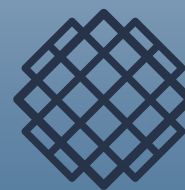




Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

# ANNUAL AUDIT REPORT 2023

July, 2024

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## List of abbreviations

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

<b>KEK</b>	Kosovo Energy Corporation
<b>CEC</b>	Central Elections Commission
<b>LPFMA</b>	Law on Public Financial Management and Accountability
<b>LPP</b>	Law on Public Procurement

<b>VAT</b>	Value Added Tax
<b>IT</b>	Information Technology
<b>NAO</b>	National Audit Office







## Word of the Auditor General



The taxpayers of our country are the key contributors to filling the state budget by meeting their annual obligations. They enable the Government and other institutions to use their money in delivering quality services infrastructure, health, education, security, culture and for a better life for the citizens.

The need and the great importance placed on the best possible use and stewardship of public money and assets have historically driven the world, particularly the democratic one, in giving special weight to the oversight and revision of public finance management processes. The laws and other bylaws require that the 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, taxpayers have the right to be informed about where and how their financial contributions are spent. Therefore, they require from the public officers to be transparent and accountable for their actions with the public money.

In order to be able to give a reasonable response to this, we have carried out the audits of all public institutions in line with the constitutional and legal mandate, including the audit of the Annual Financial Report of the State Budget. The overall outcomes from these audits have been included in the present Annual Audit Report for year 2023.

The National Audit Office has managed to fully implement the annual plan for the 2023/2024 audit season. A total of 126 audits have been carried out and respective audit reports produced, of which: 86 financial and compliance audits, 12 audits of publicly owned enterprises, 14 performance audits, nine World Bank projects audits, and five compliance audits. Whilst the audit season has been completed with the audit of the Annual Financial Report of the Budget of the Republic of Kosovo.

As well as this year, we have extended the audit scope covering institutions and areas of high public interest, which had not been subject to state audit for consecutive years. Three large publicly owned enterprises of interest to citizens, such as: Trepça, KOSTT and "Hidrodrini" WRC were audited for the first time this year by NAOI in terms of financial reporting.

In addition, considering the importance of the projects and activities directly related to the improved welfare of the citizens, particular emphasis has been put to the performance audits. The audits have focused on healthcare services, public property management, licensing of media, sponsoring of sports, IT systems management and information security, public procurement and other areas of importance.

Based on the audit results, I invite the responsible officials to pay more attention to the management of public properties for which the auditor has disclosed shortcomings in the sales, expropriations and leasing. A number of capital projects contracts were signed regardless the lack of funds and not being approved by the law. This undermines the state budget by causing unplanned additional costs. Meanwhile the lack of controls over these projects may also result in their mismanagement. Public

procurement and contract management continues to remain a challenge for public institutions. There is a need to improve the process of managing the patients waiting list in the healthcare system. The process of sponsoring sports in Kosovo should be reviewed and the irregularities identified should be avoided. The IT and information security area also require the attention of the heads of institutions. The management of the e-education system, the pharmaceutical stock management system and the Prishtina regional water supply system are some of the IT systems where we have found shortcomings in.

In regard to financial and compliance audits, it should be noted that the quality of financial reporting leaves room for improvement at the level of budget organisations as well as of the publicly owned enterprises’.

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.

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 2023. Yet, the strengthening of financial management and controls in Trepça POE remains a challenge.

For the purpose of having the shortcomings addressed and processes improved, we have issued 817 recommendations for year 2023. The recommendations given for year 2022 have been implemented at just 46%, a decrease of 3% compared to the previous year. To me, as the Auditor General, this indicates the lack of sufficient actions for improvement taken by the heads of institutions. However, it is encouraging for me to know that a better situation is found when it comes to POEs as they have fully implemented the recommendations at 58%.

In this regard, I would like to take the opportunity of calling on all the heads of institutions to enhance accountability and diligence in the management of public finances, in order for that to be returned to citizens to increase their welfare. Meanwhile, I would like to encourage the Assembly of the Republic of Kosovo to play a more proactive role by using our audit outcomes as a basis for holding the managers of public funds to account.

The Auditor General  
Vlora Spanca

*Prishtina, August 2024*





# Executive Summary

Pursuant to the constitutional and legal mandate as well as the International Standards of Supreme Audit Institutions, the National Audit Office has, during 2023/2024 audit season, carried out 126 audits and issued the respective audit reports. Of these, 86 were financial and compliance audits of budget organisations, 12 audits of Publicly Owned Enterprises, nine (9) audits of World Bank and other donors' projects, five (5) compliance audits (of which three contained RESTRICTED classified information) and 14 performance audits. We have also carried out the audit of the Government's Annual Financial Report on the Kosovo Budget.

The audit outcomes have been presented in the Annual Audit Report on the execution of the Budget of the Republic of Kosovo. This report is prepared pursuant to the Law no.05/L-055 on the Auditor General and the National Audit Office and the Law no.03/L-048 on Public Finance Management and Accountabilities (as amended and supplemented).

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

- The Auditor's opinion on whether the financial statements give a true and fair view;
- The Statement on the debt ceiling and the legal terms and requirements; and
- The audit outcomes including the relevant conclusions and recommendations from all the individual audits carried out during the 2023/2024 audit season.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion, the annual financial report on budget of the Republic of Kosovo gives a true and fair view in all material aspects for the year ended in 31 December 2023, in line with the International Public Sector Accounting Standards (cash-based accounting) and the Law no.03/L-048 Public Finance Management and Accountabilities (as amended and supplemented).

**Statement on compliance of budget deficit** – The budget deficit during 2023 was within the statutory ceilings and the level of revenue collection has improved and the demand for funding has decreased, according to the budget outturn. For year 2023, the total deficit calculated with the revised budget was -€205,959,000 or -2%. The audit has also revealed that the surplus at the yearend was €52,928,000 or 0.54% of the GDP, according to the budget outturn.

**Budget planning and execution** – The historic trend of the last three years shows that payments and receipts have steadily increased. The initial and final projections on revenues/receipts for year 2023, according to the budget, were planned to the tune of €3,481,392,000, whilst €2,865,640,000 or 82% of the budget has been spent. Compared to 2022, the receipts have increased by €237,579,000, or around 9%.

The final budget of expenditures was to the tune of €3,518,467,000, whilst €2,925,998,000 or 83% of the final budget was spent. Compared to year 2022, expenditures have increased by €300,990,000 or around 12%. Capital Investments was the category with the lowest level of expenditures, by 65%.

Cash by the end of 2023 decreased by €60,358,000 compared to the cash balance of 2022. The cash balance in the bank account of the Budget of the Republic of Kosovo as of 31 December 2023 was €385,375,000.

**Public debt<sup>1</sup>** - By the end of 2023, the public debt was to the tune of €1,663,040,000, or around 17.5% of the GDP, thus being within the ceilings established in the law. Of these, €692,850,000 are external debt and €970,190,000 domestic ones. Compared to the previous year's, the total debt has decreased by €90,160,000 or around 5%.

Compared to the previous year, the external debt has increased by €51,650,000 whilst the domestic debt decreased by €141,810,000.

The analysis on the projects implementation by means of the public debt has shown lack of efficiency and setbacks in using the funds obtained as external loan. This has been mainly caused by problems in the management of infrastructure projects, expropriations at both planning and implementation stages of projects.

**Accounts receivable** - The total amount of accounts receivable presented in the AFR-BRK was €918,025,967 (of which €669,401,679 of the central level and €248,624,288 of the local level). Compared to the previous year, accounts receivable have increased by €77,079,834, or over 9%, which indicates that public institutions have not undertaken the right measures on collecting them. The audit conducted in 2023 found that the accounts receivable have been understated by €2,413,587.

**Outstanding and contingent liabilities** - The total amount of outstanding liabilities presented in the AFR-BRK was €158,650,800 (of these €131,979,380 from the central level and €26,671,420 from the local level). Compared to the previous year, outstanding liabilities have increased by €8,954,176 or around 6%. The audit conducted in 2023 found that the outstanding liabilities have been overstated by €327,650.

In addition, according to AFR-BRK, to total of contingent liabilities for year 2023 was €331,978,298, but the audit carried out has found that the contingent liabilities were understated by €19,791,076.

**Payments by court ruling/enforcement** for year 2023 were to the tune of €51,936,244. Compared to 2022, the amount of these payments increased by €5,586,897 or around 12%. This type of expenditures continues to be a challenge to the state budget also due to the fact that additional expenses beyond the principal debt have amounted to €7,899,248, or 15% of the total of payments.

Taking into account the fact that the lion share of these expenses consist of capital investments, many projects have apparently remained unimplemented given that the funds have been reallocated to pay these liabilities.

**Non-financial assets** - the audit outcomes indicate there is limited progress compared to the previous year. However, the disclosures on non-financial assets for year 2023 have not yet provided sufficient

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

assurance that the budget organisations fully control and monitor the assets and the way they are managed. Information on non-financial assets presented in the assets management systems, KFMIS and e-assets, for year 2023 are incomplete. Their balance has been incorrectly reported to the tune of €20,801,678, whilst in 2022 the error was to the tune of €55,865,029. According to this, budget organisations has apparently taken measures of improvement, yet the assets management remains further a challenge.

## Outcomes from the individual audits

**Budget Organisations** - The quality of financial reporting is still not at the expected level, given that 86 audits of the AFS of budget organisations have found material misstatements in 35 of them, thus resulting in modified/qualified opinions. Whilst, the other 51 have resulted in unmodified opinion.

It should be noted that the central level's financial reporting has improved. In 2023, 12 BOs have been given modified opinions as opposed to 17 ones that were given modified opinions in 2022. When it comes to the local level, in 2023, we have given 23 modified opinions which, compared to 2022 when we gave 16 modified opinions, which indicates a poor situation with respect to financial reporting. A true and complete presentation of the financial information increases the readers' reliability on financial reporting.

In addition, the situation as to whether the activities and transactions are carried out in compliance with the legal framework was not good at the local level particularly. In 2023, of the 86 audited BOs, 37 were given unmodified conclusions whilst 49 were given modified conclusions. At the local level, of the 38 municipalities, 35 were given modified conclusion, whilst at the central level only 14 were given modified conclusions out of the 48 audited BOs. Compared to the previous year's, the situation is almost the same.

**Publicly Owned Enterprises** - Although the quality of financial reporting has improved compared to last year, it is not at the expected level yet when it comes to POEs. Of the 12 audits of the financial statements of the POEs, three (3) were given unmodified opinions whilst nine others were given modified opinions (5 qualified and 4 adverse opinions). Financial Management and Control in the POEs needs to be further improved, considering that the 2023 AFS of the nine (9) of them contained material misstatements.

With respect to compliance with the applicable laws and regulations, compared to the previous year, two POEs have made progress by carrying out their activities and transactions in line 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, eight (8) of them have operate with a profit of €26 million, whilst four (4) of them have operated with a loss of €24.6 million.

**Performance, IT and Procurement Audits** - Audits carried out during 2023, have identified shortcomings in significant areas of the economy, healthcare, social welfare and public procurement sectors which indicate the lack of efficiency, accountability and the failure to achieve value for money and services to citizens.

Public services in Kosovo face challenges in both efficiency and effectiveness. Audits have identified inefficiency in health services, the waiting time of patients in clinics, especially in the University Clinical Centre of Kosovo (UCCK), in some cases was over four years. In addition, the programs for the integration of rural women in the labour market have not yielded satisfactory results.

Further concerns include accountability and transparency. The Ministry of Culture, Youth and Sports failed to hold accountable the organizations it finances and those that benefit a certificate of sponsorship from private businesses. Similarly, the Tax Administration has failed to identify and take legal measures against companies that have been exempted from the sponsorship tax and that have not provided sponsorship funds. The audits also identified shortcomings in media licensing, indicating that some media operate without fulfilling the obligations of the annual fee. Furthermore, the management of public parking lots has been characterized by a lack of planning and the issuance of parking permits without proper documentation. These examples have raised concerns about the effectiveness of the oversight and enforcement mechanisms within public organisations or institutions. The Privatisation Agency of Kosovo (PAK) has not been efficient when it comes to the conclusion of the direct sales of assets because the applications for acquisitions were not addressed in optimal time.

The institutions responsible for the IT area have not undertaken sufficient actions to ensure a sound management of projects and shortcomings were found in the scope and usage of the system and data security.

Ministry of Education, Science, Technology and Innovation has failed to manage and implement the IT project on the digitalisation of the education process and Matura testing/assessment. Ministry of Health has neither managed put in place the Pharmaceutical Stock Management System, which is used by all the pharmacies of different levels of health up to the distribution of medicines to the patients, nor has undertaken the right actions with regard to the information security for this system.

The parallel audit conducted jointly with the Supreme Audit Institution of Albania on the Water Supply Utilities of Prishtina and Tirana has found significant shortcomings in the IT governance, information security and the continuity of services in both the water supply utilities.

**Implementation of recommendations** – The audit reports for year 2023 has resulted in a total 817 findings and recommendations on addressing them.

The level of implementation of the recommendations given in the annual audit report on the AFR-BRK for year 2022 still remains low. The level of addressing the recommendations given in the 2022 AAR was around 19%.

The individual audits of budget organisations have found that 46% of the recommendations given for year 2022 have been fully implemented.

Meanwhile, 58% of the 152 recommendations given in 2022 to the publicly owned enterprises have been implemented.

Although the audit recommendations given to the budget organisations were implemented at just 46%, their impact on the improvement of public finances and assets has had a positive effect in some



areas. Improvements have been noticed in the quality of financial reporting, public assets recording and management, as a result of which assets at the tune of €295 million have been recorded, and in the fair recording of contingent liabilities to the tune of €27 million.

With regard to POEs, the implementation of recommendations has had a positive impact when it comes to the preparation of the financial statements and the annual report within the deadline, true presentation of contingent liabilities, updating of the employment contracts, drafting of the internal regulations on the operations management etc.



# *Chapter - I*

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## ***AUDIT OF THE ANNUAL FINANCIAL REPORT ON THE BUDGET OF THE REPUBLIC OF KOSOVO FOR YEAR 2023***



# 1. Audit Opinion

NAO has audited the AFR/BRK for the year ended at 31 December 2023, 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 2023, 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** – During 2023 we have found inadequate classification of expenditures to the tune of €25,139,272. Of which, €11,129,100 or 44% at the central level and €14,010,172 or 56% at the local level.

This was as a result of payments of €11,017,837 made based on court decisions, €8,848,371 from inadequate budgeting, and €5,273,064 affected by the budget organisations themselves.

- **Assets** – By the end of 2023, the total of assets was €9,895,775,311. The individual audits have found that assets were understated by €20,801,678 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 total amount of accounts receivable presented in the AFR-BRK was €918,025,967. The individual audits have found that accounts receivable were understated by €2,413,587 compared to the value presented in the AFR-BRK.
- **Contingent liabilities** – Contingent liabilities were as a result of lawsuits filed against budget organisations and are expected to receive the judicial epilogue in the future. According to the AFR-BRK, the contingent liabilities for year 2023 were €331,978,298 in total. The individual audits have found that contingent liabilities were understated by €19,791,076.

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

### *We recommend the Government to ensure*

- Through MFLT, that the quality of financial reporting is improved in order to fulfil the requirements for complete and true reporting, including the statements of disclosures (annexes).

## 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 2023 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 2023/2024 audit season;
- 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, in accordance with the LPFMA. Cash management is organised through the Treasury Single Account. 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 the responsibilities concerning the revenues collection and spending. In addition, MF Regulation no.01/2017 requires BOs 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 86<sup>2</sup> budget organizations had discrepancies with the requirements of Regulation No. 01/2017 on Annual Financial Reporting, in terms of format, structure, and reporting deadlines.

Of the 86 BOs planned to be audited for 2023, they all had submitted the financial statements within the legal deadline of 31 January 2024.

## 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 2023 Annual Financial Statements to the Government for approval, within the statutory deadline 26 March 2024 and in the format required Law on Public Finance Management and Accountability (LPFMA as amended and supplemented) and in accordance with IPSAS.

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.

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<sup>2</sup> This number does not include the National Audit Office and the Kosovo Intelligence Agency.

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;
- 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 2023 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 2023, 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 ceiling, including: the causes behind deviations and funding of deficits if any, or the causes of budget surpluses and investment of these surpluses if any.

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:

- 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.

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.

Article 22.A.4. stipulates that the deficit ceiling may be adjusted earlier if such adjustment is aimed at stabilising 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 554,880,000€. 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 2023, and found no discrepancies.

Table 1- Budget deficit estimates<sup>3</sup> for year 2023 (in '000€)

	Initial budget 2023	Revised budget 2023	Outturn 2023 according to AFR
<b>1. Budget revenues</b>	<b>2,884,136</b>	<b>2,884,136</b>	<b>2,854,102</b>
Tax revenues	2,525,435	2,525,435	2,505,899
Tax returns	-76,380	-76,380	-61,277
Non-tax revenues	261,200	261,200	266,881
of which: Concession tax	19,000 <sup>4</sup>	19,000	25,980
of which: Royalties	30,150	30,150	26,722
Budget support from grants	85,500	85,500	67,500
Designated donors grants	12,000	12,000	13,823
<b>2. Budget spending</b>	<b>3,223,603</b>	<b>3,238,603</b>	<b>2,876,594</b>
Wages and Salaries	745,528	745,528	766,557
Goods and Services	493,546	493,546	423,728
Subsidies and Transfers	1,100,284	1,100,284	1,078,206
Capital expenditures	819,948	819,948	554,433
of which – funding from regular budget	686,439	686,439	536,914
of which – capital spending from the clause	133,509	133,509	17,519
Liquidation funds from PAK			
Reserve	5,442	20,442	-
Interest fee	46,855	46,855	42,215
Designated donors grants	12,000	12,000	11,455
<b>3. Total deficit/surplus</b>	<b>-339,468</b>	<b>-354,468</b>	<b>-22,492</b>
<b>4. Total deficit/surplus in % of GDP</b>	<b>-3.45%</b>	<b>-3.60%</b>	<b>-0.23%</b>
<b>5. Expenditures exempted from the fiscal rule</b>	<b>133,509</b>	<b>133,509</b>	<b>75,420</b>
Expenditures from carried-forward OSR			57,900
Expenditures from receipts designated for PAK			
PAK liquidation funds			
Expenditures funded from the investments clause and PAK	133,509	133,509	17,519
<b>6. Total deficit/surplus under the fiscal rule 5=4+3</b>	<b>-205,959</b>	<b>-220,959</b>	<b>52,928</b>
<b>7. Total deficit/surplus in % of GDP</b>	<b>-2%</b>	<b>-2%</b>	<b>0.54%</b>
<b>8. Forecasted GDP</b>	<b>9,843,000</b>	<b>9,843,000</b>	<b>9,652,890</b>

3 For the purpose of calculating the budget deficit, grants, borrowing and other receipts are not included (designated revenues, returned loans by POEs, one-off financing by PAK, and deposits receipts)

4 In the annual financial report, in the table of budget deficit for year 2023 (initial budget) the amount of €17 million was incorrectly stated.

The table above shows that the total estimated under the initial budget was -€205,959,000 or -2% of the forecasted GDP, whilst the surplus at the yearend was €52,928,000 or 0.54% of the GDP, according to the outturn.

The budget deficit ceiling set forth both in both the original and the revised Law on budget for year 2023 has been adhered to. Meanwhile, the budget surplus has increased from €13,918,000 to €52,928,000 of the GDP, compared to the previous year, as a result of increased collection of revenues.

