auditees	No. of recomm. in 2021	No longer applicable ²³	To be implemented	Implemented		Partly implemented		Not implemented	
	No.	No.	No.	No.	%	No.	%	No.	%
Central level institutions	185	5	180	88	49%	20	11%	72	40%
Independent institutions	55	1	54	39	72%	3	6%	12	22%
Local level institutions	409	3	406	186	46%	33	8%	187	46%
Total of recommendations	649	9	640	313	49%	56	9%	271	42%

Table 39 - Implementation of AG recommendations for year 2020

Auditees	Total number of recomm. in 2020	No longer applicable	To be implemented	Implemented		Partly implemented		Not implemented	
	Nr.	Nr.	%	Nr.	%	Nr.	%	Nr.	%
Central level institutions	237	28	209	123	59%	14	7%	72	34%
Independent institutions	46	2	44	31	71%	1	2%	12	27%
Local level institutions	371	8	363	152	42%	15	4%	196	54%
Total of recommendations	654	38	616	306	50%	30	5%	280	45%

As seen from the tables above, the total number of recommendations given for the year 2021 is almost the same as those given in 2020.

In general, BOs prepare the action plans for implementation of recommendations, but they 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 fashion and obstacles to action are identified and addressed.

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 BOs.

23 Recommendations that are no longer applicable are as result of merging them or changes in legal acts

3. Implementation of recommendations given to BOs by COPF for year 2021

The Committee for Oversight of Public Finances (COPF) had given recommendations for 10 deliberated audit reports. NAO has handled the implementation of these recommendations given by the Committee and: of the 34 recommendations given, 9 have been implemented, 6 were under implementation and 19 have not been implemented. Annex II gives details on the recommendations given by COPF.

We recommend the Government:

To 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.

**This report is translated from Albanian Language in case of any discrepancies Albanian language should prevail.*

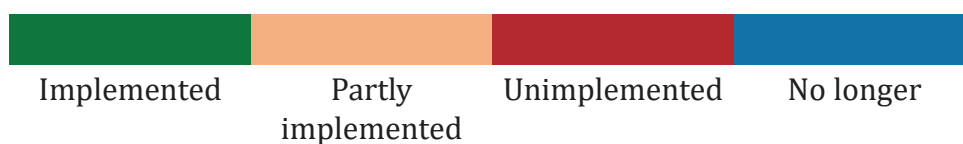
Annexes

























Annex I: Progress in implementing the recommendations in AAR 2021








Legend:












	Responsible institution	Recommendations given in AAR 2021	Status
1	Assembly of Kosovo	To 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 expenditures are planned under adequate economic categories, as required in the LPFMA and IPSAS.	No longer applicable  <i>Merged with the recommendation no.3 of this annex</i>
2	Government of Kosovo	To ensure, through MFLT, that the requirements for complete and true reporting in the statements of disclosures are met.	Unimplemented 
3	Government of Kosovo	To continue strengthening budgetary controls, through MFLT, in order to prevent budget misclassifications from occurring.	Unimplemented 
		State Budget Analysis	
4	Government of Kosovo	To ensure, through MLGA, that mechanisms for the implementation of the laws governing the collection of revenues are put in place for the municipalities of Mitrovica North, Zvečan and Zubin Potok. Collection of these revenues would enable the implemented of many projects as well as the improvement of the citizens welfare in the respective municipalities.	No longer applicable  <i>In 2022 we could not audit these municipalities</i>
5	Government of Kosovo	To ensure that all necessary actions to engage employees are taken by providing work conditions and ensuring attendance at work as well as continuous monitoring as foreseen in the legal acts.	Partly implemented 
6	Ministry of Finance, Labour and Transfers	The minister should ensure that, following the ratification of agreement in the Assembly of Kosovo and when transferring loan funds to KFMIS, the number of ratified loan matches the project's code in order to ensure that payments for the relevant project are distinct and to prevent overspending and unfair reporting in the AFS.	Implemented 