## 4. State Debt and State Guaranties

The state debt consists of the domestic and foreign debts, foreign/international debt and the state guarantees. The domestic debt means the state debt issued or contracted by a creditor within the country whilst foreign debt means the stated debt issued or contracted through an international agreement and/or financial agreement with an offshore creditor.

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 2023 consists of the domestic and foreign debts as well two state guarantees<sup>5</sup>. To date, the Republic of Kosovo has neither municipal debts nor municipal guarantees issued.

By the end of 2023 the state debt amounted to €1,663,040,000, a decrease of €90,160,000 or around 5% compared to the previous year. Such decrease is as a result of the decreased domestic debt by €141,810,000 due the strategy and orientation of funds for financing capital projects through the foreign debt. In general, the total state debt has decreased compared to the GDP, which is also reflected in the percentage of the state debts and guaranties against the GDP which has decreased to 17.5% in 2023 (in 2022 it was 20%).

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 2023.

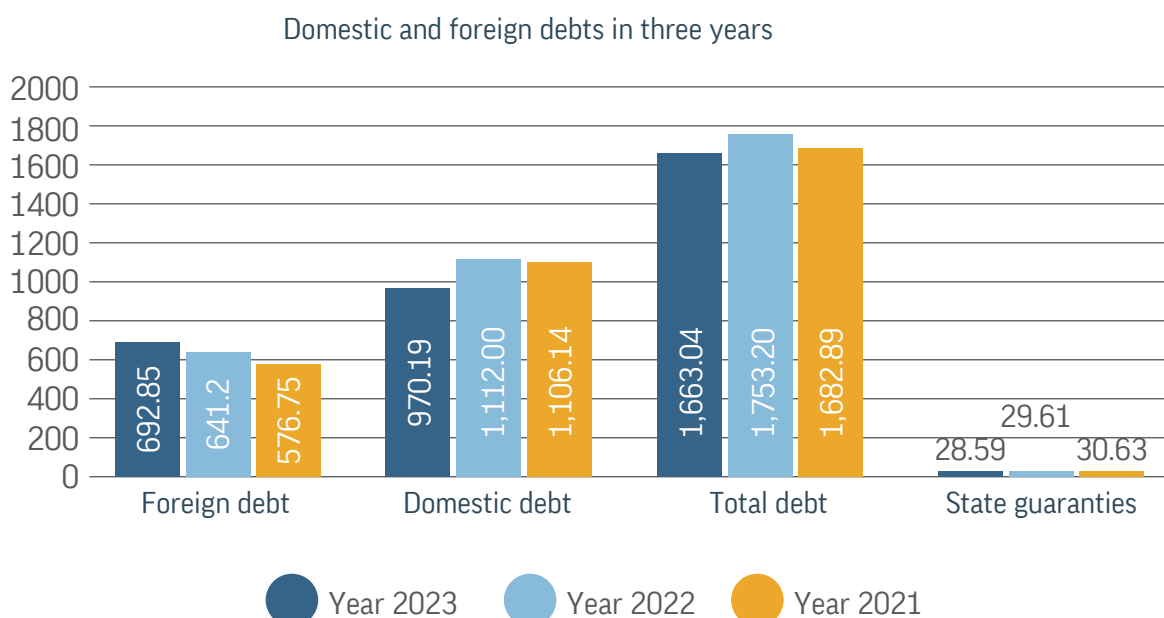
<sup>5</sup> State guaranties represent potential liabilities, which then become actual debts only when the public entity fails to pay the guaranteed contractual liabilities;

Table 2 – Domestic and foreign debts in the last three years (in '000 €)

Description	Year 2023	Year 2022	Year 2021
Foreign debt	692,850	641,200	576,750
Domestic debt	970,190	1,112,000	1,106,140
Total state debt	1,663,040	1,753,200	1,682,890
State guarantees	28,590	29,610	30,630
Debts and guarantees (% of GDP)	17.52%	20.04%	21.53%
GDP from KAS	9,652,890	8,895,730	7,958,880

The state debt consists of 58% from domestic borrowing and 42% from external borrowing. The Government has state guarantees to tune of €28,590,000<sup>6</sup>.

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 2023, the domestic debt was €970,190,000, a decrease of €141,810,000€ apo 14.6%, compared to the previous year.

<sup>6</sup> The current guarantee for Urban Traffic - Pristina is €4,59 million and the Guarantee for the Second Credit Line for the Deposit Insurance Fund in Kosovo is €24 million.

Table 3 – Disclosure of new emissions of securities ('000 in €)

Domestic debt (net)	Year 2023
Maturities	-248,491
Emissions	106,690
New emissions	-141,810

During 2023 the value of matured securities was €248,490,000, of which €106,690,000 were emitted for refunding, whilst €141,810,000 were paid from the Budget of Kosovo which means that the total new emissions for year 2023 were €-141,810,000.

Table 4 - Domestic debt over the last three years ('000 in €)

Domestic debt (net)	Year 2023	Year 2022	Year 2021
New emissions	-141,810	5,850	144,250
Domestic Debt Stock	970,190	1,112,000	1,106,140
Domestic Debt (% of GDP)	10%	12.50%	14%

As well as the commercial banks<sup>7</sup> as the primary dealers and the Trust Fund as a primary participant, securities are held by other physical and legal investors (private businesses and individuals).

In 2021 retail securities of €10,430,000 were issued as bills for diaspora with maturity terms of 3 and 5 years, dedicated to compatriots with the aim of orienting the diaspora funds towards productive financing that would enable the economic development of the country.

Table 5 – Securities Holders ('000 in €)

Instrumenti	Year 2023	Year 2022	Year 2021
Commercial Banks	231,500	279,510	327,390
Pension Funds	444,540	550,270	490,470
Public Institutions	216,600	213,560	228,370
Insurance Companies	50,330	45,910	41,420
Others	29,690	26,800	22,400
Total	972,660	1,116,050	1,110,050

7 Regulation MFLT-CBK No. 01/2014 on the Primary and Secondary Market of Government Securities of the Republic of Kosovo.

## Foreign Debt

By the end of 2023, the foreign debt was €692,850,000, an increase of €51,650,000 or 8% compared to the previous year. 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 6 - Foreign debt over the last three years ('000 in €)

Description	Year 2023	Year 2022	Year 2021
Total foreign debt	692,850	641,200	576,750
Central government	652,050	564,190	532,300
Sub-borrowed debt	40,800	47,010	44,440
External debt (% of GDP)	7.18%	7.46%	7.86%
GDP from KAS	9,652,890	8,895,730	7,958,880

The main creditors of the foreign debt are: the World Bank through IDA by 36% of the shares; the International Monetary Fund (IMF) by 11% of the shares, the International Bank for Reconstruction and Development (IBRD) by 13% of the shares, the European Union (EU) by 14% of the shares; and the European Investment Bank (EIB) by 8% of the shares.

During 2023, the Assembly ratified eight (8) loans/financial agreements aimed at financing projects in the areas of environment, energy, transport, digitalization of the public administration, reform in public finances and economic growth.

The highest amounts were withdrawn from the International Development Association (IDA), the International Monetary Fund (IMF), the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD).

By the end of 2023, for projects financed by foreign debts, budget organisations have withdrawn funds of €102,480,000 from loans. Withdrawals from direct loans were €96,970,000, whilst POEs have withdrawn funds of €5,510,000 from loans that were sub-loaned by the Ministry of Finance, Labor and Transfers.

Table 7 – Loans ratified in 2023 (in '000 €)

Loan/Project	Creditor	Agreement date	Currency	Amount	Implementing BO	Status
Resilience and Sustainability Trust 2023	IMF	23.08.2023	€	75,460	MFLT	Ratified
Available Credit Arrangement 2023	IMF	07.06.2023	€	97,600	MFLT	Ratified
Rehabilitation of the 10B Railway Line	EIB	21.12.2022	€	38,000	INFRAKOOS	Ratified
Green Cities Framework 2 Window 2 - Energy Efficiency in Public Buildings in Prishtina	EBRD	12.04.2022	€	5,000	Municipality of Prishtina	Ratified
Energy Efficiency in Public Buildings in Prizren	EBRD	10.05.2022	€	5,000	Municipality of Prizren	Ratified
Solar District Heating for Prishtina	EBRD	20.12.2022	€	23,200	Termokos	Ratified
Development of the Energy Sector VII – Improvement of the Transmission Network	KFW	29.12.2022	€	25,500	KOSTT	Ratified
Kosovo Social Assistance System Reform	ANZH	26.10.2021	€	47,000	MFLT	Ratified

## Shortcomings in using the foreign loans

The amount of unwithdrawn loans for year 2023 was €569,580,000. 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 not been withdrawn at all.

### ***Ratified loans the funds of which were not disbursed until the end of 2023:***

1. Prishtina Wastewater Treatment Project 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 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. Kosovo Response to Covid-19 Emergency Project for 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).

Whilst the amount of €52,800,000 was withdrawn for the eight (8) new loans of €316,760,000 ratified in 2023.



### **Ratified loans the funds of which were disbursed with delays by the end of 2023:**

For ten (10) loans in the amount of €193,53<sup>8</sup>,000 ratified during the year, with implementation deadlines over the years 2022-2023, the disbursement of funds by the end of 2023 was just €95,360,000.

1. The M2 Millosheva-Mitrovica Highway Extension Project of €18,120,000: Creditor is FOZHN and project implementer is MESPI. The unwithdrawn amount for this loan is €14,010,000; year of ratification 2014 (implementation deadline December);
2. The Prishtina-Mitrovica Highway Project of €14,490,000; Creditor is FSZH and project implementer is MESPI. The unwithdrawn amount for this loan is €9,310,000; 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 €20,580,000, year of ratification 2016 (implementation deadline August 2023);
4. Strengthening the Financial Sector Project of €22,300,000: Creditor is IDA and project implementer is MFLT/KGK Fund. The unwithdrawn amount for this loan is €400,000; year of ratification 2020 (implementation deadline December 2023);
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 €14,030,000, 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 €5,060,000 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 €7,620,000; year of ratification 2018 (implementation deadline June 2023);
8. Kosovo Railway Line 10, Hani i Elezit-Kosovo Southern Segment Rehabilitation Project of €39,900,000; Creditor is EIB and project implementers are MESPI and INFRAKOS. The unwithdrawn amount for this loan is €21,060,000; year of ratification 2016 (implementation deadline December 2023);
9. Water Security and Canal Protection Project of €15,000,000; Creditor is IDA and project implementer is Ibër Lepenc j.s.c. The unwithdrawn amount for this loan is €6.07 million; year of ratification 2017 (implementation deadline April 2022); and
10. Construction of the Water Supply System for the Municipality of Graçanica Project of €5,120,000; Creditor is UniCredit and project implementer is the Municipality of Graçanica. The unwithdrawn amount for this loan is €20,000, year of ratification 2019 (implementation deadline December 2022).

During 2013-2017 years, the Ministry of Education, Science, Technology and Innovation has developed the project of €4,931,000 for the digitalisation of the pre-university education in Kosovo. To develop this project, the Ministry of Education, Science, Technology and Innovation negotiated the soft loan agreement in the total of €5,637,519 through the Austrian UniCredit Bank Austria and

<sup>8</sup> The amount of loans in euro is changing as a result of the exchange rate

the Austrian Government as the guarantor, which was ratified by the Assembly of Kosovo in 2014 and will be paid by 30 September 2032 (including the principal, interest, and fees). However, the said project has not been operationalised and the project's goals for e-education and digitisation of the Matura examination have not been achieved. The Ministry has not provided the essential equipment nor the hardware and network infrastructure to serve the purposes of this project. The developed system has failed to be implemented in schools due to the lack of the needed equipment and users access to the network.

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 six (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 2023, the Government has paid €497,889 commitment fee as a result of timing discrepancy between the loans allocation and the projects implementation for the nine (9) effective loans covering the ratification years 2016-2021, which stipulates commitment fees to be paid for loan funds not withdrawn by the borrowers. Compared to the previous year, commitment fees have increased for €160,561, these fees are still being paid due to delayed withdrawal of funds.

It is worth noting that the amount of €4.9 million was presented under the state debt in the Annual Financial Report as an unwithdrawn amount although such loan was cancelled.

## State Guarantees

By the end of 2023 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 2023, the borrower has returned the credit to the tune of €5,410,000.

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 8 - Situation of state guarantees ('000 in €)

Description	Year 2023	Year 2022	Year 2021
State Guarantees	28,590	29,610	30,630
EBRD-guarantee for Prishtina's Urban Traffic	4,590	5,610	6,630
EBRD-guarantee for Second Credit Line Guarantee for DIFK	24,000	24,000	24,000
State guarantees (% GDP)	0.30%	0.33%	0.39%

### ***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 Ministry of Finance, Labour and Transfers***

- Based on the Treasury's quarterly reports, the Ministry in cooperation with line ministries must address all identified challenges in the implementation of projects financed by borrowing. The Ministry should suggest to the Government the appropriate measures to overcome these challenges.

## 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 2023, and the receipts and payments against the respective budget allocations.

The initial projections for revenues/receipts were worth €3,481,392,000, according to the Law no. 08/L-193 on Budget Appropriations. Whilst, according to the final budget, revenues/receipts for year 2023 were to the tune of €2,865,640,000 or 82% of the final budget. Compared to the outturn of 2022, receipts have increased by €237,080,000 or around 9%.

The budget transfers through the Government's Decisions during the year (in a total of €133,609,000) led some budget organisations to increase the budget in certain economic categories and projects and some other budget organisation to decrease it. These budget transfers were as a result of appropriations of €25,040,000 made following the amendments to LPFMA followed by the carried-forward own source revenues of €92,413,000 and the changes to the donors designated grants to the tune of €16,156,000.

The initial budget for expenditures was €3,384,858,000 whilst the final budget was €3,518,467,000, of which €2,925,998,000 or 83% was spent. Compared to 2022 expenditures increased by €300,990,000.

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

Table 9 - Consolidated statement of budget comparison with execution (in €'000)

No.	Budget items	Execution	According to the Law on Final Budget	According to the Law no. 08/L-193 for year 2023
1	Direct taxes	490,294	504,516	504,516
2	Indirect taxes	2,076,882	2,097,299	2,097,299
3	Returns	-61,277	-76,380	-76,380
4	Non-tax revenues	266,881	261,200	261,200
5	Grants and assistance	81,323	97,500	97,500
6	Funding through borrowing	-34,845	554,880	554,880
7	Other receipts	48,382	42,377	42,377
	<b>Total receipts</b>	<b>2,865,640</b>	<b>3,481,392</b>	<b>3,481,392</b>
1	Wages and Salaries	767,305	770,094	745,528
2	Goods and Services	397,978	476,026	459,410
3	Utilities	28,779	34,170	34,136

4	Subsidies and Transfers	1,079,450	1,160,817	1,100,284
5	Capital Expenditures	560,868	868,893	819,948
6	Reserves	-	357	5,442
7	Interest	42,215	46,855	46,855
8	Other	49,403	161,255	173,255
<b>Total payments</b>		<b>2,925,998</b>	<b>3,518,467</b>	<b>3,384,858</b>
<b>Increase/decrease in the bank balance</b>		<b>(60,358)</b>	<b>(37,075)</b>	<b>96,534</b>

Pursuant to the Law no.08/L-193 on Budget Appropriations for the Budget of the Republic of Kosovo for year 2023, in the "Reserve" category of expenditures €4,800,000 have been budgeted for the central level, which during the year were distributed through government decisions mainly for child and maternity allowances and for subsidising other different social categories, and €642,000 were distributed for capital projects at the local level.

According to the Law no.08/L-213 on amending and supplementing the Law no.08/L-193 on Budget Appropriations for the budget of the Republic of Kosovo, the Government has increased the limit of expenditures by €15,000,000 - from the World Bank Fund (financing source Borrowing (04) to the "Reserve" category of expenditures - which have been distributed for economic recovery assistance to families affected by natural disasters, and health salaries and allowances.

Meanwhile, according to the Government's decisions, the amount of €1,930,000 have been appropriated from the Reserve Fund to finance the IT projects as well as the allowances for children and women on maternity leave.

## 5.1. Analysis of revenues/receipts by economic categories

Law no.08/L-193 on Budget Appropriations, projections on revenues/receipts were to the tune of €3,481,392,000, whilst the execution was to the tune of €2,865,640,000 or 82% of the planned.

The following table shows detailed information on the initial and final budget as well as the budget trends over the last three years.

Table 10 - Receipts by source according to AFR/BRK (in € '000)

Receipts	Initial budget	Final budget	Outturn 2023	Outturn 2022	Outturn 2021
Direct taxes	504,516	504,516	490,294	413,829	342,165
Indirect taxes	2,097,299	2,097,299	2,076,882	1,870,248	1,664,685
Returns	-76,380	-76,380	-61,277	-67,069	-58,912
Non-tax revenues	261,200	261,200	266,881	256,532	236,116
Grants and assistance	97,500	97,500	81,323	19,988	16,801
Funding from borrowing	554,880	554,880	-36,845	112,201	269,586
Other receipts	42,377	42,377	48,382	22,823	20,533
<b>Total</b>	<b>3,481,392</b>	<b>3,481,392</b>	<b>2,865,640</b>	<b>2,628,552</b>	<b>2,490,973</b>

When comparing the three years, we see an increasing trend of budget revenues. Compared to the last year, receipts/revenues was by €237,088,000 or 9% higher, whilst compared to the year 2021 the outturn was higher by 15%.

### Direct taxes

Direct taxes consist of four categories: corporate income tax (CIT), personal income tax (PIT), property tax (PT), as well as other taxes (fines from TAK). The outturn of direct taxes was to the tune of €490,294,000 or 97% of the amount planned in the annual budget for this category of expenditures.

The main sources of the direct taxes are: personal income tax with €255,941,144 or 52%, corporate income tax with €184,864,272 or 38%, property tax with €46,085,201 or 9%, and other taxes with €3,403,383 or around 1%. Of these, the personal income tax and the corporate income tax were collected by the TAK, whilst the property tax by the municipalities. Compared to 2022, direct taxes have increased by 18% and by 43% compared to year 2021.

The property tax outturn for year 2023 was higher than the previous year by €11,531,000. In four municipalities: Mitrovica North, Laposaviq, 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 laws 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 (VAT); customs duty; excises and other indirect taxes. The total outturn for this category of revenues was €2,076,882,000 or 99% of the amount planned in the annual budget. The collected VAT was €1,365,587,236 or 66% of the total outturn; excise tax €554,990,496 or 27%; customs duty €156,215,116 or 7%, and other indirect taxes €89,966. Compared to 2022, indirect taxes increased by €206,634,000 or 11%, whilst compared to 2021 they increased by €412,197,000 or 25%.

## 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 application for reimbursement.

According to the budget, refunds were planned to the tune of €76,380,000, whilst the refunds by the end of the year were €61,277,000 or 80% of the plan or around 2.4% of the collected taxes. Of these, TAK has refunded €59,337,000 whilst Customs has refunded €1,940,000.

The amount of refunds from the indirect and direct tax by the Customs of Kosovo consists of returns from: excise by €134,000, custom duty by €534,000, customs VAT by €1,072,000, and other customs taxes/duties by €200,000. Meanwhile refunds by TAK consists of: VAT by €57,971,000, income withholding tax by €152,000, business tax by €80,000, corporate tax by €1,128,000, and other taxes by €6,000.

Compared to 2023, this year's tax refunds were by €5,792,000 or 9% lower.

## Non-tax revenues

The category of non-tax revenues includes all types of administrative fees 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 initial and final Law on Budget, the non-tax revenues for year 2023 were planned to the tune of €261,200,000. Of which, €154,600,000 were planned from the central level, €53,900,000 from the local level, €30,200,000 from the mining rent, €19,000,000 from the concession tax, and €3,500,000 from the interest.

The total amount of non-tax revenues outturn during 2023 was €266,881,000 or 102% of the plan. Of which, €148,074,000 was collected by the central level, €62,511,000 by the local level, €26,722,000

was collected from mining rent, €25,980,000 from the concession tax, and €3,594,000 from the interest of the loan to POEs.

The trend of the last three years indicates that the non-tax revenues have increased by €10,349,000 or around 4% compared to year 2022 and by €30,765,000 or around 13% compared to 2021.

## 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-193 on Budget Appropriations for year 2023, grants including the budget support ones, were planned to the tune of €97,500,000. The same amount was also planned with the final budget, whilst the outturn was to the tune of €181,323,000 or 83%.

By the end of 2023, the unspent donors funds accumulated over the years amounted to €16,177,000. 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-193 on Budget Appropriations for year 2023, the Government had planned to finance part of the payments from the borrowings.

Pursuant to the Law no.08/L-193 on Budget Appropriations for year 2023 receipts from borrowing were planned to the tune of €554,880,000.

External borrowing was planned to the tune of €434,880,000, whilst €104,961,000 or 24% of the plan was executed. This situation is being repeated over the years 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 €141,805,000 or just 118% 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.



## 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 on Budget No. 08/L-193, other receipts were planned in the amount of €42,377,000, whilst the budget for this category was not reviewed. This amount consists of: repayment of loans from publicly owned enterprises with €37,877,000 and designated revenues with €4,500,000.

The outturn was to the tune of €48,382,000, of which: repayment of loans from publicly owned enterprises was €37,877,000 or 100% of the plan, designated revenues was €5,958,000 or 132% of the plan, receipts from deposits was €4,547,000.

## 5.2. Analysis of expenditures by economic categories

The final budget for total expenditures was to the tune of €3,518,467,000, whilst the outturn was €2,925,998,000 or 83% of the budget. Compared to 2022, payments increased by €300,990,000, whilst compared to 2021 they increased by €547,258,000.

Table 11 - Statement of payments compared to the last two years (in €'000)

Description	Initial budget	Final budget	Outturn 2023	Outturn 2022	Outturn 2021
Wages and Salaries	745,528	768,935	767,305	653,436	667,312
Goods and Services	459,410	463,799	397,978	337,414	306,410
Utilities	34,136	34,168	28,779	25,952	25,287
Subsidies and Transfers	1,100,284	1,157,938	1,079,450	1,065,195	842,570
Capital Investments	819,948	857,004	560,868	422,579	423,941
Interest Expenditures	46,855	46,855	42,215	35,039	30,881
Reserves	5,442	357	-		
Other	173,255	189,411	49,403	85,394	90,473
<b>Total</b>	<b>3,384,858</b>	<b>3,518,467</b>	<b>2,925,998</b>	<b>2,625,009</b>	<b>2,378,740</b>

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 26%. The budget for 2023 was to the tune of €768,935,000, whilst expenditures were €767,305,000 or over 99% of the budget. Compared to last year's, expenditures increased by €113,869,000 mainly due to the increase of the total number of employees to 1456 employees.

Payment to employees was made regardless the lacking of full attendance at work. The number of employees for this category of employees was 107, the payments for 2023 were in the tune of €640,599.

## Goods and Services

In the structure of overall budget expenditures, their share is around 13%. The final budget for 2023 was €463,799,000, whilst expenditures were €397,978,000 or around 85% of the budget. Compared to last year's, expenditures increased by €60,564,000, as a result of abroad travelling, purchases of books and artworks, purchases for the state reserves, rent, fuels for vehicles etc. Payments upon court rulings are included in this category of expenditures, which compared to the previous year increased by €5,600,000€.

The main items in this category constituting the largest share of expenditures are: other outsourcing services with 70,927,000€, medical supplies with 61,714,000€, fuel and heating expenses €27,910,000, purchase of books with 514,000€, rent with 11,495,000€ etc.

## Utilities

The budget for 2023 was €34,168,000, whilst expenditures were €28,779,000 or about 84% 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 33% thus constituting the category with the highest percentage of expenditures. The budget for 2023 was to the tune of €1,157,938,000, whilst expenditures were €1,079,450,000 or 93% of the budget. Compared to last year's, expenditures in this category increased by €14,255,000. Such increase was reflected in these economic codes: subsidies to public and non-public entities, basic pensions, payments for individual beneficiaries etc.

The main items in this category, constituting the lion share of expenditures are: subsidies to public entities with €185,393,000, subsidies to non-public entities with €96,416,000, basic pensions with €200,228,000, basic contributed pensions with €143,388,000, pensions to war veterans with €77,341,000 etc.

Payments from this category for the management of the Covid-19 totalled to €324,435,243. Of these, €184,597,541 from the economic recovery package and EU contingencies, whilst from the recovery package €139,837,702. These expenses are addressed in the subsections below of this report.

## Capital Investments

In the structure of overall budget expenditures, their share is around 19%. The final budget for this category was €857,004,000, whilst expenditures were €560,868,000 or 65% of the budget for capital investments. Compared to 2022, expenditures have increased by €138,289,000.

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.

Capital projects are managed through the Public Investment Program (PIP). The planning of projects in PIP should be done in details and approved by the heads of the organizations, based on their analysis and reasoning. On the other hand, MFLT approves these OBs requests based on the documents presented in the PIP regarding the reasonableness and ensuring that they are within their responsibility and power.

Low level of implementation was as a result of the requesting units' failure to initiate their requests on time or the prolongation of procurement procedures due to the complaints from the operators to PRB. In addition, some of the works contracts have been terminated due to economic operators' failure to execute the works, the poor management of contracts implementation 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 Economy with 11%, Ministry of Industry, Entrepreneurship and Trade with 44%, Ministry of Health with 49%, MESPI with 63%, Municipality of Fushë Kosova with 41% and Municipality of Prishtina with 42%, etc.

Low level of implementation of capital projects in the central level was as a result of delayed execution of works and delivery of services not in accordance with their dynamic plans.

On the other hand, there are cases of outstanding liabilities that have been carried forward to the following year due to lack of funds. Payments through court decisions have increases which indicates that the budget organisations lack funds to pay their liabilities to the economic operators and other debtors.

Budgetary organisations' failure to timely pay the liabilities has resulted in additional costs for the state budget due to the costs of judicial (enforcement) procedures and interest expenses. Taking into account the fact that a large part of these expenses are made up of capital investments, it results that many projects have remained unrealized since the funds have been reassigned to pay these obligations.

Moreover, in eight municipalities for 35 projects with a total value of €4,732,277, they used the funds from the projects for purposes other than those for which they were planned, without applying the procedures and criteria for transfer and reallocation of budget allocations from a project capital in another, without obtaining approval from the municipal assembly.

There were cases where municipalities had entered into contractual obligations by signing work contracts for various projects without having sufficient commitment of funds:

- **Municipality of Prizren** has entered into contractual obligations without having sufficient funds, specifically in the project "Rehabilitation and asphaltting of roads" totalling to €3,470,000, whilst only €50,000 were committed, and the project "Rehabilitation of the water supply network and installation of water meters in the village of Zhur" with a contract value of €2,497,919, while the commitment of funds was only €50,000;
- **Municipality of Ferizaj** has entered into contractual obligations without having sufficient funds, such as in the project "Reconstruction of roads in the villages of Tërn-Lubovc, Nerodime, Rakaj" with a contract value of €1,000,000, while the commitment was €550,000. Also, in the project "Construction of the infrastructure of tourist areas in the village of Jezerc" with a contract value of €791,927, for which the municipality had not allocated funds;
- **Municipality of Malisheva** has entered into contractual obligations without having sufficient funds, as in the project "Construction of the square and the underpass and underground parking in the city" totalling to €8,277,887, whilst the allocated funds were only €1,950,000. Another case is the project "Construction of roads, faecal, atmospheric sewage and city lighting" with a contract value of €1,099,942, whilst the allocated budget was €590,000;
- **Municipality of Peja** has entered into contractual obligations without having sufficient funds, such as in the projects "Construction of the water supply for the villages of the Barani Valley" with a contract value of €1,377,859, whilst the commitment was only €200,000, and "Road construction and asphaltting Varri i Sykut-Bellopaq" with a contract value of €918,214, whilst the commitment was only €50,000; and
- **Municipality of Podujeva** has entered into contractual obligations without having sufficient funds, as in the case of "Supply of material for the maintenance of buildings" with a contract value of €119,131, whilst the commitment was only €20,000, and "Drafting of projects" with a contract value of €140,000, whilst the commitment was only €3,000.

## Interest expenditures and other payments

The budget allocated for this category was €236,266,000 in total, whilst €103,074,000 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 monitor whether the allocated funds are sufficient and have been spent on the projects for which they were approved in the budget;
- To establish control mechanisms in order to prevent entering into contractual obligations without sufficient budget, analysing the possibility of connecting the KFMIS system with e-procurement; and
- To take further actions, through the relevant ministries, for employees who do not have work attendance, to analyse the situation, ensuring that all possibilities for finding a solution have been evaluated, and to take actions that are in accordance with the legal requirements.

### **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 2023, we found misclassification of expenditures amounting to €25,139,272 in 36 budget organisations, of which €11,129,100 or 44% in the central level (11 BOs) and €14,010,172 or 56% in the local level (25 Municipalities).

Compared to the previous year, the amount of expenditures classified under inadequate categories has been increased by €14,742,480 or over 140% (in 2022 they amounted to €10,396,792). The increase is more noted in the payments made with court decisions as a result of inadequate budgeting of expenditures.

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

Table 12 - Inadequate classification of expenditures in economic categories

Incorrect category	Correct category	Influenced by BOs	Wrongly planned	By court rulings	Total
Wages and Salaries	Goods and Services	0	0	23,078	23,078
Total Wages and Salaries		0	0	23,078	23,078
Goods and Services	Wages and Salaries	0	38,930	1,662,311	1,701,241
	Subsidies and Transfers	1,639,774	244,015	27,046	1,910,835
	Capital Investments	1,485,072	425,017	962,874	2,872,963
Total Goods and Services		3,124,846	707,962	2,652,231	6,485,039
Subsidies and Transfers	Wages and Salaries	0	0	343,184	343,184
	Goods and Services	0	61,375	0	61,375
	Capital Investments	7,855	0	0	7,855
Total Subsidies and Transfers		7,855	61,375	343,184	412,414
Capital Investments	Wages and Salaries	0	0	5,732,736	5,732,736
	Goods and Services	1,603,359	7,851,177	1,650,898	11,105,434
	Subsidies and Transfers	537,004	227,857	615,710	1,380,571
Total Capital Investments		2,140,363	8,079,034	7,999,344	18,218,741
Total misclassifications for year 2023		5,273,064	8,848,371	11,017,837	25,139,272

As shown in the table above, the most affected category was that of Capital Investments by €18,218,841 or 72%, followed by Goods and Services by €6,485,038 or 26% and the category of Subsidies and Transfers by €412,414 or 2%.

Inadequate classification of expenditures was mainly as a result of inadequate budgeting by €8,848,371 or 35%, payments made by Treasury through court rulings by €11,017,837 or 44% and the expenditures made by the budget organisations themselves in the wrong economic categories by €5,273,064 or 21%.

The following table shows the BOs with the highest amount of inadequate classifications budgeted through court rulings and expenditures made by the budget organisations themselves from this category to the wrong economic categories.

Table 13 – Central level

Entity	Incorrect category	Correct category	Financial amount <sup>9</sup>	Nature of expenditure
MESPI	Capital Investments	Goods and Services	€7,300,565	Execution of payments for the interest applied on the delayed compensation of the expropriated land based on the court/enforcement rulings; payments related to compensation for damage and lost profit caused by the expropriations process; compensation for damages caused by the ministry to the economic operator as well as the payment of interest expenses and other procedural expenses.
MESTI	Capital Investments	Goods and Services	€1,312,353	Supply with equipment for sports halls in pre-university schools; the purchase of equipment for the protection of educational facilities for sustainability and the purchase of packages; supply of school supplies.
MIET	Capital Investments	Goods and Services	€600,424	Subsidizing of dairy products.
KGJK	Capital Investments	Subsidies and transfers	€270,224	Damage compensations to persons arrested or convicted with no grounds.
MKK	Capital Investments	Subsidies and transfers	€214,750	Supply of individual beneficiaries with construction material

<sup>9</sup> Amounts over €200,000 have been accounted for

Table 14 – Local level

Entity	Incorrect category	Correct category	Financial amount	Nature of expenditure
Municipality of Vushtrri	Capital Investments	Wages and Salaries	€2,178,523	Payment by court rulings for the compensation of jubilee salaries.
Municipality of Prishtina	Capital Investments	Goods and Services	€1,217,757	Emergency maintenance and repair services in public spaces; implementation of the mobility plan - marking of bicycle paths; inventory supply for school; supply of books for school libraries; cleaning of rivers etc.
Municipality of Peja	Capital Investments	Wages and Salaries	€937,769	Payment by court rulings for the compensation of jubilee salaries.
Municipality of Gjakova	Capital Investments	Wages and Salaries	€790,206	Payment by court rulings for the compensation of jubilee salaries.
Municipality of Gjilan	Capital Investments	Wages and Salaries	€379,467	Payment by court rulings for the compensation of jubilee salaries.
Municipality of Fushë Kosova	Capital Investments	Wages and Salaries	€367,718	Payment by court rulings for the compensation of jubilee salaries.
Municipality of Deçan	Capital Investments	Goods and Services	€308,550	Inventory supplies and various services.
Municipality of Rahovec	Capital Investments	Wages and Salaries	€284,095	Payment by court rulings for the compensation of jubilee salaries.
Municipality of Vitia	Capital Investments	Wages and Salaries	€253,717	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 2023	Year 2022	Year 2021
01	Overall public services	429,725	472,062	277,401
02	Defence	98,135	48,822	91,802
03	Public order and security	266,377	213,931	210,480
04	Economic affairs	499,052	409,194	358,492
05	Environmental protection	7,883	7,880	9,491
06	Housing and community amenities	50,554	46,952	39,303
07	Health	298,441	238,150	275,780
08	Recreation, culture and religion	80,416	54,068	60,712
09	Education	395,099	346,711	340,335
10	Social protection	708,698	666,960	602,693
	Total <sup>10</sup>	2,834,380	2,504,730	2,266,488

The total of expenditures by function was to the tune of €2,834,380,000, an increase of €329,650,000 compared to the previous year.

The total of expenditures by function indicates an increasing trend of expenditures compared to the previous year, whilst the highest increase was marked in the economic affairs category by €89,858,000, health by €60,291,000, public order and security by €52,446,000 and education by €48,388,000.

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 €80,036,714 which belong to the defence while they were wrongly recorded under the overall public services.

<sup>10</sup> The total does not include other payments: debt payment, lending to POEs and returns from deposit funds

### *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.

## 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 2023 for the purpose of implementing the measures foreseen in this program.

To this end, a total of €147,562,821 were budgeted for year 2023, whilst €141,351,434 or around 96% of the budget funds were spent.

Table 16– Total of payments from codes 00098 and 00099

Description	Budget 2023	Budget 2023	Budget 2022	Budget 2023
Economic Recovery Program (code 00098)	141,181,102	140,724,960	254,170,426	99%
Emergency Package (code 00099)	6,381,719	626,474	4,262,506	10%
<b>Total</b>	<b>147,562,821</b>	<b>141,351,434</b>	<b>258,432,932</b>	<b>96%</b>

Compared to the previous year, the budget for the Economic Recovery Program (00098) has decreased by €118,681,144. The 2023 budget for this package was executed over 99%. When it comes to the Emergency Package (00099), the 2023 budget was cut by €4,006,157 compared to the previous year, whilst the budget execution was 10%.

Over 99% of the funds spent in 2023 within the Economic Recovery Package (00098) were spent by the Central Level, and most of the expenditures incurred for the following purposes:

- Ministry of Finance, Labour, and Transfers (MFLT) spent €89,196,856 or around 63% from the category of Subsidies and Transfers to support businesses, women employment, household liquidity etc;
- Ministry of Economy (ME) spent €32,598,748 or 23% to subsidise the energy for the end users aimed at mitigating the effects of the increased energy tariffs;
- Ministry of Industry, Entrepreneurship and Trade spent €6,684,218 or 5% to implement the measure 2.1 Subsidy of Investment Loans in the Kosovo Investment and Enterprise Support Program (KIESA);
- Ministry of Education, Science, Technology and Innovation spent €5,867,980 or 4% to subsidise school books for grades 1- 9;
- Ministry of Communities and Returns spent €2,989,861 or 2% to implement the measure 1.9 for supporting the employment of people from non-majority communities; and

- Ministry of Culture, Youth and Sports spent €2,500,000 or 2% to implement the measure 4.3 Support to Culture and Sports, namely to cover the amount of the guarantee for the organization of the 2030 Mediterranean Games.

When it comes to the local level, the funds spent from the Economic Recovery Package were €369,672 or around 0.26% of the total expenditures from this program. These funds were generally spent to compensate staff payments (in the health and social welfare sectors) according to the decisions of the central level.

Expenditures incurred from the Emergency package (00099) to manage the Covid-19 pandemic relate to the funds allocated by the Ministry of Health and the latter spent the budget at 10%.

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

Economic Category	Budget 2023	Outturn 2023	Outturn 2022	Progress
Wages and Salaries	888,826	887,258	10,822,922	100%
Goods and Services			9,887,961	
Subsidies and Transfers	140,292,276	139,837,702	233,459,543	100%
Total	141,181,102	140,724,960	254,170,426	100%

Around 99% of the budget spent on the Economic Recovery Package was paid from the category of Subsidies and Transfers whilst the rest was paid from the category of Wages and Salaries.

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

Economic Category	Budget 2023	Outturn 2023	Outturn 2022	Progress
Wages and Salaries	206,810	204,777	188,727	99%
Goods and Services	5,574,371	292,547	3,733,330	5%
Subsidies and Transfers			44,542	
Capital Investments	600,537	129,150	295,907	43%
Total	6,381,718	626,474	4,262,506	10%

In regard to payments from the Emergency Package - Code 00099, around 47% of the budget spent was paid from the category of Goods and Services, 33% from the category of Wages and Salaries, and 21% from the category of Capital Investments.

## 5.5. Analysis on the subsidising of POEs from the state budget

Subsidising to the Publicly Owned Enterprises for year 2023 amounted to €24,740,625. Subsidies were allocated to 17 POEs, of which six (6) were from the central level, four (4) were regional ones, and seven (7) were from the local level. The lion share of subsidies have been paid from the Government Grant by €19,644,844 or 79.40%, from the Development Fund for the Northern Municipalities by €4,773,878 or 19.30%, and from the own source revenues of municipalities by €321,904 or 1.30%.

The analysis on the orientation of subsidies indicates that 97% of the subsidies were meant for financing the central POEs, whilst the rest for the regional (1%) and local (2%) POEs.