7	Ministry of Finance, Labour and Transfers	To ensure that capital projects planning is subject to an analysis on the organization's capacity to manage projects in accordance with the initial plans. Controls over project planning and budget execution need to be strengthened in order to have the projects implemented in time and the objectives achieved. A harmonization of cash flow with project planning is necessary to address the low levels of financial outturn of capital projects	Unimplemented 
8	Ministry of Finance, Labour and Transfers	In coordination with Ministers, to 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.	No longer applicable  <i>Merged with the recommendation no.9 of this annex.</i>
Analysis of Explanatory Notes			
9	Government of Kosovo	The Government should ensure that, prior to taking decisions on borrowing, detailed analyses are conducted as to whether all the prerequisites exist and proper preparations are made for initiating the borrowing process and for ensuring the most efficient use of these funds. In addition, the Government should review the MFLT's annual reports on public debts on a regular basis and use them in the comprehensive discussions when the process outcomes and obstacles are assessed.	Unimplemented 
10	Government of Kosovo	To ensure that setbacks in and failure to initiate or implement the projects are subject to ongoing reviews with the respective projects implementing budget organizations and that the causes and reasons are analysed reflecting the undertaking of concrete actions to reduce/eliminate them so that they can be implemented and lead to benefits for the citizens.	Unimplemented 
11	Ministry of Finance, Labour and Transfers	To address all the challenges faced in the implementation of the projects funded by the borrowing, based on the Treasury quarterly reports and in cooperation with the line ministries. MFLT should, at any time and whenever convenient, suggest to the Government the proper measures to overcome these challenges.	Unimplemented 
12	Ministry of Finance, Labour and Transfers	To provide clear instructions to the BOs on including the capital investments plans to be funded from the borrowing. The projects should not be approved unless all preparations are made and they do provide sufficient and documents assurance that they will be implemented at the right time and fashion.	Unimplemented 
Assets			
13	Government of Kosovo	The Government should provide, through MFLT, sufficient trainings to the assets officers and the CFO regarding the assets recording process and their true presentation in the individual financial statements.	Unimplemented 







14	Government of Kosovo	To provide for, through MIA, continuous maintenance of the e-assets system in order to ensure that the system is operational and assets are completely and truly updated	Implemented 
15	Government of Kosovo	To provide for, through MFLT/Treasury, formal controls over capital and non-capital assets and ask for additional clarification from BOs regarding the significant differences.	Implemented 
		Accounts receivable	
16	Government of Kosovo	The Government should reconsider, in coordination with MFLT and MLGA, the current debts collecting mechanisms, their structure, age, and the chances for collecting such debts by creating effective mechanisms for their collection. In addition, it should provide for a complete and fair reporting and consolidation of accounts receivable.	Unimplemented 
		Outstanding and Contingent Liabilities	
17	Government of Kosovo	MFLT should put in place controls by monitoring the BO's reports on outstanding liabilities, and that measures are taken when statutory deadlines are not adhered to.	Unimplemented 
18	Government of Kosovo	To ensure, through the Ministry of Justice (State Advocacy) and in coordination with BOs legal offices, that the complete and true value of the contingent liabilities is verified, in order to provide true disclosures in the AFR. When discrepancies of records exist, the reasons behind these discrepancies should be identified and the same should be rectified	Unimplemented 
		Payments under Article 39.2 of the LPFMA	
19	Government of Kosovo	To examine, through relevant institutions, obligations and responsibilities of BOs arising from valid collective agreements and take appropriate action. Depending on these obligations and budget capacities, it should 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	Unimplemented 
20	Ministry of Finance, Labour and Transfers	In coordination with the Treasury Director, the Minister should ensure that, when executing payments based on court/enforcement decisions, expenses on the principal debt is separated from those on court enforcement procedures, as foreseen in the Chart of Accounts.	Unimplemented 




		Internal Audit System	
21	Government of Kosovo	To ensure, through MFLT (CHU/IA), that all BOs which are obliged to establish the IAU according to GRK Regulation no. 01/2019 to establish it 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.	Unimplemented 
22	Government of Kosovo	To ensure, through MFLT (CHUIA) all BOs establish Audit Committees to support the achievement of IAU objectives and that these Committees are effective in holding meetings, annual reports as required by IA and contribute to increasing accountability and strengthening the role of IA.	Partly implemented 
		Procurement	
23	Assembly of Kosovo	To ensure, through supervisory mechanisms, that procurement activities provide competition and transparency among bidders according to legal requirements and use of adequate procurement procedures to provide more cost-effective contracts.	No longer applicable 
		Issues related to Covid-19 pandemic management expenditures	
24	Ministry of Finance, Labour and Transfers	To ensure that BOs comply with all rules when preparing the AFS and include expenses for the COVID-19 pandemic management.	Implemented 
		Performance Audits	
25	Assembly of Kosovo	To review the performance, procurement and information technology audit reports, through COPF, and to hold the heads of public institutions to account for the implementation of performance audit recommendations.	Implemented 
26	Government and Municipal Assemblies	To analyse the recommendations resulting from performance and IT audits, as well as prepare and monitor action plans for their implementation. Monitoring of implementation of recommendations shall be established by assigning and holding accountable the relevant functions in the organization through regular reporting on corrective actions	Unimplemented 
		Publicly Owned Enterprises	
27	POEs' Boards of Directors and Shareholders	Boards of Directors and the management should strictly adhere to Law no. 03/L-87 for Public Enterprises, Article 31.3 which stipulates that the POE's Board of Directors shall review, modify as may be deemed necessary and approve within 30 days after receipt of annual report. The annual reports, including the financial one, should be approved by the Board by March 15, and on the same day the financial statements should be complete for audit by the external auditor.	Unimplemented 