The purposes for subsidising some of the central POEs, as the recipients of the lion shares of subsidies, are presented as the following:

- Trepça POE was subsidised to cover the operating expenses such as: salaries of employees, energy, oil, supply with material and equipment for production, maintenance and servicing of machinery/equipment, purchase of work tools, etc.;
- Electricity Transmission, System and Market Operator of Kosovo was subsidised to cover the costs of electricity diversions in the northern municipalities in accordance with the Government's decision no.39/180;
- Trainkos POE was subsidised for the operationalisation of the lines approved for the transportation of passengers during the five-year fiscal period 2023-2027 as well as for financing other operating expenses of the enterprise such as: wages, access to tracks, fuel, etc; and
- Infrakos POE was subsidised to cover the operating expenses such as: salaries, electricity, liabilities towards TAK etc.

The other regional and local POEs were subsidised for the purpose of covering their operating expenses. The organisations with the largest share of subsidies were MFLT (48%) and ME 46%.

The POEs subsidised according to the source fund, level and the funding budget organisation are presented in the following table.

Table 19- Subsidising of POEs

No	Funding budget organisation	Benefiting POE	Source Fund			Total
			Development fund for northern municipalities (FB-8)	Government Fund (FB 10)	Municipalities OSR (FB 21&22)	
<b>Central POEs</b>						
1	MFLT	KOSTT j.s.c	4,773,878	7,106,368		11,880,246
2	Ministry of Economy	Trepça j.s.c		9,090,569		9,090,569
3	MESPI&ME	Trainkos j.s.c		1,742,506		1,742,506
4	Ministry of Economy	Infrakos j.s.c		1,091,536		1,091,536
5	Ministry of Economy	New Kosovo Energy Company		63,179		63,179
6	Municipality of Mitrovica	Iber Lepenc j.s.c			47,790	47,790
	Total		4,773,878	19,094,158	47,790	23,915,826
<b>Regional POEs</b>						
1	Ministry of Economy	WRC Hidroregjioni Jugor j.s.c		114,018		114,018
2	Ministry of Economy	Hidromorava j.s.c		73,629		73,629
3	Ministry of Economy	WRC Prishtina j.s.c		57,339		57,339
4	Municipality of Podujeva	WRC Pastrimi j.s.c			20,640	20,640
5	Municipality of Mitrovica	WRC Mitrovica j.s.c		5,700		5,700
	Total			250,686	20,640	271,326
<b>Local POEs</b>						
1	Ministry of Economy	Disctrict Heating		300,000		300,000
2	Municipality of Gjilan	Tregu j.s.c			113,474	113,474
3	Municipality of Istog	Bus Terminal in Istog j.s.c			50,000	50,000
4	Municipality of Mitrovica	Bus Terminal in Mitrovica j.s.c			50,000	50,000
5	Municipality of Obiliq	Kastrioti j.s.c			30,000	30,000
6	Municipality of Drenas	Bus Terminal in Drenas j.s.c			10,000	10,000
	Total			300,000	253,474	553,474
Overall Total			4,773,878	19,644,844	321,904	24,740,626
% of financing by fund			19%	79%	2%	100%

## 6. Statement of cash and balance sheet

The closing cash balance includes the unspent amounts of funds from: the main account, development trust fund, money in transit, IFI quota, accounts of diplomatic missions of the Republic of Kosovo, cash (cash register) and unclosed 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), EU grants on energy and the funds from borrowing which were not spent in 2023 but carried forward to 2024.

The Government manages the funds by using the Single Treasury Account (STA). Most of the accounts are held with the Central Bank of Kosovo (CBK). The total amount of cash in the Republic of Kosovo's budget account as of 31 December 2023 was €385,375,000.

Table 20 - Statement of cash and balance sheet (in €'000)

State Budget bank accounts	Year 2023	Year 2022	Year 2021
Central Bank of Kosovo	345,232	419,664	423,322
IFI quota	8,395	8,210	3,734
Development Trust Fund	3,566	3,256	2,636
Money in transit	22,894	10,845	6,946
Money in accounts of DM	3,899	2,527	2,068
Cash (cash register)	1,389	1,233	3,484
<b>A. Total: financial assets in cash</b>	<b>385,375</b>	<b>445,734</b>	<b>442,189</b>
Balance sheet	Year 2023	Year 2022	Year 2021
Designated donor grants	17,472	15,505	15,818
Carried-forward OSR – Central Level	3,027	2,584	1,436
Carried-forward OSR – Local Level	81,387	90,005	80,078
Development Trust Fund	3,510	7,974	7,354
Designated revenues	3,431	2,285	467
EU grants for energy (contingency)	22,740	-	-
Other revenues	29,262	24,807	19,812
Unspent funds from borrowing	6,226	16,751	5,131
<b>B. Funds for specific purposes</b>	<b>167,056</b>	<b>159,911</b>	<b>130,095</b>
<b>C. Unallocated</b>	<b>218,320</b>	<b>285,824</b>	<b>312,094</b>
<b>Total funds (B+C)</b>	<b>385,375</b>	<b>445,734</b>	<b>442,189</b>

The balance of current accounts held with the CBK was €345,232,000 or 90% of the cash total. The closing cash balance for year 2023 decreased by €74,432,000 compared to the previous year.

Unlike the previous years when we have witnessed an increased trend, the own source revenues carried forward as unspent revenues of the local level have decreased in 2023 by €8,618,000 compared to the previous year. In addition, the unspent funds from borrowing have considerably decreased by €10,525,000 compared to the previous year.

## 7. 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.

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 indicate that disclosures on the 2023 non-financial assets 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, with a slight improvement compared to the previous year, 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 21 - Non-financial capital and non-capital assets

Assets	Institutions	Assets value in AFR-BRK	According to audit	Overstated/understated
Capital assets over €1,000	Central level	3,168,410,661	3,130,685,225	37,725,436
	Local level	6,627,512,643	6,684,015,095	(56,502,452)
Capital assets under €1,000	Central level	36,856,693	37,267,204	(410,511)
	Local level	23,286,735	24,373,138	(1,086,403)
Stocks	CL+LL	39,708,579	40,236,227	(527,648)
<b>Total</b>		<b>9,895,775,311</b>	<b>9,916,576,889</b>	<b>(20,801,578)</b>

The non-financial assets in total were understated by €20,801,678, of which assets over €1,000 were understated by €18,777,016, asset under €1,000 were understated by €1,496,914, stocks were understated by €527,648.

In 2023 there has been a considerable decline in the net value of the error at the of non-financial capital and non-capital assets. However, the assets balance has been characterised by errors given that the total of net understatements was €20,801,578 (in 2022 the net understatements were to the tune of €55,865,029).

## Central level

According to individual audits, some budget organisations have recorded in their books assets that did not meet the criteria. As a result, the net value presented in the AFR-BRK was overstated by €37,314,925. This was to a large extent as a result of the overstatement of assets in MESPI by €38,639,029 and the understatements in some other central institutions such as the Ministry of Health by €530,060, Ministry of Culture by €1,036,802 and the Ministry of Justice by €492,606. The reasons behind such high differences were mainly due to:

- Dysfunctional internal controls;
- Lack of adequate competence of the assets recording officers; 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 13 central level organisations, including nine (9) ministries and four (4) Independent Agencies.



Other shortcomings in assets control and management identified by individual audits are:

- Failure to follow the procedures for writing off the assets (as ongoing investments) from the books and beneficiaries' failure to record them;
- Six (6) institutions<sup>11</sup> have not reconciled the records between the annual assets stocktaking report and the assets ledger, whilst in five (5) institutions<sup>12</sup> the stocktaking process was not conducted in time, partly conducted or not conducted at all;
- Four (4)<sup>13</sup> independent institutions have not used the e-assets system at all;
- Five (5) institutions have not recorded the assets under the right asset classes, including the ongoing investments;
- Three (3) ministries have carried out inadequate classification of assets and have wrongly applied the depreciation rates; and
- One (1) ministry has kept the alienated assets in the books.

## Local Level

According to individual audits, some municipalities did not include all the assets in their books. As a result, the value of assets presented in the AFR-BRK has been understated by €57,588,855. Municipalities with the highest impact on this error were the Municipality of Deçan with an understatement of €49,010,000, Municipality of Leposaviq with an understatement of €2,783,678€, Municipality of Podujeva with €1,541,210 and the Municipality of Vushtrria with €2,139,532

Of the total of 38 audited municipalities, 15 have overstated/understated the assets presented, or 39.5% of the audited 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:

- Five (5) municipalities have not reconciled the records between the annual assets stocktaking report and the assets ledger, whilst in six (6) municipalities the stocktaking process was not conducted in time, partly conducted or not conducted at all; and
- Seven (7) municipalities have not recorded the assets under the right asset classes, including the ongoing investments.

<sup>11</sup> MFLT, MCYS, MCR, ME, MIA and CEC

<sup>12</sup> MIET, MESPI, HUCSK, HIF, KJC

<sup>13</sup> CAA, ERO, PAK, ANSA

## Stocks for the central and local level

Stocks and spare equipment and stationeries were €39,708,579 according to AFR-BRK, whilst according to individual audits they were €40,236,227, an understatement of €527,648. The net understatement of stock was mainly due to untrue reporting by the Municipality of Shtime with an understatement of €499,330 and by the Ministry of Finance with an understatement of €81,121 in the AFR/BRK. Meanwhile overstatements occurred by the Health Insurance Fund with €18,320 and the Municipality of Obiliq with €34,000 etc.

### *We recommend the Government*

- To ensure, through MFLT, that internal controls are fully operational and that the assets officers' competences are improved in order to ensure that the assets registers are fairly presented. In addition, the Government should, through MFLT (Treasury) apply the required procedures when transferring the assets from one organisation to the other in order to ensure that the assets have been transferred to and recorded by the recipient.
- To ensure that the e-assets system is used by all budget organisations.

## 8. Accounts receivable

Accounts receivable (AR) 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. BOs are obliged to collect the AR at real time because the aging of these accounts hampers the collection and leads to financial loss of BOs.

Accounts receivable constitute an important item in the financial management. The revenue collecting BOs are obliged to keep records of the uncollected amounts, 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 of accounts receivable presented in the individual financial statements and AFR-BRK was €918,025,967 (of which €669,401,679 from the central level and €248,624,288 of the local level). Meanwhile, the accounts receivable according to the audit was to the tune of €920,439,554, an understatement of €2,413,587 (€2,194,854 were understated at the local level and €218,733 were overstated at the central level).

Based on the AFR 2023 the accounts receivable have increased by €76,927,603 or around 9% compared to the previous year. In addition, the table shows an increasing trend of accounts receivable over the years. This indicates that the public institutions have not undertaken the adequate measures to collect the debts.

Table 22 - Summary of accounts receivable for the last three years

Accounts receivable	According to audit 2023	According to AFR-BRK		
		2023	2022	2021
Central Level	669,620,412	669,401,679	607,974,066	564,294,945
Local Level	250,819,142	248,624,288	232,972,067	213,753,695
Total	920,439,554	918,025,967	840,946,133	778,048,640

## Accounts receivable at the central level

Accounts receivable's amount presented in the AFR of 2023 by the central level was €669,401,679, whilst according to the audit it was €669,620,412, an understatement of €218,733. Actions take to have them fairly presented have not been efficient this year either.

The total amount of the central level's accounts receivables is constituted by the Ministry of Finance, Labour and Transfers with €585,333,167 or 87.4%, the Independent Commission for Mines and Minerals with €39,799,219 or 6%, the Ministry of Internal Affairs with €23,159,864 or 3.5%. Unlike the previous year when the increase was at 8%, the central level's accounts receivable have marked an increasing trend of around 10% compared to the previous year.

The ministries that have incorrectly presented the accounts receivable in the annual financial statements (differences between the AFS of BOs and the amounts according to the audit) are the following:

- Ministry of Finance, Labour and Transfers understated the accounts receivable by €225,281 due to the Financial Intelligence Unit's failure to present them; and
- The Ministry of Internal Affairs overstated the accounts receivable by €6,550, as the court fines were also presented.

## Accounts receivable at the local level

The amount of accounts receivable presented in the AFR for year 2023 for 38 municipalities was €248,624,288, whilst according to the audit it was €250,819,142, an understatement of €2,194,854.

Accounts receivable of the local level consists of property tax, construction tax, urbanisation permits, 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 9%, Municipality of Ferizaj with 7% etc. Unlike the previous year when the increase was at 9%, the local level's accounts receivable have marked an increasing trend of around 9% compared to the previous year.

The municipalities that have understated the AR in the individual financial statements (differences between the AFS of BOs and the amounts according to the audit) are the following:

- Municipality of Graçanica with €1,418,635 due to incomplete presentation of the business tax debts not collected from the previous years;
- Municipality of Malisheva with €862,528 due to failure to extract the records from Protax on the billed and uncollected amounts on property tax for lands and plots for the 2019-2023 period;
- Municipality of Ferizaj with €38,868 due to failure to disclose the unpaid instalments for construction permits and the understatement of accounts by €1,483 for issuing municipal property for use.

The municipalities with accounts receivable overstated in the individual financial statements (differences between the AFS of BOs and the amounts according to the audit) are the following:

- Municipality of Ferizaj with €87,625 because during the audit they did not provide any evidence on the amount of accounts presented in the financial statements;
- Municipality of Suhareka with €20,562 and Municipality of Fushë Kosova with €2,971 due to the property tax charge on properties under municipal ownership; and
- Municipality of Shtime with €15,500 because during the audit they did not provide adequate evidence proving the municipality's right to collect these fund and because of the overstated accounts of the property rent.

The above issues occurred as a result of dysfunctional controls over the recordkeeping of accounts receivable and their fair reporting in the financial statements.

### ***We recommend the Government***

**In cooperation with MFLT and MLGA, to provide for a sustainable and effective strategy for the collection of accounts receivable by reassessing the current collection mechanisms. It should also provide for a complete and true reporting and consolidation of accounts receivable as well as an analysis on their structure, aging and chances for collecting these debts.**

## **9. 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 €158,650,800, whilst according to our audit they were €158,323,150 thus resulting in an overstatement of €327,650. According to AFR 2023 liabilities have increased by €8,954,176 or around 6% compared to the previous year

Table 23 - Outstanding liabilities over the last three years

Outstanding liabilities	According to audit 2023	AFR-BRK 2023			Comparison 2023 - 2022/ in %
		2023	2022	2021	
Central Level	131,822,101	131,979,380	129,409,700	160,214,465	2%
Local Level	26,501,049	26,671,420	20,286,924	30,558,368	31%
<b>Total</b>	<b>158,323,150</b>	<b>158,650,800</b>	<b>149,696,624</b>	<b>190,772,833</b>	<b>6%</b>

## Central Level outstanding liabilities

The amount of outstanding liabilities at the central level was overstated by €157,279 compared to the AFR-BRK, according to the audit.

The increase in liabilities was mostly emphasised in the Ministry of Defence as a result of the return of payments by the Central Bank of Kosovo given that the intermediary bank had not completed the transaction on time.

## 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 overstated by €170,371 compared to the AFR-BRK, according to the audit. Municipalities with the highest amount of liabilities were Ferizaj with €3,941,295 or 15% of the local level debts and Prishtina with €3,058,755 or 12.5%.

Untrue disclosure of liabilities does 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 controls in place 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 2023 amounted to €331,978,298 according to AFR-BRK, whilst according to the audit they were to the tune of €351,769,374. Based on this analysis, the contingent liabilities were understated by €19,791,076 in total.

The understatement 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 slightly decreased by €6,687,918 or around 2%, compared to the previous year, according to AFR-BRK. Progress has been made in decreasing the contingent liabilities at aggregate level although the declining trend is quite slow.

Table 24 - Summary of contingent liabilities

Contingent liabilities	According to audit 2023	According to audit AFR-BRK 2023			Comparison 2023 - 2022/ in %
		2023	2022	2021	
Central level	208,901,336	191,724,368	200,726,803	179,428,461	-4%
Local level	142,868,038	140,253,930	137,939,413	57,420,871	2%
<b>Total</b>	<b>351,769,374</b>	<b>331,978,298</b>	<b>338,666,216</b>	<b>236,849,332</b>	<b>-2%</b>

## Central level contingent liabilities

Contingent liabilities of the central level were to the tune of €191,724,368 according to AFR-BRK, whilst according to the audit they were €208,901,336, an understatement of €17,176,969. The institutions with high amounts of understated/overstated contingent liabilities were:

- Ministry of Environment, Spatial Planning and Infrastructure understated the contingent liabilities by €16,534,867;
- Ministry of Finance, Labour and Transfers understated the contingent liabilities by €1,580,249;
- Ministry of Education, Science, and Technology overstated the contingent liabilities by €459,386; and
- Health Insurance Fund overstated the contingent liabilities by €545,200.

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 €140,253,930 according to the AFR-BRK, whilst according to the audit it was €142,868,038, an understatement of €2,614,108 (of which: €10,019,231 were understated and €7,405,123 were overstated).

Municipalities with the highest amounts of overstated contingent liabilities were:

- Municipality of Prishtina understated the contingent liabilities by €9,429,692 as a result of dysfunctional controls over the management of contingent liabilities register; and
- Municipality of Deçan overstated the contingent liabilities by €2,009,250 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/understatement of contingent liabilities at the local level.

The overstatement and understatement of outstanding and contingent liabilities give an untrue view the institutions' balance sheets which may lead to inadequate budget and strategic decision-making, thus undermining the reliability of the annual financial statements. Additional payments for judicial and enforcement procedures increase the overall costs for budget organisations, leading to unnecessary expenses and impairing their capacities to implement the projects as planned.

### ***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.**

## 10. 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 2023 were to the tune of €51,936,244. Compared to 2022 data, the amount of these payments has increased by €5,586,897 or 12%. There is an increasing trend of these payments (as shown in the table) compared to the previous, indicating that budget organisations lack the funds to meet their obligations towards the economic operators and other debtors.

Table 25 - Payments by court rulings and enforcement (in Euro)

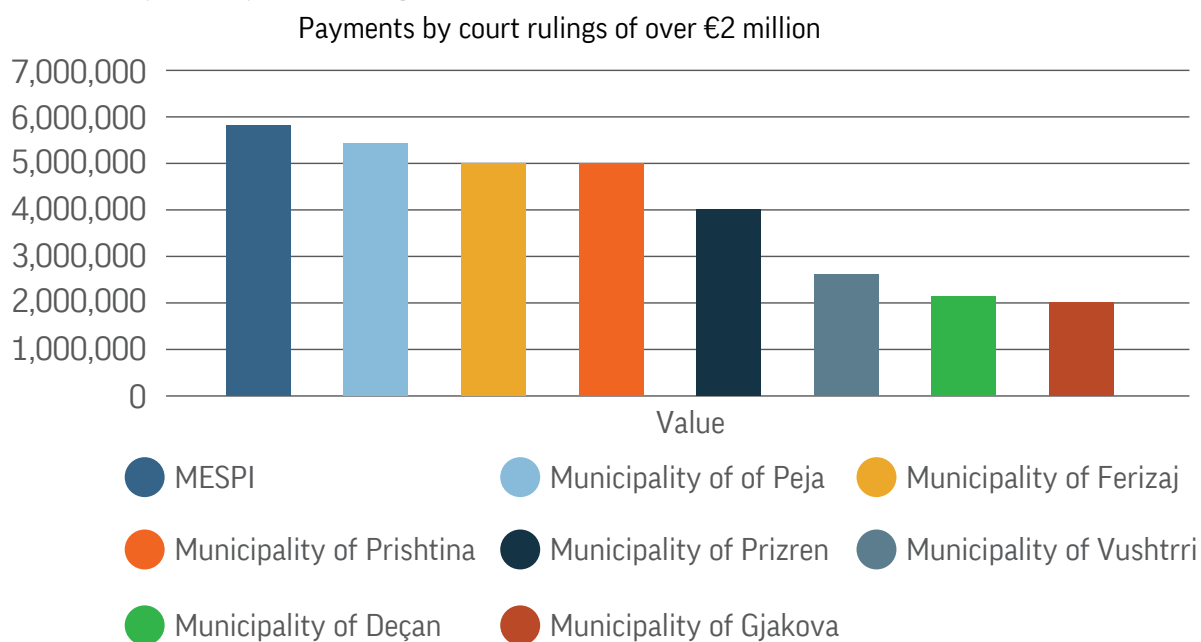
Payments by categories	2023	2022	2021
Wages and Salaries	18,150,858	16,075,491	19,998,545
Good and Services/Utilities	8,919,733	5,142,784	10,697,725
Subsidies and Transfers	1,207,926	1,274,649	1,237,288
Capital Investments	23,657,727	23,856,425	19,984,071
Total	51,936,244	46,349,349	51,917,629

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. Considering that capital investments constitute the lion share of these expenses, many projects have remained unimplemented because funds have been reallocated to pay off these liabilities.