28	POEs' Boards of Directors and Shareholders	The Boards of Directors shall review in detail the financial statements' information when scrutinising the financial statements and make sure that they are free from errors, supported by accounting evidence and that they meet all the requirements of the financial reporting framework.	Unimplemented 
29	POEs' Boards of Directors and Shareholders	The respective shareholder commissions shall strengthen the Boards of Directors and the management's accountability and provide answers as to why financial statements have not been prepared and approved timely and why financial reporting was not in compliance with the respective standards. The shareholders' commissions should without further ado fill the positions of the temporary Boards members and senior managers in order to avoid all gaps in the enterprises' structures	No longer applicable  <i>Merged with the recommendation no.27 of this annex.</i>
30	Government, POEs' Boards of Directors and Shareholder	To apply more measures of accountability on the management regarding the implementation of audit recommendations, particularly those of high priority.	Partly implemented 
31	POEs' Boards of Directors and Shareholders	To analyse the financial performance and the reasons behind the losses suffered so far and to propose remedial policies and measures depending on the factors identified.	Unimplemented 
32	POEs' Boards of Directors and Shareholders	To analyse the structure of outstanding liabilities and prioritise the payments by the aging of liabilities, the importance strategic suppliers have for the company, and the need to enter into new liabilities. The Government and other shareholders (municipalities) need to intervene and grant more subsidies to prevent these enterprises from bankrupting, as they deliver public services that are vital to the citizens.	No longer applicable  <i>Merged with the recommendation no.31 of this annex.</i>
33	POEs' Boards of Directors and Shareholders	To scrutinise the structure of accounts receivable, the age of accounts, the actions taken for collection, and the clients solvency as well as to clean up the doubtful accounts kept in the journals for many years and having no change to be collected. However, priority should be given to the collection of invoices within the last 12 months, because if enforcement procedures have not been initiated earlier, then the chances to collect the debts older than one year are minimal and, as such, they might be become time-barred or never be collected.	Unimplemented 
34	POEs' Boards of Directors and Shareholders	To undertake measures so that the revaluation process in carried out within an optimal timeframe. Given that the reason behind failure to carry out the valuation was lack of funds, the Government and municipalities should provide financial support to this process.	Unimplemented 










		Implementation of recommendations	
35	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.	No longer applicable 
36	Government of Kosovo	To put in place an effective recommendations' implementation monitoring process 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.	Unimplemented 









Annex II: Progress in implementation of recommendations given by COPF after deliberation of audit reports

	Responsible Institution	Recommendations given by Committee for Oversight of Public Finances after deliberation of audit reports	Progress in implementation of recommendations
Deliberated audit report on AFS of MESTI for year 2020			
1	MESTI & MFLT	MESTI and MFLT should analyse the potentials of making the six Public Universities and the Student Centres, which currently operate as programs within MESTI, independent.	Unimplemented 
2	MESTI & MIA	MESTI and MIA should complete the works for all the projects, for which there were pre-existing cooperation agreements with the Ministry of Internal Affairs.	Unimplemented 
3	MESTI	MESTI should draw up a black list of economic operators who have not fulfilled their contractual obligations and as a result there have been big delays in many projects. This list should be shared with CPA and all OBs at the country level.	Unimplemented 
4	MESTI	Should establish a more coordinated oversight mechanism regarding the capital investments, particularly the construction of schools.	Unimplemented 
5	MESTI	Should improve and advance the current SMIAL system (technological aspect) in such a way that it is not possible to interfere in the system or leave traces of who has interfered in the system	Unimplemented 
6	MESTI	Ensure that order of books should be made on time and there are no delay, always based on the number of students registered in the SMIAL system, as well as having a reserve fund of up to 10% of the books	Unimplemented 

Deliberated audit report on AFS of RTK for year 2021			
1	RTK	RTK to stop outsourcing the production of shows it can cover with internal staff.	Implemented 
2	RTK	The Board of RTK should clearly define the promotion and remuneration of employees in the regulations, based on clear performance assessment criteria.	Unimplemented 
3	RTK	The Board of RTK and the director should strengthen the legal and financial mechanism because in the absence of legal officers RTK risks losing millions of euros as a sued party.	Implemented 