The following chart shows eight (8) budget organisations where payments in amounts larger than €2 million, thus constituting over 62% of the amount of payments executed based on court rulings, or over €32 million.



Chart 2 – Payment by court rulings



In analysing expenses based on court rulings in KFMIS and based on individual audits of BOs, we found that Treasury has not, for most of these payments, separated the expenses on the principal debt from those on court enforcement procedures, as foreseen in the Chart of Accounts.

According to other Treasury’s records on separating these expenses from KFMIS and based on these records, the total of payments through court rulings/enforcement shows that the extra costs were by €7,899,248 or 15% past the principal debt.

Table 26 – Payments through court rulings/enforcement by Government level (in €)

Payments by categories	2023	2022	2021
Central level	11,734,942	9,887,292	20,010,276
Local level	40,201,302	36,462,057	31,907,353
<b>Total</b>	<b>51,936,244</b>	<b>46,349,349</b>	<b>51,917,629</b>

### Central level payments through court rulings

Payments for central level organisations were to the tune of €11,734,942 or around 23% of the total of court rulings. The lion share 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.

## Local level payments through court rulings

Payments of local level were to the tune of €40,201,302 or over 77% of the total of court rulings. The lion share 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 and 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.

### ***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.

## 11. Employment data

According to Law no 08/L-193 on Budget Appropriations for year 2023, the planned number of employees at the central and local level was 88,738, whilst the number of employees according to AFR-BRK was 83,604, including the number of municipal assembly members who get paid through the payroll system from the wages and salaries category. Hence, the number of current employees includes all the employees having a contractual relationship with the respective budget organisations and included in the Payroll.

### Employees outside the payroll

According to AFR-BRK for year 2023, the number of employees outside the payroll was 441 (central level 289, local level 152). The highest number of employees outside the payroll was found to be in the Prishtina University by 140<sup>14</sup>, HUČSK by 65, Office of the Prime Minister by 43, Municipality of Fushë Kosova by 42, Municipality of Ferizaj by 31 etc.

Compared to last year, the number of employees from this category has decreased by 40.

<sup>14</sup> Referring to the AFR of the BO for year 2023, this number shows the engagement of external professors and interns who taught at the Summer University as well as at the Faculty of Arts.

## Employees with special service agreements (SSAs)

According to AFR-BRK for year 2023, the number of employees engaged through SSAs was 1,422. Compared to last year, this number has decreased by 142.

According to individual audit reports for year 2023, the 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 have not been applied.

The highest number of employees engaged with SSAs at the central level was in the OPM with 367 people, of which 364 were officers engaged by the Kosovo Agency of Statistics for the census. In addition to the OPM, the Ministry of Culture continues to have a high number of employees on SSAs, 158 ones.

Whilst at the local level, the municipalities with the highest number of employees on SSAs are: Municipality of Prishtina with 204 employees engaged and the Municipality of Gjilan with 73 employees.



## *Chapter - II*

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# **FINANCIAL AND COMPLIANCE AUDITS**



## Summary of opinions, conclusions and recommendations

For year 2023, NAO has completed 86 financial and compliance audits of the central and local levels BOs, three (3) audits with classified information and two (2) special compliance audits. 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 audit opinions on the annual financial statements as well as audit conclusions to each budget organisation (BO) regarding the compliance with authorities.

From the audit of 86<sup>15</sup> individual AFS, 51 have resulted in unmodified opinions and 35 in modified/qualified opinions. Compared to 2022 it is almost the same situation (53 with unmodified opinions and 33 with modified/qualified opinions). Meanwhile, From the audit of 12 POEs, three (3) have resulted in unmodified opinions and nine (9) with modified opinions.

It is worth noting that the financial reporting at the central level has improved, with 12 modified opinions given in 2023 against 17 modified opinions given in 2022. Meanwhile at the local level, 23 modified opinions have been given in 2023 against 16 modified opinions given in 2022, indicating a poor state of financial reporting.

With regard to compliance conclusions on BOs, 37 audit reports have resulted with the conclusion that budget organisations have complied with the applicable laws and regulations, whilst 49 other have not complied with the applicable laws and regulations. Compared to year 2022 when we gave 41 unmodified conclusions and 45 modified ones, the number of BOs who have managed and the expenditures and revenues in compliance with the applicable legislation has been reduced. With regard to POEs, two reports (2) have resulted with unmodified conclusion and 10 with modified conclusion.

The overall conclusion is that the BOs at the central level have made improvements concerning the financial reporting and the compliance with the legal framework, whilst those at the local level have made no progress. The audit conclusion on POEs is that most of them, regardless of the progress made during 2023, have had legal shortcomings mainly in the salary expenses, operating expenses, management of revenues and annual financial statements.

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<sup>15</sup> In 2023, the Audit of Customs and Tax Administration have been incorporated into the MFPT, while the Agency for Free Legal Aid within the MoD and the Agency for the Management of Memorial Complexes within the MCYS.

Table 27 - Number of recommendations to BOs and POEs by categories for year 2023

No	Economic categories	Central level	Local level	POEs	Total
1	Annual Financial Statements	6	6	14	26
2	Wages and Salaries	15	11	15	41
3	Goods and Services and Utilities	42	57	0	99
4	Common issues (G&S and CI)	5	21	21	47
5	Capital Investments	25	88	0	113
6	Subsidies and transfers	7	22	0	29
7	Revenues	3	37	10	50
8	Outstanding liabilities	10	21	16	47
9	Contingent liabilities	8	9	0	17
10	Accounts receivable	6	38	19	63
11	Assets	48	42	33	123
12	Internal Audit	4	17	3	24
13	Information Systems	/	/	2	2
	Total	179	369	133	681

In the individual audit reports for year 2023, we have given 548 recommendations for the improvement of each area where shortcomings and errors have been identified. Out of 548 recommendations, 229 are new ones, 272 repeated and 47 partly repeated. The categories with the highest level of recommendations are Capital Investments, Goods and Services and Assets. With regard to POEs, we have given 133 recommendations mainly concerning the assets, outstanding liabilities, accounts receivable etc. When it comes to compliance and performance audits, the audit topics are specific and the status of recommendations does not apply thereon.



Table 28 Recommendations by types of audits for year 2023

Auditees	New recommendations	Repeated recommendations	Partly repeated recommendations	Total recommendations
Central level	80	70	29	179
Local level	149	202	18	369
POEs	75	48	10	133
Compliance Audits <sup>16</sup>	12	/	/	12
Performance Audits <sup>17</sup>	124	/	/	124
Total of recommendations	440	320	57	817

## 1. Central Level

### 1.1. Audit opinions and issues modifying them

For year 2023, NAO has finalised 48 financial and compliance audit reports 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 29 - Type and number of opinions for the central level for year 2023

Auditees	Unmodified Opinions	Qualified Opinions	Total
Central level <sup>18</sup>	12	9	21
Independent institutions	24	3	27
Total	36	12	48

<sup>16</sup> Audit topics: Procurement and contracts management in the Ministry of Health and the Use of Municipal Properties and their Monitoring in the Municipality of Ferizaj.

<sup>17</sup> The performance audits topics are new, therefore there is no classification for them in the table.

<sup>18</sup> Central level institutions include: 15 Ministries, OPM, Office of the President, Assembly of Kosovo, Health Insurance Fund, HUCSK and RTK. This year, Customs and TAK are within the MFLT.

Out of the 48 audit reports on central level organisations (including independent institutions), 36 have been given unmodified opinions and 12 qualified opinions.

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

- Overstatement of assets as a result of errors in recording the capital assets, improper application of depreciation, failure to transfer the assets funded by the ministry to the municipalities which were already owning and having control of these assets. On the other hand, understatement of assets occurred as a result of failure to record properties and other assets in the books.
- Poor classification and reporting of expenses, mainly as a result of budget funds not appropriated under the adequate categories in the Law on Budget and the payments made based on court rulings/enforcement;
- Payments to employees who have not attended work. The number of employees for this category of employees was 107 (MESPI 62 employees, MIET 25 employees and MCC 20 employees). The total amount of these payments for year 2023 was €640,599. It is worth noting that improvements have been made in this regard compared to the previous year given that MCYS and MESTI had addressed this issue. MESTI provided these employees with the work conditions to enable regular attendance at work, whilst MCYS stopped these payments until finding an alternative solution.
- 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 of this register as a result of including completed matters in the register.

The issues above have occurred due to incomplete functioning of budget organisations' internal controls to prevent these errors. Financial reporting has considerably improved compared to the previous year. Last year, central level BOs were given 17 qualified opinions, whilst this year they were given 12 qualified ones.

## 1.2. Conclusions on compliance and issues modifying them

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

Table 30 - Type and number of conclusions for the central level for year 2023

Auditees	Unmodified conclusion	Qualified conclusion	Total
Central level <sup>19</sup>	10	11	21
Independent institutions	24	3	27
<b>Total</b>	<b>34</b>	<b>14</b>	<b>48</b>

<sup>19</sup> Central level institutions include: 15 ministries, OPM, Office of the President, Assembly of Kosovo, Health Insurance Fund, HUČSK and RTK

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

- Shortcomings in the bids evaluation process leading to contracts awarded to ineligible economic operators or those having offered abnormally low prices, as well as other shortcomings regarding to the procurement procedures such as failure to adhere to the statutory deadlines, application of procurement requests etc.;
- Shortcomings in the contract management that resulted in exceeded value of contracts, changes to the contracted quantities due to lack of approvals, changes to the contractual terms due to failure to implement the legal provisions etc;
- Delayed payment of liabilities as a result of failure to pay the invoices within the statutory deadline of 30 days. These shortcomings were due to lack of internal controls over the invoices payment management;
- Subsidy beneficiaries' failure to justify the spending of subsidies as set forth in the agreements; and
- Engagement of special service employees for intellectual advisory services to cover the regular job positions by not using the procurement procedures and overlooking the open competition.

The above issues have occurred as a result of inadequate functioning of the internal controls of budget organizations to prevent these shortcomings from occurring. Compliance with the applicable laws and regulations has slightly improved compared to last year as from 15 qualified conclusions given to central level BOs, this year have been given 14 qualified ones.

### 1.3. 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 financial audit 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 lack of concrete actions by the relevant ministries/agencies on drafting new regulations for staff reorganization.

#### Goods and Services

Shortcomings in the processing of payments because funds were committed and the purchase orders not issued prior to having received the invoices, as a result of organisations' failure to implement the legal procedures for spending public money.

## Capital Investments

The 2023 budget for Capital Investments for the Ministries and Independent Institutions was planned to the tune of €570,676,209, of which €350,000,876 or 61% was spent.

The shortcomings in the management of capital projects have been identified from the planning stage to their execution. Various unimplemented capital projects have also been identified. Consequently, there has been no initiation of procurement procedures by the requesting units; extension of procurement processes for various reasons; cancellation of procedures; and termination of contracts.

There were delays in the capital projects implementation phase, compared to the contracted timelines. This situation was due to poor planning - as a result of lack of a proper analysis prior to initiating the capital projects - or other procedural and ownership problems.

Shortcomings in the acceptance of supplies or equipment for which the payments had been made. This was due to lack of controls from the acceptance commissions and lack of proper monitoring by the contract manager.

## 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 is a phenomenon that has been recurring every year. These shortcomings continue to occur due to the lack of final interpretation of the laws on pension schemes. This issue has been addressed for years in the audit reports and there is progress in reducing these irregular payments compared to the previous year.

Shortcomings regarding the subsidy process related to the process of selecting beneficiaries according to public calls and the continuous monitoring of the fulfilment of the grant criteria. This happened due to the failure of the commissions for the allocation of subsidies/grants to implement appropriate control activities over their awarding and monitoring.

## 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.

In special cases it was found that the completed capital investment projects were not put to operation to serve the purposes they were implemented for.

On the other hand, cases were found where the procedures for the transfer of assets to the beneficiaries had not been developed. Although there is progress compared to the previous years, this issue has not been properly addressed..

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.

These shortcomings were mainly as a result of the dysfunctional controls over asset management.

## Revenues

The audit of the Trust Funds found three (3) cases amounting to €193,925 where PAK had failed to collect the receipts from the sale of assets by direct negotiation within the statutory deadlines. This is due to the parties' failure to adhere to the deadlines and PAK's failure to take any action on either extending the deadlines or suspending the procedure.

Based on tests and analyses on the basis for returns/reimbursements, 85 cases were found where TAK had not addressed the taxpayers' applications for tax return/reimbursement within the statutory deadline. TAK had not applied the interest to taxpayers for such delays either.

In RTK, weaknesses have been identified in the advertisement receipts regarding the contract for the use of advertising spaces with compensation by changing the terms of the basic contract through an annex contract, thus leading to the risk that the value of the services offered to be recalculated below the value of the advertising spaces with compensation. This was as a result of technical and procedures omissions when signing the contract.

Compared to the previous year, it is observed that this year the same issues have been repeated in the individual reports of the budget organisations at the central level. These remain ongoing challenges for organisations that require action from those responsible to establish controls in financial management and compliance with authorities regarding these issues.

## 1.4. Recommendations given

The 48 individual central level audit reports of 2023 resulted in 179 recommendations on improving each area where shortcomings and errors were identified. The following table shows the recommendations given in the last three years.

Table 31 - Number of recommendations to the central level over the three years

Auditees	Year 2023	Year 2022	Year 2021
Central level	127	165	185
Independent Institutions	52	54	55
Total	179	219	240

The data presented in the table show the decreasing trend in the number of recommendations over the years. Compared to the previous year when the number of recommendations was 219, in 2023 we have given 179 recommendations (80 new ones, 70 repeated and 29 partly repeated) indicating a considerable decrease in the number of recommendations to the central level organisations. This also indicates the improvement in the financial management process and compliance of the central level organisations.

The institutions that have been given less recommendations compared to last year are: Ministry of Internal Affairs, Ministry of Local Government Administration, Ministry of Finance, Labour and Transfers, Ministry of Foreign Affairs and Diaspora, Privatization Agency of Kosovo, Trust Funds, Independent Commission for Mines and Minerals, Radio Television of Kosovo etc.

## 2. Local level

### 2.1. Audit opinions and issues modifying them

In 2023, we published 38 financial and compliance audit reports for the local level. 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 32 - Type and number of opinions for the local level for 2023

Auditees	Unmodified opinion	Qualified opinion	Total
Municipalities	15	23	38

As shown in the table above, 15 audit reports have resulted with unmodified opinions and 23 in modified opinions. In percentage, 60% of the audit opinions for the audited municipalities are modified, compared to 2022 (modified opinions were 47%), which leads us to the conclusion that there is a

negative trend in the audit opinions by 13%. Namely, a considerable number of BOs are still facing issues with the reporting and disclosure of the required information in their AFSs.

Reasons for the modified audit opinions were mainly:

- Improper classification and reporting of expenditures (performed by the OB), mainly influenced by payments through court/enforcement decisions mainly for remuneration of jubilee salaries and meals as well as improper budget planning for certain economic categories related to repairs, maintenance or subsidies;
- Untrue records for capital and non-capital assets which led to their understatement/overstatement;
- Untrue reporting of accounts receivable; and
- Untrue and unfair presentation of outstanding liabilities and contingent liabilities.

In some cases, the modification of opinion occurred due to external impacts to municipalities for which the municipalities have not had the opportunity to make rectifications. These cases were due to identified misclassifications in some municipalities related to the payment of jubilee salaries, based on the collective contract, and 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.

## 2.2. Compliance conclusions and issues modifying them

For year 2023, NAO has given 38 compliance conclusions for the local level (municipalities). Compliance conclusions are presented in the following table.

Table 33 – Type and number of conclusions for the local level for 2023

Auditees	Unmodified conclusion	Qualified conclusion	Adverse conclusion	Total
Municipalities	3	33	2	38

In percentage, 87% are qualified audit conclusions, which shows that most of the municipalities have problems regarding the compliance with the authorities or their transactions are not in compliance with the legal requirements.

For the first time, NAO has given adverse conclusion for the Municipality of Prishtina and Municipality of Vushtrri given that the operations performed by these two municipalities were found not in compliance with the law. The shortcomings identified were material and pervasive in each of the economic category of expenditures.

Reasons for qualified conclusion were:

- Failure to verify 20% of the taxable properties as required by Law. The municipality had invoiced the property tax from the PROTAX system for buildings and properties. However, the municipalities in 2023 managed to inspect (check) the buildings according to the required %;
- In some cases, municipalities have used the projects funds for purposes other than those initially planned, without applying the procedures and criteria for the transfer and allocation of funds from one project to another;
- Shortcomings in the development of procurement procedures, such as: unclear technical specifications, entry into contracts without adhering to the criteria established in the tender dossier, and lack of monitoring over contracts management through this system;
- Shortcomings in the contracts management, such as: failure to sign the contract management plans, delays in the projects implementation dynamics, failure to forfeit the bid security, payments made for uncompleted works, supplies exceeded the contracted quantity, and use of inadequate contracts which has led to exceeded value compared to the estimated one;
- Engagement of officers through special service agreements without conducting the procurement procedures;
- Extra enforcement costs were paid due to municipalities' failure to timely settle their liabilities. This situation was as a result of lawsuits filed by the EOs against the municipalities for having not paid for the works executed or services delivered;
- Granting of subsidies not in line with the public call, subsidising of NGOs without carrying out a public call, shortcomings in the selection and monitoring process and the reporting by the beneficiaries on subsidies;
- Poor management of assets recording, thus understating or overstating the assets books;
- Poor handling of applications for construction permits, environmental permits and legalisation;
- Delayed payment of invoices (liabilities); and
- Outsourcing of projects not planned with the budget, lack of funds, extended deadline for projects implementation and commitment of funds after having received the invoices.

Inadequate 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..

## 2.3. Other issues of financial management and compliance

In addition to issues with an impact on the financial opinion and the compliance conclusion, NAO has also raised issues about financial management and compliance for 38 municipalities in the individual reports.

Identified issues relate to different economic categories which were mainly identified in the municipalities' individual reports. In addition to the issues presented in the following, it is as well important to 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 to the preparation of the AFS.



## Wages and Salaries

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

- Shortcomings in managing the overtime work without obtaining the respective authorisation;
- Shortcomings in the recruitment processes; and
- Officials outside the payroll for both regular job positions in education and replacements for education employees.

## Goods and services

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

- Project initiation without sufficient commitment of funds. In some cases, the municipalities had entered into contractual obligations with insufficient funds committed;
- 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;
- Exceeded contracted quantities over the allowed 30% limit for public framework contracts. This was done upon the Mayor's approval on the ground of enabling the completion of projects according to the specifics and needs encountered on site during their implementation;
- Lack of documents related to the eligibility criteria in the e-procurement platform.

## Capital Investments

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

- In some cases, municipalities have set unclear/measurable specifications in the tender dossier, not defining a standard for the quality of the required works or products;
- There were cases when payments were made for works not executed in line with the contract and damages caused before the contract was completed;
- 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;
- The municipalities had initiated procurement procedures and had concluded employment contracts without prior drafting of the construction executive projects;
- It has been identified that, in some cases, the municipalities have not done the contracts' management and the evaluation of the contractors' performance through the e-procurement system;

- Delays in the completion of works, works were not executed according to the dynamic plan foreseen in the contract;
- Selection of the ineligible economic operator without meeting the criteria set in the tender dossier during the tendering process.

Moreover, eight municipalities have, for 35 projects totalling to €4,732,277, used projects funds for purposes other than those initially planned, without applying the procedures and criteria for the transfer and allocation of funds from one project to another and without obtaining the approval of the respective municipal assemblies (Prishtina €2,209,581, Peja €1,374,052, Ferizaj €547,842, Podujeva €200,000, Fushë Kosova €183,105, Gjilani €107,689, Malisheva €59,999 and Vitia €50,000).

Changes to the budget without prior approval by the municipal assembly reduce the transparency and accountability on the decisions taken regarding the use of public funds. These might also have a negative impact on the implementation of the existing projects, thus hampering the sufficient funding thereto.

There were cases where municipalities had entered into contractual obligations by signing work contracts for various projects without having sufficient funds committed:

- Municipality of Prizren has, in 13 cases, entered into contractual obligations for various projects without having sufficient funds, e.g. the Rehabilitation and Construction of Asphalt Roads project was worth €3,470,000 while the committed was just €50,000; the Rehabilitation of the Water Supply Network and Installation of Water Meters in the Village of Zhur project was worth €2,497,919 while the committed funds were just €50,000;
- Municipality of Ferizaj has, in seven (7) cases, entered into contractual obligations without having sufficient funds, e.g. the Reconstruction of Roads in the Villages of Tërn-Lubovc, Nerodime, Rakaj project was worth €1,000,000 while the committed was €550,000; the Construction of Infrastructure in the Touristic Areas of the Village of Jezerc project was worth €791,927 while the municipality had not committed funds for this project at all;
- Municipality of Malisheva has, in five (5) cases, entered into contractual obligations without having sufficient funds, e.g. the Construction of the City Square with the Underpass and Underground Parking project was worth €8,277,887 while the budgeted funds were just €1,950,000; the Construction of Roads, Wastewater and Atmospheric Water Sewer System and City Lighting project was worth €1,099,942 while the allocated budget was just €590,000;
- Municipality of Peja has, in seven (7) cases, entered into contractual obligations without having sufficient funds, e.g. the Construction of the Water Supply for the Villages of Lugu i Baranit project was worth €1,377,859 while the committed was just €200,000; the Construction and Asphaltting of the Varri i Sykut - Bellopaq Road project was worth €918,214 while the committed funds were just €50,000; and
- Municipality of Podujeva has, in four (4) cases, entered into contractual obligations without having sufficient funds, e.g. the Supply with Material for the Buildings Maintenance project was worth €119,131 while the committed funds were just €20,000; the Projects Design contract was worth €140,000 while the committed funds were just €3,000.

## Subsidies and transfers

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

- There were cases when the providers of the financial support had not appointed a responsible official to monitor the projects' implementation. In addition, there are also cases of NGOs not having submitted financial and narrative reports;
- The municipalities had not drafted the annual plan for NGO's financial support for year 2023 as foreseen by legal requirements;
- Subsidising NGOs without a public call. Some NGOs, winners of subsidies have been selected based on the Municipal Assembly decisions, without prior announcement of the public call; and
- Subsidising was carried out without a public call and not in with the municipal regulation.

## Revenues

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

- Use of public properties without compensation and with expired contracts.. The Municipality had verified the municipal properties in the "Industrial Zone" where 15 plots of the Municipality of around 9 ha are being used by 37 users without any compensation to the Municipality, causing financial losses for the Municipality's budget;
- Failure to update the taxpayers data in the ProTax system;
- The municipalities had not complied with the statutory deadline for issuing construction permits. In addition, the Municipality had issued a construction permit prior to having the use of land changed and without having the mandatory paid; and
- Application of the discount on the fee for using the municipal business property regardless of the lack of evidence as required in the relevant regulation.

## 2.4. Recommendations given

In the individual reports of the municipalities for year 2023 we have given 369 recommendations for the improvement of each area where shortcomings and errors were identified.

Table 34 – Number of recommendations to the local level for three years

Auditees	Year 2023	Year 2022	Year 2021
Municipalities	369	352	438

The data presented in the table above indicate that the number of recommendations has increased by 17 compared to the previous year's. Considering that this year the four northern municipalities, which were not audited last year, have been subject to this year's audit resulting in 21 recommendations given thereto, the situation is almost the same as last year's regarding the improvement of financial management and control.

## 3. Publicly Owned Enterprises

The National Audit Office has audited the annual financial statements for year 2023 of 12 Publicly Owned Enterprises (POEs), of which eight (8) were central publicly owned enterprises and four (4) were local publicly owned enterprises..

In 2023, NAO has audited the AFS of the Trepça J.S.C, the regional water company Hidrodrini J.S.C, and the transmission system operator company KOSTT J.S.C for the first time. The other nine (9) POEs have been subject to previous years audits The selection criteria for the audit of these enterprises were: budget/revenues size, number of employees, complexity of services, financial conditions, and the public interest. Unlike previous year, the 2023 audit plan did not include the Kosovo Railways - Trainkos, and the Post of Kosovo.

Although improvements have been made in some POEs, financial management and control in the publicly owned enterprises needs further improvements. The audits have resulted in modified opinions for nine (9) enterprises and in modified conclusions on compliance of the annual financial statements for 10 enterprises. The modified opinions and conclusions reflect the poor quality of information, non-adherence to the laws and reporting flaws. This indicates the need for continuous improvements in each area identified in the annual financial statements.

In order to held improving the financial statements and management of POEs, NAO has given a considerable number of recommendations, which have been presented in individual audit reports and addressed to those in charge of the POEs governance, as well as to their shareholders.. In addition, the POEs Monitoring Unit monitors the operational activities and financial reporting of these enterprises and informs the Government of their situation on a regular basis.

A more detailed analysis on the performance and these enterprises and their quality of financial reporting is presented in the following chapters.

### 3.1. Audit opinions and the issues modifying them

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

Table 35 – Opinions given on the Publicly Owned Enterprises’ financial statements

No.	Audited entities	Level of POE	Audit Opinion		
			2023	2022	2021
1	Kosovo Energy Corporation J.S.C.	Central	Qualified	Qualified	Unmodified
2	Trepça J.S.C	Central	Adverse	Disclaimer	Qualified
3	KOSTT J.S.C.	Central	Qualified	Unmodified	Unmodified
4	HEE “Ibër - Lepenc” J.S.C. - Prishtina	Central	Qualified	Qualified	Adverse
5	Kosovo Railways - TrainKos, J.S.C.	Central	Qualified	Adverse	Adverse
6	Kosovo Telecom, J.S.C.	Central	Unmodified	Qualified	Adverse
7	RWC “Prishtina” J.S.C. - Prishtina	Central	Qualified	Qualified	Adverse
8	RWC “Hidrodrini” J.S.C.	Central	Adverse	Qualified	Qualified
9	RWC “Pastrimi”, J.S.C - Prishtina	Local	Unmodified	Qualified	Adverse
10	RWC “Uniteti” J.S.C. - Mitrovica	Local	Adverse	Adverse	Adverse
11	Public Housing Enterprise J.S.C	Local	Unmodified	Qualified	Qualified
12	Public Enterprise “Termokos” J.S.C.	Local	Adverse	Adverse	Adverse

Of the 12 POEs audited in 2023, their individual AFSs have resulted in: three (3) with unmodified opinions and nine (9) with modified opinions (5 qualified opinions and 4 adverse opinions).

Compared to 2022, when these POEs were given seven (7) qualified opinions, three (3) adverse opinions, one (1) disclaimer of opinion and one (1) unmodified opinion we note that the AFSs are of a better quality, this year we have given three (3) unmodified opinions compared to one (1) given last year.

Regardless of the improvements made, the POEs have made errors in reporting and disclosing the required information in the AFS.

## Key issues that led to modification of opinion in central POEs are:

### Annual Financial Statements

Incomplete presentation of explanatory notes due to poor controls over the AFSs preparation process.

### Assets

Failure to reevaluate assets, poor recording and handling of assets and failure to update the assets registers. This occurred due to the failure of the tendering procedures and the POEs Managements' failure to take any actions, by considering them hardly implementable in certain cases or due to lack of funds. Moreover, the shortcomings in the recording and updating of assets were due to lack of controls, lack of source documents, communication of information between departments within POEs and the lack of sufficient actions over the years on dealing with issues of ownership of the enterprises.

### Accounts receivable

Non-provisioning of the trade receivables and non-reconciliation between the accounts receivable records and the letters of confirmations. These occurred as a result of taking no actions according to the standards requirements, neglecting the fair reporting of accounts receivable, and of failing to conduct their stocktaking process and check their existence and to reconcile them with the accounting records periodically.

### Tax payables and outstanding liabilities

Discrepancy between the tax liabilities in the books with the tax liabilities in TAK and untrue presentation of liabilities. The reasons behind these problems are the failure to reconcile the company's tax liabilities over the years with the balance of TAK declarations and debts as well as failure to reconcile the balance of clients liabilities periodically.

## Key issues that led to modification of opinion in local POEs are:

### Assets

Failure to reevaluate the assets, lack of supporting evidence on long-term assets, untrue presentation of the revaluation reserve and recognition of ongoing investments as assets in use. Shortcomings in assets management occurred due to lack of controls, incorrect implementation of the accounting standards and the difficulties to apply them in the accounting program.

### Accounts receivable

Non-provisioning of the trade receivables and non-reconciliation between the accounts receivable records and the letters of confirmations. These occurred as a result of taking no actions according to the standards requirements, and failing to check the existence of and to evaluate the accounts receivable on regular basis.

## 3.2. Compliance conclusions and the issues modifying them

As well as the financial aspect, we audited the compliance aspect in order to examine whether the processes and underlying transactions have been in compliance with the established audit criteria and have given compliance conclusions to all the audited POEs.

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

Table 36 - Compliance conclusions given to Publicly Owned Enterprises

No	Auditees	Level of POE	Compliance conclusion		
			2023	2022	2021
1	Kosovo Energy Corporation J.S.C	Central	Qualified	Qualified	Not applicable
2	Trepça J.S.C	Central	Adverse	Not applicable	Not applicable
3	KOSTT J.S.C	Central	Qualified	Not applicable	Not applicable
4	NPH "Ibër - Lepenc" J.S.C - Prishtina	Central	Unmodified	Unmodified	Qualified
5	Kosovo Railways - Infrakos J.S.C	Central	Unmodified	Qualified	Qualified
6	Telekom of Kosovo, J.S.C	Central	Qualified	Qualified	Adverse
7	RWC "Prishtina" J.S.C - Prishtina	Central	Qualified	Qualified	Adverse
8	RWC "Hidrodrini" J.S.C - Peja	Central	Qualified	Not applicable	Not applicable
9	RWC "Pastrimi", J.S.C - Prishtina	Local	Qualified	Qualified	Adverse
10	RWC "Uniteti" J.S.C - Mitrovica	Local	Qualified	Qualified	Qualified
11	Public Housing Enterprise J.S.C - Prishtina	Local	Qualified	Qualified	Qualified
12	Public Enterprise "Termokos" J.S.C. - Prishtina	Local	Qualified	Qualified	Adverse

Out of the 12 audited POEs, two (2) were given unmodified conclusions (Kosovo Railways - Infrakos J.S.C and NPH "Ibër - Lepenc" J.S.C) whilst 10 were given modified conclusions. According to the table, it can be noted that about 83% of POEs have a modified conclusion, which indicates the shortcomings in compliance with the authorities and that financial transactions are not in compliance with the legal requirements..

From the data comparison in the above table, it is worth noting that the Kosovo Railways - Infrakos has made positive progress in improving legal irregularities, thus receiving an unmodified conclusion. It should also be noted that Trepça J.S.C, Kostt J.S.C and RWC "Hidrodrini" J.S.C have been audited for the first time by the National Audit Office and that the private audit companies have not issued conclusions in the previous years.



The audit conclusion is that despite the progress during 2023 most of the publicly owned enterprises have had numerous legal irregularities mainly in the areas of expenditures on salaries, operating expenses, management of revenues, and annual financial statements.

## **Key issues for modified compliance conclusions to central POEs are:**

### **Salary expenses**

Shortcomings in recruitment processes, in salary remuneration, and failure to pay the pension contributions and tax dues. These happened due to the lack of internal controls, failure to implement the AI no.07/2017 on the Regulation of Tender Procedures in the public sector and due to the difficult financial situation of the company.

### **Operating expenses**

Shortcomings in negotiated procedures without publication of the contract notice, weaknesses in the evaluation of tenders and the signing of the contract for the audit of the annual financial statements. These weaknesses occurred because the management of the POEs had not handled the legal requirements well.

### **Revenues**

Lack of internal regulations, lack of contracts with consumers, lack of installation of water meters; consumers' register not in compliance with the WSRA rules, etc. These occurred due to insufficient actions of the management of POEs to draw up the internal regulations, to identify the consumers and install the water meters for all the consumers.

### **Annual Financial Statements**

Delayed approval of the financial statements, Trepça J.S.C units not operating in accordance with the legal requirements, deficiencies in asset management and deficiencies in reporting the explanatory notes. These occurred due to changes in management during the preparation of the AFS and the situation created over the years by the insufficient commitment of management and supervisory boards.

## Issues for modified compliance conclusions on local POEs are:

### Operating expenses

The shortening of the deadlines without any sustainable justification and contract awarded to the ineligible economic operator. These occurred because the enterprise did not properly evaluate the criteria required in the Law on Public Procurement (LPP), the lack of due diligence by the tender evaluation commission and insufficient monitoring by the procurement office.

### Salary expenses

Positions covered with acting staff, exceeded deadlines of service contracts, shortcomings in the engagement of consultants for specific task and jobs. These occurred because of the insufficient actions taken by the enterprise to cover all the job positions with regular staff and due to ineffective internal controls of the enterprise over the consultants engagement process.

## 3.3. Obligations of Publicly Owned Enterprises for Annual Financial Reporting

For year 2023, we found that only 1 (one) of the 12 audited publicly owned enterprises had not prepared their annual financial statements on time, namely did not have the statements approved by their management boards within the legal deadline of March 15. Trepça J.S.C had prepared the annual financial statements for year 2023 with a delay of 46 days past the statutory deadline. As a result, the enterprise finalised the 2023 annual financial statement on 30 April 2024.

This occurred because the enterprise had not managed to finalise it in time and send it to the Board of Directors for approval, as well as due to changes in management during the preparation of the AFS.

We have reported this issue in the individual audit report and the expectations are that, in the following years, the reporting will be done within the established statutory deadline.

## 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 2023. For analysis purposes, revenues, expenses, financial result, long-term and short-term liabilities have been examined.

Table 37 - The main financial indicators of audited POEs for 2023

No	Auditees	Revenues	Expenses	Profit/Loss	Short-term liabilities	Long-term liabilities
1	KEK "Kosovo Energy Corporation" J.S.C	195,613,000	182,423,000	13,190,000	49,564,000	175,443,000
2	Trepça J.S.C.	28,046,837	33,417,551	(5,370,713)	34,874,114	3,648,671
3	Kosovo Telecom J.S.C	56,814,000	49,785,000	7,029,000	44,099,000	31,238,000
4	"KOSTT" J.S.C	67,299,000	84,404,000	(17,105,000)	72,463,000	64,539,000
5	Kosovo Railways - InfraKos, J.S.C	3,171,149	3,855,948	(684,800)	41,398,619	50,555,832
6	RWC "Hidrodrini"	5,290,138	5,247,379	42,759	2,020,261	31,757,032
7	RWC "Ibër - Lepenc" J.S.C. - Prishtina	10,313,254	9,682,157	631,097	2,836,043	7,124,169
8	RWC "Prishtina" J.S.C - Prishtina	17,272,339	15,282,670	1,989,668	5,914,027	32,848,782
9	RWC "Uniteti" J.S.C - Mitrovica	3,525,202	2,748,782	776,420	2,247,637	1,155,886
10	RWC "Pastrimi", J.S.C - Prishtina	9,518,620	9,517,425	1,195	3,072,146	0.00
11	Public Housing Enterprise, J.S.C. - Prishtina	4,458,389	5,987,925	(1,529,537)	298,912	831,618
12	POE "Termokos", J.S.C. - Prishtina	12,225,120	9,880,031	2,345,090	40,152,839	36,755,578

Financial outturn (profit/loss) - The table above shows that out of 12 audited publicly owned enterprises, eight (8) POEs have operated with a total profit of €26 million, of which five (5) of the central level and three (3) of the local level; whilst the other four (4) have performed with a total loss of €24.7 million of which three (3) of the central level and one (1) of the local level.

The Kosovo Energy Corporation of the central level had the largest profit of €13.1 million or 50% of the total of profits, whereas KOSTT had the largest loss, at €17.1 million or around 65% of the total of loss. It is worth noting that KEK had a considerably lower profit compared to the previous year's because of the sharp decrease in the revenues from export during 2023.

Short-term liabilities - are financial obligations to be paid within one year and are classified as current liabilities. The short-term liabilities are: accounts payable, taxes payable, short-term debts, and all other obligations due to be paid within one year.

The short-term liabilities for the 12 audited enterprises amount to €298.8 million. The central level publicly owned enterprises comprise most of these liabilities (around 81%): KOSTT with €72.4 million or 24 %; Kosovo Energy Corporation with €49.5 million or 16.5%; Telekom of Kosovo with €44 million or 14.7%; Infracos with €41 million or 13.8%; and Trepça with €34.8 million or 11.6%. Whereas the remaining €56.5 million or 19% consists of short-term liabilities of seven (7) other entities.

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 the 12 audited entities at the yearend 2023 were circa €435.8 million or around 45% 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.

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 need to be addressed are:

- **Unfavourable financial results** - four (4) POEs have performed with a negative financial result, namely at a loss of €24.7 million, whilst eight (8) have managed to perform with a positive financial result, at a profit of €26 million.
- **High amounts of outstanding liabilities** - The total outstanding liabilities of these enterprises amount to over €734 million, of which €299 million short-term liabilities to be paid within a year.