		Deliberated audit report on AFS of University of Prishtina for year 2021	
1	UP	The UP budget planning for capital investments should be a comprehensive process involving all academic units and the bottom-up budgeting preceded by a proper analysis. Orientations for capital investments should be included in the strategic plan the in the University of Prishtina, which expires in 2022. It was planned for the years (2020-2022)	Implemented 
2	UP	The Rectorate of the University of Prishtina should engage all legal capacities or, in case it is lacking it, engage an external expert or the State Advocacy Office to provide qualitative legal representation in the court hearings regarding the issue of the Serbian Orthodox Church built on the Campus of UP.	Unimplemented 
3	UP	The Rector should intensify the work and request a 6-month report from the commission established. If necessary, it might establish a new inter-institutional commission in order to define the ownership of the properties of the UP with the Municipality of Prishtina, the cadastral boundaries, the transfer of those properties owned by UP, as well as registration in the state geoportal.	Unimplemented 
		Deliberated audit report on AFS of "Ibër Lepenci" j.s.c. for year 2021	
1	Ibër Lepenci j.s.c.	The "Ibër - Lepenc" j.s.c. Enterprise should publish all the financial reports and the audit reports on the enterprise dated since 2008 to date.	Implemented 
		Deliberated audit report on AFS of the Health Insurance Fund for year 2021	
1	MoH & HIF	The Minister of Health and the Steering Board of HIF should consider amending Administrative Instruction 03/2017 on the medical treatment of patients outside public health institutions. To strengthen the supervisory mechanisms of the HIF in order to update the criteria, health services, price list, the list of types of diseases as well as the regulation of the reporting method, starting from the consular commissions of the HCUSK, the Evaluation Commission and the Executive Board of the Health Insurance Fund.	Partly implemented 
2	HIF	The management of HIF should conduct regular reconciliations of payments with private hospitals, inside and outside the country, as well as to create a database regarding the Institutions that do not provide feedback information on patient treatment, so that there is a blacklist of health institutions that do not provide feedback information.	Partly implemented 
3	HIF	The steering board and management of HIF should have accurate evidence of outstanding liabilities with hospitals both inside and outside the country.	Unimplemented 
4	HIF	The steering board should establish mechanisms for reducing or fully eliminating the patients waiting list	Partly implemented 

5	MoH & HIF	The Minister of Health and the Steering Board of HIF should regulate inter-institutional communication and establish a regular line of official communication with all healthcare providing institutions, and develop electronic forms to monitor the flow of financial resources.	Partly implemented 
6	HIF	The reconciliation commission should deal with reconciliation of data with hospitals both inside and outside the country.	Implemented 
7	HIF	Should consider the possibility of amending and supplementing the Law on Public Procurement concerning the private health services, so that these services can be competed for according to the cheapest price, and when there is an offer, the Ministry of Health is free to enter into a contract and HIF could maintain regular contact when treating patients	Partly implemented 
Deliberated audit report on AFS of University Hospital and Clinical Service of Kosovo for year 2021			
1	MoH	The Ministry of Health should ensure that Board members are appointed fully in compliance with Law No. 04/L-125 on Health.	Implemented 
2	UHCSK	The Board of Directors and the Director General should provide for more controls over the preparation and presentation of the annual financial statements. The Board and the Director General should ensure that the chief financial officer has the necessary professional preparation, knowledge and training to understand and correctly implement the financial reporting requirements. The annual financial statements must be subject to a proper revision by the Director General and the Board of Directors.	Partly implemented 
3	MoH and UHCSK	The planning of capital investments in regional hospitals, UHCSK and the identification of the needs for human resource should be done fully in line and close cooperation with the Ministry of Health.	Implemented 
Deliberated audit report on AFS of the Ministry of Health for year 2021			
1	MoH	The Ministry of Health should particularly focus on the implementation of the recommendations given by the NAO in the Audit Report on the AFS of the Ministry of Health for the year ended on December 31, 2021	Implemented 
Deliberated audit report on AFS of the POE Telecom of Kosovo for year 2021			
1	Telekom of Kosovo	The Board of Directors should develop a 2-year strategic plan for improving financial performance, for the strategic development of the company, for implementing the plans and for achieving a positive financial result.	Unimplemented 
2	Telekom of Kosovo	Should strengthen the legal office capacities when it comes to the legal representation of the company. Should the need arise, international legal experts could also be engaged.	Implemented 

3	Government	The Government should continue providing financial support to Telekom, in line with the strategic plan and ask the Board to submit 6-month financial reports, for concrete financial results.	Unimplemented 
		Deliberated audit report on AFS of the Pastrimi WRC for year 2021	
1	Pastrimi WRC	The Board of Directors of Pastrimi WRC should in full coordination with the Board of Shareholders (Municipalities of Pristina, Drenasi, Podujeva, Fushë-Kosova and Lipjani) implement Law no.04/L-060 amended by Law no.08/L-071. Thus, the waste management operators are obliged to draw up the action plan on waste management and this management plan is also drawn up by the operators in a period of 5 years.	Unimplemented 
2	Pastrimi WRC	Pastrimi WRC should, in coordination with the shareholders, harmonise the capital investments, the purchase of machinery, adding of waste collection points in full compliance with the waste management action plan and that for the 5-year period.	Unimplemented 
3	Pastrimi WRC	The Board of Directors should develop a long-term strategy for the processing and recycling of waste, within the framework of the waste management action plan prevent the dumping of waste. This process should be done in full cooperation with the municipalities, as required by Law 04/L-060 amended by Law NO. 08/L-071.	Unimplemented 
		Deliberated annual report on the Annual Financial Report of the Government for year 2021	
1	MFLT	The Government, namely, the Ministry of Finance, Labour and Transfers (MFLT) and the Ministry of Internal Affairs (MIA) should conduct a functional review of systems such as E-assets, KFMIS, PIP and BDMS, in order to look at the possibilities of either merging them or providing better communication and exchange of information between these systems.	Unimplemented 
2	MFLT	The Government namely, MFLT, should exert its legal power to have the institutions put the Internal Audit Units and the Audit Committees to function, with sufficient staff according to the criteria given by Regulation no.01/2019 on the Establishment and implementation of the internal audit function and according to Administrative Instruction 01/2019 on the Audit Committees.	Unimplemented 
3	MFLT	BOs should strictly adhere to the Law on Budget concerning the outstanding liabilities from the previous year in order to make the necessary changes in the tables of the budget law and not to start with new obligations without paying the outstanding ones.	Unimplemented 
4	MFLT	When preparing borrowing requests, the Government of the Republic of Kosovo should prepare first with the line ministries all the legal and procedural documents in order to ensure that in case of securing the borrowing, there will be no delay in the implementation of the projects.	Unimplemented 

Annex III: Types of opinions for the audited BOs in the last three years

Table no. 40 – Audit opinions to the central level for three years

No.	Auditees	Audit Opinion		
		2022	2021	2020
1	Assembly of the Republic of Kosovo	Unmodified	Unmodified	Unmodified
2	Office of the President	Unmodified	Unmodified	Unmodified
3	Office of the Prime Minister	Qualified	Qualified	Qualified
4	Ministry of Finance, Labour and Transfers	Unmodified	Unmodified	Unmodified
5	Customs of Kosovo	Unmodified	Unmodified	Unmodified
6	Tax Administration of Kosovo	Unmodified	Unmodified	Qualified
7	Ministry of Agriculture, Forestry and Rural Development	Qualified	Qualified	Qualified
8	Ministry of Industry, Enterprise and Trade	Qualified	Qualified	Unmodified
9	Ministry of Environment, Spatial Planning and Infrastructure	Qualified	Qualified	Qualified
10	Ministry of Health	Unmodified	Qualified	Qualified
11	Ministry of Culture, Youth and Sports	Qualified	Qualified	Qualified
12	Ministry of Education, Science, Technology and Innovation	Qualified	Qualified	Qualified
13	Ministry for Communities and Returns	Qualified	Qualified	Qualified
14	Ministry of Local Government Administration	Qualified	Qualified	Unmodified
15	Ministry of Economy	Qualified	Qualified	Qualified
16	Ministry of Internal Affairs	Qualified	Qualified	Qualified
17	Ministry of Justice	Unmodified	Unmodified	Unmodified
18	Ministry of Foreign Affairs and Diaspora	Unmodified	Qualified	Qualified
19	Ministry of Defense	Qualified	Qualified	Unmodified
20	University Clinical Hospital Service of Kosovo	Qualified	Qualified	Qualified
21	Ministry of Regional Development	Unmodified	Unmodified	Unmodified
22	Health Insurance Fund	Qualified	Unmodified	Unmodified
23	Public Procurement Regulatory Commission	Unmodified	Unmodified	Unmodified
24	Academy of Sciences and Arts of Kosovo	Unmodified	Unmodified	Unmodified
25	Electronic and Postal Communications Regulatory Authority	Unmodified	Unmodified	Unmodified
26	Agency for the Prevention of Corruption	Unmodified	Unmodified	Unmodified
27	Energy Regulatory Office of Kosovo	Qualified	Unmodified	Unmodified
28	Kosovo Privatization Agency	Unmodified	Unmodified	Unmodified
29	Procurement Review Body	Unmodified	Unmodified	Unmodified
30	Free Legal Aid Agency	Unmodified	Unmodified	Unmodified

31	University of Prishtina	Qualified	Qualified	Qualified
32	Constitutional Court	Unmodified	Unmodified	Unmodified
33	Kosovo Competition Authority	Unmodified	Unmodified	Unmodified
34	Kosovo Council for Cultural Heritage	Unmodified	Unmodified	Unmodified
35	Elections Complaints and Appeals Panel	Unmodified	Unmodified	Unmodified
36	The Independent Supervisory Council for the Civil Service of Kosovo	Unmodified	Unmodified	Unmodified
37	Prosecution Council of Kosovo	Unmodified	Unmodified	Unmodified
38	State Agency for Personal Data Protection	Unmodified	Unmodified	Unmodified
39	Agency for the Management of Memorial Complexes	Unmodified	Unmodified	Unmodified
40	Air Navigation Services Agency	Unmodified	Qualified	Unmodified
41	Water Services Regulatory Authority	Unmodified	Unmodified	Unmodified
42	Railway Regulatory Authority	Unmodified	Unmodified	Unmodified
43	Civil Aviation Authority of Kosovo	Unmodified	Unmodified	Unmodified
44	Independent Commission for Mines and Minerals	Unmodified	Unmodified	Unmodified
45	Independent Media Commission	Unmodified	Unmodified	Unmodified
46	Central Election Commission	Qualified	Unmodified	Unmodified
47	Ombudsperson Institution	Unmodified	Unmodified	Unmodified
48	Academy of Law	Unmodified	Qualified	Unmodified
49	The Judicial Council of Kosovo	Unmodified	Qualified	Unmodified
50	Kosovo Property Comparison and Verification Agency	Unmodified	Unmodified	Unmodified
51	Radio Television of Kosovo	Qualified	Adverse	n/a
52	Trust Fund	Unmodified	Unmodified	Unmodified
53	Ministry of Labor and Social Welfare	n/a	n/a	Qualified