Considering the fact that the total revenues were around €413 million, the payment of these short-term liabilities seem hardly to occur. When the long-term loans instalments and other liabilities incurred during 2024 are added to this, the situation can become even more complicated.

### 3.4. 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. These issues are presented as the following:

#### **Othe issues that have had an impact on financial management and compliance at the central level POEs are:**

- In the area of assets: lack of internal controls over assets management in KOSTT. This was because the management deemed the drafting of the financial manual describing the depreciation rates as sufficient.
- In the area of accounts receivable: failure to reconcile the provisioned accounts receivable books in line with the statutory requirements; understatement of accounts receivable; accumulation of accounts receivable; presentation of the unidentified accounts receivable. This occurred because the enterprise had not done the periodic reconciliations with the clients and failure to address these issues over the years.
- In the area of salary expenses: failure to pay employees with the same grade for the same job position, covering of job positions with acting staff. These shortcomings have occurred because the restructuring process is not terminated yet.
- In the area of procurement expenses: failure to use the e-procurement system for contract management and for the evaluation of the contractors performance; poor planning and implementation of the procurement plan; and selection criteria not applied in line with the LPP

These shortcomings have occurred as a result of insufficient management oversight over the contract managers and, according to the enterprise, as a result of having set the minimal criteria aimed at providing an equal treatment to the economic operators.

#### **Issues that have had an impact on financial management and compliance at the local level POEs are:**

- In the area of salary expenses: shortcomings in the recruitment processes for regular staff; changes to salaries not in line with the decision; and advance payments given to employees without any clear legal basis. These shortcomings have occurred due to poor control over the recruitment process, failure to update the contracts and because the company had deemed reasonable to make advance payments to the employees on certain cases with the purpose of having them returned from or executed in the upcoming salaries of employees.
- In the area of procurement expenses: failure to use the e-procurement system for contract management and for the evaluation of the contractors performance; splitting of tenders and failure to plan the open procedure; and procurement of used goods. These shortcomings occurred as a result of insufficient management oversight over the contract managers and failure to manage the contract through the e-procurement platform.

### 3.5. Recommendations of year 2023 and the level of implementation for year 2022

In the individual reports of 12 POEs for 2023 we have given 133 recommendations on the improvement of each area where shortcomings and errors have been identified.

Table 38 - Number of recommendations given to POEs in 2023

Audited POEs	New recommendations	Repeated recommendations	Partly repeated recommendations	Total
Central Level	66	20	3	89
Local Level	9	28	7	44
<b>Total</b>	<b>75</b>	<b>48</b>	<b>10</b>	<b>133</b>

This shows that 56% of the recommendations are new, 36% have been repeated from last year and 8% have been partly repeated.

The table below shows the recommendations given in 2022 and their implementation.

Table 39 - Number of recommendations given to POEs in 2022

Audited POEs	Implemented recommendations	Repeated recommendations	Partly repeated recommendations	Closed recommendations	Year 2022
Central Level	48	20	3	15	86
Local Level	31	28	2	-	66
<b>Total</b>	<b>79</b>	<b>48</b>	<b>10</b>	<b>15</b>	<b>152<sup>20</sup></b>

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 152 recommendations given last year, 58% have been implemented (including the closed recommendations), 32% are repeated and 6% are partly repeated.

<sup>20</sup> The number of recommendations differs from the previous year's report due to the fact that this year the Post of Kosovo Post (2 recommendations) and Kosovo Railways - Trainkos (9 recommendations) have not been included, whilst we have added the recommendations given by private auditing companies to KEK (17 recommendations), Kostt (10 recommendations) as well as KRU Hidrodrini (2 recommendations). A total of 134 recommendations were reported last year.

***We recommend the Government and the respective Shareholders Committees to:***

To strengthen the measures of accountability to the Boards of Directors and management in order to ensure that an analysis is made to understand the causes and that actions are taken to address them in a systematic and pragmatic fashion aimed at eliminating the errors that have led to modified opinions and conclusions; and

To ensure that effective processes have been put in place in order to confirm that the 2024 AFS preparation plan addresses all the compliance-related issues. All the issues and recommendations that need to be specifically addressed are presented in the individual reports.

## 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. It helps the organisation in meeting its objectives by providing 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 (CHU/IA) coordinates the entire internal audit process and monitors the public sector entities for the internal control of public finances.

Regulation 01/2019 on the Establishment and Implementation of the Internal Audit Function sets out the criteria to be met by BOs for the establishment of the IAU and the minimal number of auditors these BOs should have based on the size of their budget. Of the 86 budget organisations, 64 meet the criteria for having the IAU established. Yet, four of them (Municipality of Leposaviq, Zveçan, Zubin Potok, and Mitrovica North) have not established the IAU. Meanwhile, the number of auditors in 31 out of the 60 institutions with the IAU established was lower than provided for in the regulation.

According to our audits, the managements of BOs have not taken sufficient actions to implement the internal audit recommendations, with a merely 40% of recommendations implemented. At the local level, 44% were implemented, the rest were either in process of implementation or not implemented. At the central level, the level of implementation of recommendations was lower, at just 39%. Whilst, the level conducted audits compared to the planned ones was 98%.

Out of 60 BOs with the IAU established: four (4) of them had not established the Audit Committee, such as MIET, MESPI, Municipality of Graçanica and Municipality of Novobërda; whilst in six BOs such as: ICMM, Municipality of Obiliq, Rahovec, Deçan, Kamenica and Shtërpce, the CA, although established, has not been operational over the year.

In seven (7) BOs<sup>21</sup>, the ACs held less than four meetings, as required in the AI no.01/2019, whilst in five (5) BOs<sup>22</sup> the ACs have not submitted the annual reports as requested in Article 10 of the AI no.01/2019.

Audits have highlighted that dysfunctional internal controls are a pervasive problem in some BOs. This is mainly as a result of failure to properly document the control procedures, which leads to the failure to conduct controls continuously and effectively. The lack of necessary resources is another cause that leads to dysfunctional controls. The risks identification and management procedures across BOs were often not well documented, leading to insufficient oversight and poor risk management.

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 (CHU/IA), 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 established, to exercise the internal audit function through other ways provided by this regulation; and.**
- **To ensure, through MFLT (CHU/IA), all BOs establish Audit Committees in line with the statutory requirements to support the achievement of IAU objectives and that these Committees are effective in holding meetings; contribute to enhanced accountability and a strengthened role of IA; and in drafting the annual report as required by AI.**

21 MESTI, UP, Municipalities of Obiliq, Fushë Kosova, Istog, Malisheva

22 Ombudsperson, Prosecutorial Council, Municipalities of Obiliq, F.Kosova and Istog.



## *Chapter - III*

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# **PERFORMANCE, INFORMATION TECHNOLOGY, AND COMPLIANCE AUDITS**



# 1. Performance, IT and Compliance Audits

The 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 what extent citizens benefit therefrom. The Assembly and citizens will be able to hold accountable public funds managers through audit results.

For the 2023-2024 audit season, areas important to the citizens have been covered by the audit, also taking into consideration the goals of the UN 2030 Agenda for Sustainable Development.

During the reporting season, 14 performance audit reports, including procurement and IT, have been carried out as well as the parallel audit with the Albanian SAI and the joint regional audit on gender equality. These reports have resulted in a total of 124 recommendations given. The audit topic and content of the reports are presented as the following:

Public services in Kosovo are facing challenges in both efficiency and effectiveness. The audits have identified inefficiency in the healthcare services where the waiting time of patients in the clinics, especially in the University Clinical Centre of Kosovo (UCCK), lasted over four years in some cases. Moreover, the program for the integration of rural women into the labour market has yielded unsatisfactory results.

Other issues include the accountability and transparency. The Ministry of Culture, Youth and Sports failed to hold the organisations it funds and those that benefit from sponsorship funds from private businesses to account. Similarly, the Tax Administration has failed to identify and take legal measures against the companies that have been exempted from the sponsorship tax but have not delivered the sponsorship funds. The audits have also identified shortcomings in media licensing. Some media operate without paying the annual fee liability. Furthermore, the management of public parking lots is characterised by a lack of planning and the issuing of parking permits without proper documentation. These examples raise concerns on the effectiveness of the oversight and implementation mechanisms within the organisations or public institutions. During the conclusion of the direct sales of assets, the Privatisation Agency of Kosovo (PAK) was not efficient, as the purchase requests were not addressed in an optimal time. In addition, our audit shows that the Ministry of Agriculture, Forestry and Rural Development and the Institute have failed to properly manage agricultural lands. There are over 309 hectares of the Institute's agricultural land that are poorly managed, of which over 52ha are used in an unauthorized manner and about 31ha have been alienated without the Institute's knowledge/ consent and under unclear circumstances.

Public procurement was the focus of our audits given that 10,183 contracts of a total of €810,438,403 were concluded during 2023, which compared to the previous year constitutes an increase of €251,420,490 or around 45%. An increase in the value of contracts with over 62% compared to the previous year's was found in the POEs, whilst an increase of over 42% was found in the government authorities compared to the previous year's.

These activities were conducted by 165 Contracting Authorities, whilst the procurement activities of 18 independent institutions were conducted by the Central Procurement Agency.

As per the type of procurement: the highest percentage, around 58%, of the total of contracts concluded for year 2023 was constituted by the procurement of works with €473,442,602, followed by supplies with €228,085,606 or around 28%; services with €105,611,002 or around 13%; and design competitions with €3,299,192 or around 0.4%.

As per the type of procurement procedures: the highest amount of €665,768,975 or around 82% was constituted by the open procedure, followed by the negotiated procedures without publication of the contract notice with €117,258,922 or around 14%; the limited procedure (opened in two stages) with €13,176,422 or around 1.63%; the price quotation procedure with €7,799,039 or 0.96%. Meanwhile those with the lowest amounts were the design competition with €3,037,845 or 0.37%; minimal value procedure with €2,269,659 or 0.28%; and the competitive procedure with negotiation (opened in two stages) with €1,127,541 or 0.14%.

The public procurement area has been subject to our regular financial and compliance audits in all the audited public institutions. When it comes to performance audit, we have audited specific topics which are presented further in this chapter.

In the IT area, the responsible institutions have not taken sufficient actions to ensure proper project management and there were shortcomings in the scope and use of systems and data security:

- The Ministry of Education, Science, Technology and Innovation has failed to manage and implement the information technology project, worth €5.6 million, for the digitisation of the teaching process and the testing/evaluation of the Matura;
- The Ministry of Health has failed to implement the Pharmaceutical Stock Management System, which is not used by all pharmacies of different health levels up to the distribution of drugs to patients, and has neither taken any appropriate actions regarding the information security for this system.; and
- The parallel audit with the SAI of Albania carried out in the Regional Water Utilities of Pristina and Tirana, highlighted significant shortcomings in IT governance, information security and continuity of services in both water supply companies.

## 1.1. Performance Audits

NAO aims to promote efficiency, accountability, effectiveness and transparency of public administration through performance audits. 11 audits, including different topics, have been conducted in this area. These audits have resulted in 94 recommendations given to the auditees. The content of these reports, including the purpose, findings and audit message are presented as follows.

### **Topic: Efficiency and effectiveness in the outsourcing of healthcare and social services by the institutions of the Republic of Kosovo**

The institutions of the Republic of Kosovo, in addition to the health services they provide through responsible public institutions, have signed contracts with non-governmental organisations for health and social services over the years to meet the needs of citizens and provide them with home care

services (palliative care and home visits). Two of the non-governmental organisations it cooperates with to this purpose are 'Caritas Kosova' and 'Islamic Relief', at both central and local levels.

The audit covered the cooperation agreements and contracts signed by several public institutions (municipalities and ministries) with Caritas Kosova for the 2018-2022 period, given that it was the main provider of these services and more than 14.5 million euros were spent from public money for this period.

**Audit message:** *The extra health and social care services needed to be outsourced as a result of failure to approve the additional staff and the increase of population in the audited municipalities. However, the shortcomings in these processes such as: incorrect assessment of needs for extra services; use of different procedures without a reasonable ground as to what is the right procedure for these services; direct signing of agreements without transparency; and failure to manage the contracts have resulted in these services not reaching the optimal efficiency and effectiveness.*

The outsourcing of services to non-governmental organisations have been accompanied by legislative and procedural challenges. It is worth noting the services management and monitoring constituted a shortcomings in all the types of procedures, thus making it impossible to correctly measure their impact.

Poor and inefficient management of contracted services. The contracted quantities were not in line with real needs. Failure to document the real needs has led to the ratio of services provided through the regular staff of the MFHCs compared to those received and paid for one staff engaged through Caritas Kosova being 264% in the best case scenario and 969% in the worst case scenario. Hence, the regular staff of MFHCs have provided much more services within the year. This disproportion in the provision of services highlights the inefficiency and poor practices of outsourcing these services.

Failure to coordinated the outsourcing of healthcare services between the central and local levels has resulted in double financing of services from different sources, resulting in potential budget inefficiency.

Moreover, issues like failure to get a clearance on the healthcare staff licenses, incorrect estimation of values, and contracting on double amounts indicate the weaknesses in management and transparency.

There were no independent reports from contract managers assigned by the municipalities. Reports were prepared only by the service provider, based on which payments were made. There were no contracts implementation monitoring reports from the Municipalities either.

Meanwhile, citizens were generally satisfied with the health services received and with the length of time they had to wait for treatment.

However, the audit results show that in order for the outsourcing of additional healthcare services to be more efficient and effective, most of the contracting processes have room for improvement and attention in the future.

## Topic: Patients waiting list in the public health institutions

Increased quality and maintaining a high standard of healthcare services is directly related to the quality of life of the country's citizens. Shortcomings in the health system of a country lead to dissatisfaction and increased insecurity for the health and well-being of individuals and of the society as a whole

The National Audit Office has carried out the performance audit to assess the measures implemented by the Ministry of Health and the Hospital University and Clinical Service of Kosovo to ensure efficient treatment of patients on the waiting lists; the distribution of resources (human and material); and the registration in and monitoring of the waiting lists.

**Audit message:** *the Ministry of Health and the Hospital University and Clinical Service of Kosovo have not efficiently addressed the citizens' requests for medical treatment. The requests for treatments are huge whilst the capacities of the healthcare system to respond to such requests are limited, especially with regard to the infrastructure and devices and occasionally to the medical devices. On the other hand, the number of specialists physicians does not fit with the infrastructure and these devices. As a result, there were patients that have had to wait for more than four years to receive healthcare services from the clinics of the HUČSK.*

The audit has found that there was no harmonised distribution between human and material resources because the number of specialist physicians does not match the infrastructure and equipment available in the Hospital University and Clinical Service of Kosovo. For example: the number of orthopaedists in relation to the operating rooms is 9 to 1; in the cardiology clinic (invasive cardiology) it is 8 to 1, whilst in regional hospitals these services are not provided at all. In addition, the physicians' performance is not the same because some doctors are more active with operations compared to their colleagues. E.g. in one of the UČCK clinics there are doctors who perform about 500 surgeries a year, while there are doctors in the same clinic who perform only one surgery a year. We found similar situations in at least four clinics.

The audit has also identified a lack of anaesthesiologists in particular, who provide services to all surgical clinics, which has consequently reduced the operating capacities of the clinics. There are cases of outdated equipment which affects the efficiency of treatment of patients from the waiting lists. In addition, poor management of the supply with medical material and insufficient materials hamper the timely treatment of patients.

An example of this is the supply of total knee and hamstring prostheses, which are only available in the orthopaedics clinic at the University Clinical Centre of Kosovo, while regional hospitals are not supplied with them. The situation is the same regarding the supply of eye lenses, where only the ophthalmology clinic is supplied, while regional hospitals are supplied only with symbolic quantities.

The Hospital University and Clinical Service of Kosovo lacks a centralised or formal system of registering the patients on the waiting lists, which undermines the accuracy and reliability of the data in the lists. The current way of registration has led to lack of clear data on the number of waiting patients and particularly of the time they have to wait to receive healthcare services. Some health institutions (certain wards in regional hospitals) leave no trace of waiting lists. The lack of a proper

registration system makes room for misuse of public resources as it enables the manipulation of the waiting lists and the unfair delivery of health services.

Therefore, the regional clinics and hospitals are not able to efficiently respond to the citizens' requests for medical treatment.

## Topic: "Gender equality and empowerment of women from rural areas through their inclusion in the labour market"

Kosovo has been dealing with high unemployment in rural areas for more than two decades, with women are particularly affected. In order to reduce unemployment in these areas and the improve the women's lives, government grants are designated and distributed through the agricultural development program.

The focus of this audit was the Ministry of Agriculture, Forestry and Rural Development, the Agency for Agricultural Development and Employment Agency.

The objective of this audit was to assess the effectiveness and impact of policies, programs and measures aimed at promoting the inclusion of women from rural areas in the labour market, with a focus on increasing their participation and identifying opportunities for improvement.

**Audit message:** *Responsible public institutions have undertaken a series of actions to strengthen the position of women in society, but no satisfactory results have yet been achieved for the inclusion of women from rural areas in the labour market. Rural Development Programs and affirmative measures have failed to ensure equal support for both genders and there is no evaluation of the achievement of the program's goals from a gender perspective. Affirmative measures are conditional on women to be land or business owners for three to five years, thereby making their goal ineffective, because it limits the participation or support of women and girls who have just started up their activity.*

There is a lack of greater activation in properly informing women about the use of their right guaranteed by law. Whereas, the lack of functioning of the Monitoring Committee has caused problems in the monitoring process of Rural Development programs and as a result they have no data to reflect the results achieved or their impact on the inclusion of women from rural areas in the labour market, the achievement of gender equality and the empowerment of women.

The Employment Agency does not have gender-disaggregated data for urban and rural areas regarding registration, employment services, participation in active labour market measures and vocational training of the registered unemployed persons. In particular, the lack of services for the vocational training of women farmers causes this category to have difficulties in their inclusion in the labour market.

## Topic: Topic: Joint report - Gender equality and empowerment of women from rural areas through their inclusion in the labour market

The Supreme Audit Institutions of the Republic of North Macedonia, the Republic of Albania and the Republic of Kosovo signed a trilateral cooperation agreement in March 2023 to conduct a cooperative performance audit for gender equality and the empowerment of women from rural areas through their inclusion in the labour market. This audit aimed at evaluating whether the measures and projects implemented by the competent institutions are effective in ensuring the inclusion of women from rural areas in the labour market, focusing on increasing their participation identifying the opportunities for improvement. This cooperative audit, which was carried out with the support of the United Nations Entity for Gender Equality and the Empowerment of Women - "UN Women" arising from the 2030 Agenda for Sustainable Development.

Based on the national audit conclusions, the key message is:

**Audit message:** *The measures and activities for promotion of gender equality of women from rural areas through their inclusion in the labour market, undertaken by the competent public institutions of the Republics of North Macedonia, Albania and Kosovo are not efficient and effective enough for the inclusion of women from rural areas in the labour market and retention in rural areas. Competent public institutions in the three countries have undertaken a series of activities to strengthen the position of women in society, but satisfactory results have not yet been achieved for the inclusion of women from rural areas in the labour market.*

The purpose of this joint report is to show that it is time to recognize their significant contribution to family, community and country and ensure that they are supported and protected as equal members of society. Their social and economic empowerment will create social well-being, economic development, better quality of life in rural areas and sustainable communities. Recommendations for the respective organisations have been given in the individual reports, and our report contains 10 recommendations.