Table no. 41 – Audit Opinions to the local level for three years

No.	Municipality	Audit Opinion		
		2022	2021	2020
1	Glllogoc	Qualified	Unmodified	Unmodified
2	Fushë Kosovë	Qualified	Qualified	Unmodified
3	Lipjan	Unmodified	Unmodified	Unmodified
4	Obiliq	Unmodified	Unmodified	Unmodified
5	Podujevë	Qualified	Unmodified	Qualified
6	Prishtinë	Qualified	Qualified	Unmodified
7	Shtime	Unmodified	Unmodified	Unmodified
8	Graçanicë	Qualified	Qualified	Unmodified
9	Dragash	Unmodified	Unmodified	Unmodified
10	Prizren	Qualified	Qualified	Unmodified
11	Rahovec	Unmodified	Qualified	Unmodified
12	Suharekë	Unmodified	Qualified	Unmodified
13	Malishevë	Unmodified	Qualified	Unmodified
14	Mamushë	Unmodified	Qualified	Qualified
15	Deçan	Qualified	Qualified	Qualified
16	Gjakovë	Qualified	Unmodified	Unmodified
17	Istog	Qualified	Adverse	Qualified
18	Klinë	Qualified	Unmodified	Unmodified
19	Pejë	Unmodified	Qualified	Unmodified
20	Junik	Unmodified	Unmodified	Qualified
21	Mitrovicë	Qualified	Qualified	Unmodified
22	Skenderaj	Unmodified	Unmodified	Unmodified
23	Vushtrri	Unmodified	Qualified	Unmodified
24	Gjilan	Qualified	Qualified	Unmodified
25	Kaçanik	Unmodified	Qualified	Unmodified
26	Kamenicë	Qualified	Unmodified	Qualified
27	Novo Bërd	Unmodified	Qualified	Qualified
28	Shtërpcë	Unmodified	Qualified	Unmodified
29	Ferizaj	Qualified	Qualified	Qualified
30	Viti	Qualified	Unmodified	Unmodified
31	Partesh	Unmodified	Qualified	Qualified
32	Hani i Elezit	Unmodified	Qualified	Unmodified
33	Kllokot	Qualified	Qualified	Qualified
34	Ranillug	Unmodified	Unmodified	Unmodified
35	Zubin Potok	/	Qualified	Qualified
36	Zveçan	/	Qualified	Qualified
37	Mitrovica Veriore	/	Qualified	Qualified
38	Leposaviq	/	Qualified	Qualified

Annex IV: Explanation regarding different types of opinion and conclusions applied by NAO

(extract from ISSAI 200)

Forms 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, the auditor should modify the opinion in the auditor's report. 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..

Audit conclusions

- **Unmodified Conclusion** - presents the auditor’s opinion that the processes and underlying transactions are fully in compliance with the established audit criteria;
- **Qualified Conclusion** - presents the auditor’s opinion that the processes and underlying transactions are fully in compliance with the established audit criteria, except for any specific matter, which is described under the Basis for Compliance Conclusion;
- **Adverse Conclusion** - presents the auditor’s opinion that the processes and underlying transactions are not fully in compliance with the established audit criteria; and
- **Disclaimer of Conclusion** - presents the auditor’s inability to draw a compliance conclusion because of not having been able to obtain sufficient evidence or because of incompliances being pervasive in many areas.

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 emphasized 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 emphasized.

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 V: Letter of Confirmation



Republika e Kosovës
Republika Kosova - Republic of Kosovo
Qeveria - Vlada - Government

*Ministria e Financave, Punës dhe Transfereve – Ministarstvo za Finansije, Rada i Transfera –
 Ministry of Finance, Labour and Transfers*

LETËR E KONFIRMIMIT PËR ZYRËN KOMBËTARE TË AUDITIMIT

Të nderuar,

Përmes kësaj shkrese konfirmoj se:

- Kam pranuar draft-raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit Vjetor Financiar të Buxhetit të Republikës së Kosovës, për vitin e përfunduar më 31.12.2022 (në tekstin e mëtejshëm “Raporti”);
- Nuk pajtohem me disa nga gjetjet dhe rekomandimet në përmbajtjen e Raportit. Gjetjet për disa pjesë janë jo-materiale kurse për disa të tjera janë probleme historike e të cilat nuk janë pasqyruar si të tilla. Detajet lidhur me këto mospajtime janë bërë të ditura përmes komenteve me shkrim të dërguara nga Ministria;
- 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 institucionet përgjegjëse për zbatimin e tyre.

Hekuran Murati
 Ministër i Financave, Punës dhe Transfereve



Datë: 28 Gusht 2023, Prishtinë

Annex VI: Key Financial Statements of the Government

Pasqyra e pranimeve dhe pagesave në para të gatshme për Qeverinë e Përgjithshme

Për vitin që përfundon më 31 dhjetor 2022

	Shënim	2022	2021	2020
		Llogaria e Vetme e Thesarit '000 €	Llogaria e Vetme e Thesarit '000 €	Llogaria e Vetme e Thesarit '000 €
PRANIMET				
Tatimet Direkte				
Tatimi në të ardhura të korporatave	2	159,942	113,946	85,279
Tatimi në të ardhura personale	3	215,560	189,521	157,966
Tatimi në pronë	4	34,554	36,258	22,707
Tatime tjera direkte	5	3,773	2,440	1,294
		413,829	342,165	267,247
Tatimet Indiekte				
Tatimi mbi vlerën e shtuar	6	1,220,007	1,038,218	770,145
Detyrimi doganor	7	132,663	124,606	101,618
Akciza	8	517,264	501,295	398,072
Tatime tjera indirekte	9	313	565	2,900
		1,870,248	1,664,685	1,272,735
Kthimet tatimore				
Kthimet tatimore	10	-67,069	-58,912	-32,999
		-67,069	-58,912	-32,999
Të hyrat jo-tatimore				
Taksa,ngarkesa dhe tjera nga OB-të Qeveria Qendrore	11	149,311	129,563	103,486
Taksa,ngarkesa dhe tjera nga OB-të Qeveria Lokale	12	55,596	57,271	42,716
Taksa koncesionare	13	18,404	16,972	2,651
Renta minerare	14	29,857	19,235	29,362
Të hyrat nga interesi (kreditë për NP)	15	3,365	3,074	2,986
Të hyrat nga dividenda	16	-	10,000	-
		256,532	236,116	181,201
Huamarrja				
Huamarrja e jashtme shtetërore	17	98,198	117,334	211,389
Pranimet për shërbimin e nënhuazimeve	18	8,149	8,005	7,688
Huamarrja e brendëshme shtetërore	19	5,854	144,247	169,955
		112,201	269,586	389,031
Grantet dhe ndihmat				
Grantet e përcaktuara të donatorëve	20	9,738	16,800	9,048
Grantet për mbështetje buxhetore	21	10,250	-	34,030
		19,988	16,801	43,078
Pranimet tjera				
Fondi i depozitave	22	5,548	4,462	1,018
Kthimet e kredive nga ndërmarrjet publike	23	11,387	11,387	11,387
Të hyrat e dedikuara	24	5,888	4,645	2,473
Financimi i njëhershëm i AKP-së	25	-	39	71,476
Gjithsej Pranimet		2,628,552	2,490,973	2,206,647
PAGESAT				
Operacionet				
Paga dhe shtesa	26	653,436	668,124	661,343
Mallëra dhe shërbime	27	337,414	306,255	280,007
Shërbime komunale	28	25,952	25,287	22,168
		1,016,802	999,666	963,518
Transferet				
Subvencione dhe transfere	29	1,065,195	842,897	868,480
Shpenzimet kapitale				
Prona,impianetet, pajisjet,transferet	30	422,579	423,941	384,471
Pagesat tjera				
Pagesa e borxhit / kryegjëja dhe interesi	31	83,322	111,192	115,713
Kredidhënia për ndërmarrjet publike	32	35,724	-	-
Kthimet nga fondet e depozitave	33	1,386	1,044	2,761
Gjithsej Pagesat		2,625,008¹	2,378,740	2,334,943
Rritje/(Zbritje) në para të gatshme		3,544	112,233	(128,295)
Para të gatshme në fillim të vitit	34	442,189	329,955	458,251
Para të gatshme në fund të vitit	34	445,734	442,189	329,955

¹ Përfshihen shpenzimet nga vendimet gjyqësore dhe përbarimore në shumë prej 46.3 milion euro, detajet sipas kategorive në shënimet 26 deri 30.

Pasqyra e konsoliduar e krahasimit të buxhetit me realizimin për Qeverinë e Përgjithshme

Për vitin që përfundon më 31 dhjetor 2022

Shënim	2022				2021	2020
	Realizimi	Buxheti	Buxheti	Ndryshimet	Realizimi	Realizimi
	A	përfundimtar	filletar	buxhetore		
	'000 €	B	C	D=B-A	'000 €	'000 €
		'000 €	'000 €	'000 €		
RRJEDHA HYRËSE E PARASË SË GATSHME						
Tatimet direkte	413,829	392,600	399,000	-21,229	342,165	267,247
Tatimet indirekte	1,870,248	1,837,800	1,763,000	-32,448	1,664,685	1,272,735
Kthimet tatimore	-67,069	-61,500	-59,000	5,569	-58,912	-32,999
Të hyrat jo-tatimore	256,532	239,100	239,000	-17,432	236,116	181,201
Grantet dhe ndihmat ²	19,988	22,500	23,000	2,512	16,801	43,078
Huamarrja	112,201	543,000	503,000	430,799	269,586	389,031
Pranimet tjera ³	22,823	37,000	37,000	14,177	20,533	86,355
Gjithsej Pranimet	2,628,552	3,010,500	2,905,000	381,948	2,490,973	2,206,647
RRJEDHA DALËSE E PARASË SË GATSHME						
Paga dhe shtesa	652,641	683,206	671,000	30,565	667,312	660,768
Mallra dhe shërbime	333,374	397,840	373,000	64,466	302,410	276,995
Shpenzime komunale	25,950	30,430	31,000	4,480	25,287	22,168
Subvencione dhe transfere	1,064,068	1,114,919	895,000	50,851	842,570	867,794
Shpenzime kapitale	419,253	698,686	704,000	279,433	419,807	379,713
Rezerva	-	1,920	21,000	1,920	-	-
Interesi	35,039	41,000	41,000	5,961	30,881	27,505
Të tjera ⁴	94,684	190,870	179,500	96,186	90,473	100,000
Gjithsej Pagesat	2,625,008	3,158,870	2,915,500	533,862	2,378,740	2,334,943
Rritja/(Zbritja) e parasë së gatshme	3,544	(148,370)	(10,500)	(151,914)	112,234	(128,295)

² Te planifikimi buxhetor (kolona B dhe C) përfshihen grantet e përcaktuara të donatorëve (12 milionë euro) si dhe grantet për mbështetje buxhetore (10.5 milionë euro, përkatësisht 11 milionë euro si buxhet filletar), si fonde të planifikuara për pranim në vitin 2022.

³ Përfshihen, të hyrat e dedikuara, kthimet e kredive nga ndërmarrjet publike, financimi i njëhershëm nga AKP dhe pranimet nga depozitat.

⁴ Përfshihen pagesat e kryejësë, nen-huazimeve, granteve të përcaktuara të donatorëve, diskonti i letrave me vlerë, pagesat për antarësim në IFN dhe kthimet nga fondet e depozitave (neto). Nuk përfshihet transaksioni për kuota në IFN i cili përbën ndryshim të formës së pasurisë (nga paraja e gatshme në instrument financiar – kuota/aksione), përkatësisht referuar ndarjeve buxhetore të vitit 2022 dhe të prezantuar në kolonën B dhe C.

Pasqyra e konsoliduar e pasurive financiare dhe bilanceve të fondeve për Qeverinë e Përgjithshme

Për vitin që përfundon më 31 dhjetor 2022

		2022	2021	2020
		Llogaria e Vetme e Thesarit	Llogaria e Vetme e Thesarit	Llogaria e Vetme e Thesarit
	Shënim	'000 €	'000 €	'000 €
Pasuritë financiare - paraja e gatshme				
Banka Qendrore e Kosovës	36	419,664	423,322	316,897
Kuotat në IFN	37	8,210	3,734	1,741
Fondi në mirëbesim për zhvillim	38	3,256	2,636	1,971
Paratë e gatshme në transit	39	10,845	6,946	4,851
Llogaritë e Ambasadave të Republikës së Kosovës	40	2,527	2,068	1,751
Paratë e gatshme në dorë (arka) dhe avance të hapura	41	1,233	3,484	2,744
		445,734	442,189	329,955
Gjithsej pasuritë financiare dhe para të gatshme				
Qëllimet specifike				
Të përcaktuara nga donatorët	42	15,505	15,818	9,752
Të hyrat vetanake - niveli qendror	43	2,584	1,436	1,765
Të hyrat vetanake - niveli lokal	44	90,005	80,078	55,994
Fondi në mirëbesim për zhvillim	45	7,974	7,354	7,078
Të hyrat e dedikuara	46	2,285	467	52
Të tjera	47	24,807	19,812	15,894
Fondet e pashpenzuara nga huamarrja	48	16,751	5,131	3,941
		159,912	130,095	94,475
		285,822	312,094	235,480
Bilanci i pashpërndarë i parasë së gatshme				
		445,734	442,189	329,955
Gjithsej Bilanci i Fondeve				
	34	445,734	442,189	329,955

**ANNUAL
AUDIT REPORT
2022**

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National Audit Office
Address: Lagjja Arbëria
Rr. Ahmet Krasniqi, 210
10000 Pristina
Republic of Kosovo