## Topic: Management of licensing at the Independent Media Commission

Media, as a primary source of information, plays a crucial role in our society, influencing public opinion and the development of culture and identity. The institution responsible for media licensing in our country is the Independent Media Commission.

The process of managing the licenses of Service Providers by the Independent Media Commission is an important process for regulating the media activities in Kosovo.

The audit covered the Independent Media Commission and with a focus on the Licensing Department, the Department of Media Monitoring and Analysis. This audit aimed to improve the licensing management process.



**Audit message:** *The Independent Media Commission has made efforts to manage the media licensing process, yet this process is characterised by shortcomings and weaknesses thus leading to failure to implement the criteria on media activities. Media outlets operate without fulfilling annual fee obligations over the years, and the suspension of media licenses is not implemented by the Independent Media Commission, resulting in the accumulation of debts. The lack of timely and proper monitoring of the media and the failure to take concrete steps against those media outlets that do not adhere to criteria and avoid annual fee payments have contributed to debt accumulation. Furthermore, there are significant delays in debt collection and issues in the internal controls of the media authority*

In the evaluation of applications submitted for broadcast licenses, the Independent Media Commission failed to consider all criteria as stipulated by the regulations.. the criteria were not met according to the respective regulations, failing to fulfil criteria such as tax verification, and the lack of a university diploma in one case. Not all criteria as envisaged by the respective regulations were met, where valid agreements on broadcasting rights for certain channels considered obligatory for broadcasting were missing.

Media outlets have consistently failed to adhere to the 60-day deadline for license renewal applications, and despite financial violations, regulatory authorities have not imposed punitive measures. There is consistent inconsistency in the recommendations for the extension or revocation of licenses, leading to subjective interpretations. In the decision-making process for the renewal of licenses, there were significant delays, mainly due to the lack of quorum in the Independent Media Commission, adversely affecting operators and broadcasting services.

The regulatory authority faced challenges in suspending the licenses of media service providers, as the processes for license suspension have not been carefully observed. Also, the lack of proactive monitoring by the regulatory authority in enforcing the financial obligations of media service providers and their broadcasting status has led to the accumulation of debts. Furthermore, the regulatory authority failed to establish a clear mechanism for the temporary suspension of licenses, contributing to financial challenges for both the regulatory authority and media service providers.

## Topic: Effectiveness of funds for the sponsoring of sports

Sport in Kosovo has a long tradition and plays an important role in the society. Sports is the window for how other countries see Kosovo. Through sports, we can not only have a healthy society but also have a high reputation in the world. Every year, the Ministry of Culture, Youth and Sports supports the development of sports activities, through which, it aims to contribute to the substantive organisation, development of staff, membership and licencing of sports in Kosovo and international arena. Another form of sponsoring the sports is through the private businesses, which are granted a deduction of 30% in profit tax in order to be able to use these funds for sponsoring the sports organisations. Yet, this support is characterised by numerous shortcomings.

The audit covered the Ministry of Culture, Youth and Sports which prepares, evaluates and approves the sports development policy in accordance with the priorities of massification and raising their quality, and the Tax Administration of Kosovo to cover the sponsoring businesses.

**Audit message:** *the Ministry of Culture, Youth and Sports has failed to hold the organisations it sponsors and those that obtain the certificate of sponsorship by private businesses to account. The majority of sports organisations have not reported on how they have spent the subsidy funds and have benefited continuously. Meanwhile, the Tax Administration of Kosovo has failed to identify and undertake legal measures against the companies that have been exempted from the sponsorship tax and have not provided the funds for sponsorship.*

The activities subsidised and sponsored by private companies do not achieve their goals and are not properly implemented, thus resulting in failure to achieve the goals for increasing the quality of sports in the country. During the 2020-2022 period, the sports organisations have not reported on the spending of the subsidies to the tune of €3.5 million funded by the Ministry of Culture Youth and Sports. Sponsorship and tax exempt for private companies has resulted in tax evasion. we found that private companies have not transferred over €490,000 to sports clubs although in the Tax Administration of Kosovo they have reported to have paid the money for sponsorship. Moreover, one of the non-governmental organisations, winner of the Kosovo Sports Database project, has not submitted the final product/report on time, for which the Ministry paid €121,430.

The Ministry of Culture Youth and Sports has failed to hold the organisations it funds and those that benefit from certification from sponsorship by private companies to account. The lack of coordination between MCYS and the Tax Administration of Kosovo has allowed significant financial irregularities, undermining the transparency, integrity, and effectiveness of sports funding and as a result the state budget has been damaged.

## **Topic: Management of public parking lots in the city of Prishtina by the local publicly owned enterprise Prishtina Parking**

Parking lot management is a critical component of urban infrastructure, which plays a key role in the daily life of residents and visitors in the Municipality of Prishtina. The Local Publicly Enterprise Prishtina Parking is the main authority for the organisation and management of public parking lots, which aims to provide parking services for citizens in the Capital.

The subject of this audit is the Local Public Enterprise Prishtina Parking with the responsible departments and the Municipality of Prishtina with the Inspectorate Department.

The National Audit Office has conducted a performance audit to assess the efficiency and effectiveness of the services provided to citizens by the Prishtina Parking Enterprise. Another purpose was to evaluate the measures and actions in parking lot management and cooperation with the Inspectorate of the Municipality of Prishtina.

**Audit message:** *The management of public parking lots and parking permits is characterized by significant deficiencies. The Prishtina Parking enterprise and the Inspectorate of the Municipality of Prishtina have not been efficient and effective in managing and monitoring the implementation of the regulation for a proper organization of public parking lots. The Prishtina Parking enterprise is still in consolidation, accompanied by regulatory changes, controls are weak and there are cases where*

*they are unable to prove their activities. Moreover, The enterprise has not managed to implement the digitization of the barrier gate parking system and the signalling of the parking lots.*

A significant number of parking permits are issued without the necessary documentation. The enterprise has failed to properly plan parking lots by not prioritizing enough parking for residential residents versus business users.

The failure to strictly implement the regulation and the application of different standards for issuing permits in an irresponsible manner have created potential scope for misuse and illegal benefits.

Some users of the system have the opportunity to make cancellations and changes in fines without leaving a trace and without a decision formalized by the Enterprise. Officials use informal forms to request and carry out cancellations of fines, increasing the possibility of benefits and lack of proper documentation.

The lack of a detailed plan and concrete timelines has caused the digital parking lot management system not to be operationalized. Manual operation of barrier gates and out-of-function monitors have caused confusion and reduced operational efficiency, negatively affecting revenue and citizen confidence. The Prishtina Parking enterprise operates without a structured plan for signalling parking lots in the city, thus operating acting in an ad-hoc fashion.

Internal controls are inefficient, negatively affecting the management of parking lots. The official forms for receiving and handing over cash were lacking.

Prishtina Parking did not manage to draft the regulations on organization and management of parking lots based on proper data and analysis, but mainly based on citizens' complaints.

The Inspectorate of the Municipality of Prishtina lacks a structured plan for inspections and supervision of public parking lots, relying mainly on citizen complaints.

Therefore, the Prishtina Parking enterprise and the Inspectorate of the Municipality of Prishtina have not been efficient and effective in managing and monitoring the implementation of the regulation for a proper organisation of public parking lots

## **Topic: Land/Property Management by the Kosovo Agriculture Institute**

Agricultural land, as a natural asset of general interest, has special protection and must be used for agricultural production, but in special cases, it can also be used based on certain criteria for non-agricultural purposes. The Ministry of Agriculture, Forestry and Rural Development made the preparation of public policies, setting of mandatory standards in the field of agriculture, livestock, production and protection of plants, forestry, and land protection from unplanned urban constructions

and the regulation of agricultural land, as well as rural development.<sup>23</sup> The Agricultural Institute is a public research Institute of Kosovo and has had the objective of playing an active role in the development of agrarian reforms and scientific research in Agriculture.

The National Audit Office has carried out a performance audit on the topic “Land/Property Management by the Kosovo Agricultural Institute”. The objective of the audit is to review whether the Ministry of Agriculture, Forestry and Rural Development and the Institute have established an appropriate system for the preservation and the protection of the Institute’s agricultural lands and whether the process of leasing of those lands is in compliance with the legal framework.

**Audit message:** *Our audit results show that the Ministry and the Institute have not achieved to properly manage the Institute’s agricultural lands. There is a clear lack of a legal basis for the Institute, the Management Board was not functional, by impacting the Institute not to have proper management and guiding policies for the development of the Institute’s activity. There are over 309 hectares of agricultural land belonging to the Institute that are not managed properly, of which over 52ha are used in an unauthorized manner and about 31ha were alienated without the knowledge/consent of the Institute. The Institute uses only 5ha for research needs, while about 260ha has been offered/leased but which have not been managed properly.*

The lack of a clear legal basis for the Institute has severely damaged its proper functioning. This shortcoming has led to the considerable mismanagement of the Institute’s agricultural lands. The lack of scientific research programs has resulted in most of these lands remaining barren, contributing to poor management, alienation and unauthorized use. Currently, only a small part of the land is used for research, while most of it is given on lease.

During various years, about 31ha of the Institute’s lands in the Cadastral zones of Pristina and Peja were alienated. In all cases of alienation, consent was not obtained from the Institute as the owner of these properties. For the alienations that occurred before 1999, of about 16ha, 49 are, 37m<sup>2</sup>, the relevant documentation is missing. While after 1999, about 14ha, 41 ares, 73m<sup>2</sup> were alienated, where most of those were based on decisions before 1999, questioning their authenticity. Likewise, the Municipality of Peja has unilaterally decided on several occasions to alienate the properties of the Institute without any consent for such actions.

Over 52ha of agricultural land has been usurped from the Institute, as well as another area of land has been usurped on which 26 buildings/villas were built. The lands of the Institute are not monitored and inspected by the Ministry nor by the Institute. This lack has led to poor management, unauthorized use of agricultural land and its use for non-agricultural activities, as well as soil pollution by harmful materials, etc.

There is a lack of transparency and inadequate management in the process of leasing properties from the Institute. Out of 11 lease contracts concluded in 2016, only three (3) are based on public announcements, the use of lease contracts that are not of agricultural nature, not appointing the contract managers, not describing the initial state of the land, not presenting the new cultivation project.

<sup>23</sup> Regulation (GRK) - no. 06/2020 on Areas of Administrative Responsibility of the Prime Minister’s Office and Ministries.

The lack of managers to monitor contracts has resulted in numerous problems in the use of agricultural lands under lease. As a result, the Ministry and the Institute do not have information on how these lands are used and if they are used in accordance with their attributes.

Therefore, the Ministry of Agriculture, Forestry and Rural Development has not put in place a proper system for the preservation and protection of agriculture lands of the Institute. In addition, both the Ministry and the Institute have not effectively managed and monitored the Institute's properties.

## Topic: Assessment of Direct Asset Sale Procedures under the Management of the Privatization Agency of Kosovo

Privatisation Agency of Kosovo is authorized for the administration of social enterprises and their assets, including the authorization for their sale, transfer and/or liquidation.

The National Audit Office has audited the procedures of Direct Sales of Assets under the management of the Kosovo Privatization Agency for the period 2019-2021, while for the purposes of assessing whether practices have changed or efficiency has increased, we have also audited sales completed during years 2022-2023.

**Audit message:** *During the conclusion of the direct sales of assets, the Privatisation Agency of Kosovo was not efficient as the handling of the purchase requests was not done in an optimal time. The assets categorisation process was weak, the parcelling of land for sale was not done properly, and in recent years the only category for which requests for purchase were reviewed were households. Whilst in regard to the selection of evaluators, we have not found any weaknesses, other than the lack of a defined methodology.*

The handling of requests for direct sales was made with considerable delays, which went up to 86 months for the 2019-2021 period, and 68 for the 2022-2023 period. Inefficiency in the handling of requests has also resulted in an extremely large number of unreviewed requests, where 1,675 requests or 75% of the submitted requests are still waiting in the queue.

The failure to prevent illegal constructions led to the sale of assets through direct sales, thus eliminating competition. Failure to take appropriate actions to prevent constructions without permission either by the respective Social Enterprises or even by the Kosovo Privatization Agency, has led to the sale of assets by the using the direct method and without being subject to competition.

The sale of assets was often conducted by eliminating potential competition. The reference/recommendation reports were not in accordance with the actual situation on the ground, which has influenced the assets to be wrongly categorized for sale by the direct method, losing opportunities for better prices.

## Topic: Documentation, Assessment and Verification Process in the Municipal Performance System for year 2020

The municipal performance assessment is a process which means the most fair measurement of the provision of services to the citizens of a municipality. This process in the Republic of Kosovo is regulated and monitored by the Ministry of Local Government Administration, whilst the information related to municipal performance is declared by the municipalities themselves.

The purpose of the audit was to assess the functioning of the Municipal Performance Management System. We have thus assessed the way the process of reporting and documenting the indicators from the municipalities: of Skenderaj, Obiliq, Gjilan and Graçanicë worked. We have also assessed how the verification and evaluation of this documentation was done by the MLGA.

**Audit message:** *In general, the audited municipalities have not documented the municipal performance indicators with supporting documents. MLGA has carried out the assessment, however, it has not adhered to all the assessment rules, especially the request related to the physical verification on site. An ad hoc assessment of on-site indicators by the Ministry was carried out after the assessment of the municipal performance, however, due to the identified shortcomings, this evaluation did not affect the final ranking of the beneficiary municipalities.*

The audit results show that the audited municipalities did not support the reported indicators with relevant evidence. The practices followed in the attached evidence were different and not always in accordance with the requirements of the Main Document for relevant evidence. The municipalities had established various documents to support the indicators, but these were not always relevant and did not match the indicators requirements.

MLGA scored the municipalities based on the results reported by the municipalities themselves in municipal performance, but did not conduct independent monitoring or assessment. In the four audited municipalities, it was found that MLGA has scored some areas and indicators with the same number of points, despite the different documents attached for the same indicator. This unfair assessment has affected the result of the Municipal Performance Grant in the ranking of municipalities.

## Topic: Quality Assurance Mechanisms for the Data Reported on the Municipal Performance Management System and the Municipal Performance Grant for Year 2021

The National Audit Office has started cooperation with Helvetas/DEMOS since 2018. The four audits published as a result of this cooperation aimed at assessing the municipalities regarding the development of procurement procedures, the management of contracts and the improvement of services to citizens. In addition, in the last audit, we also assessed the impact or management of these grants as a whole and the differences between the funding from Helvetas/DEMOS and from the Ministry of Local Government Administration.

This audit covered the process for assessing the quality control mechanisms for the data reported for the performance of 2021; the assessment was conducted in 2022; whilst the funds were allocated

during 2023. Our audit covered three municipalities, Gjakova, Klina and Viti, as the beneficiaries of the MPG for year 2021 and the Ministry of Local Government and Administration which has been monitoring and assessing this process.

**Audit message:** *The Ministry has not managed to provide effective controls which would have an impact on the final ranking of the municipal performance. The lack of preliminary assessments, the acceptance of non-archived documents, and discrepancies between the scores given have compromised the effectiveness of mechanisms that aim at assuring quality in municipal performance reporting. These flaws have also led to unfair ranking of the audited municipalities.*

The quality of municipal performance reporting was not at the right level. Despite the municipalities' efforts to make internal arrangements and the municipal performance reporting, the shortcomings in communication, approval process and allocation of tasks have made the control mechanisms of quality assurance ineffective. The lack of evidence on communication and approval by the responsible officers undermines the reliability of the reported data..

The Ministry has not managed to provide authorised persons with access to the system. The Ministry has not managed to apply appropriate controls over access to the system, in order to harmonise the system's functionalities with the system's regulations and to implement the confidentiality measures in the system. Shortcomings in the accounts management practices, including the impersonal accounts, and non-adherence to the passwords management standards compromise the integrity and confidentiality of municipal data even further.

## 1.2. Information Technology Audits

The National Audit Office is paying particular importance to the IT audits. This audit season included projects and information systems with impact on the public institutions and on the services delivered to the citizens. We have carried out two (2) audits in this area and the parallel audit with the Albanian SAI carried out last year has been finalised this year. These reports have resulted in 30 recommendations to the auditees. The content of these reports including the audit findings and message are presented as the following.

### Topic: Pharmaceutical Stock Management Information System

The Ministry of Health (MoH) develops and implements healthcare policies by providing an accessible and non-discriminatory system that lives up to the highest standards.

Since 2013, MoH has invested in the digitalisation of the pharmaceutical stock in the healthcare institutions for the supply of patients with medicines and expendables from list of essentials and non-essentials. However, there were shortcomings in the system scope and use as well as in the management and governance of IT and data security.

Our audit has examined the management of the pharmaceutical stock system and the information security of this system in the Ministry of Health as well as the way Kosovo public healthcare institutions have used the system.

**Audit message:** *Ministry of Health has failed in having all the healthcare units, hospitals' and clinics' wards pharmacies and the FHC fully apply this system. This has resulted in poor management of the pharmaceutical stock and inefficient/irrational use of the medicines and the medical supplies. Shortcomings have been found in the information security and application controls in this system.*

Notwithstanding the considerable investments made for systems deployment, the Ministry was lacking the adequate IT governance mechanisms. For the purpose of deploying and improving the hardware infrastructure in the whole territory of Kosovo, over €6.1 million have been invested on healthcare systems, including the pharmaceutical stock management system. However, the system has not been fully applied by all the pharmacies of different levels up to the distribution of medicines to patients. Clear responsibilities for system administration and policies of IT procedures were lacking. These shortcomings not only lead to misallocation of resources in investments, but also compromise the security of the data of strategic importance to the Ministry of Health.

Ministry of Health has not undertaken the right actions on information security for the pharmaceutical stock management system, thus increasing the threats in the protection of the patient's privacy and the integrity of data in general. The pharmaceutical stock management system was suffering shortcomings when it comes to data input and generation of reports. The lack of interfacing with the central systems increases the risk of entering incorrect data, whilst failure to set the limit for the expiry date of items undermines the efficient use of medicines.



Hence, the pharmaceutical stock management system has helped increase the efficiency and transparency in the distribution of medicines and medical supplies from the list of essentials and non-essentials for the patients. Yet, there were shortcomings when it comes to the system deployment and use, IT governance management and data security.

## Topic: Modernisation of the education system in Kosovo through e-Education

The role and responsibility of the Ministry of Education, Science, Technology and Innovation is to create the policy and implement the legislation for the development of education, including pre-university education, higher education and science in Kosovo. In addition, given the development trends in IT, the Government has invested in education information and communication technologies, in projects related to the digitisation of education.

During the 2013-2017 period, the Ministry of Education, Science, Technology and Innovation developed the project for the digitisation of pre-university education in Kosovo, worth €4,931,000 in accordance with the soft loan agreement that is to be paid until 2032 in a total of €5,637,519 (including the principal, interest, fees).

The audit was carried out to assess whether MESTI has effectively managed and implemented the IT project on Modernisation of the Education System in Kosovo through e-Education to meet the objectives of this project and the ministry's goal of digitising the learning process and of the curricula and the Matura exam/assessment.

**Audit message:** *MESTI has failed to manage and implement the IT project on Modernisation of the Education System in Kosovo through e-Education to meet the objectives of this project and the ministry's goal of digitising the learning process and of the curricula and the Matura exam/assessment. Meanwhile, the Government of Kosovo has to pay the loan to the borrower for this non-operationalised/used project until 2032. These liabilities will be paid by the Budget of Kosovo through instalments. Failure to operationalise the project for the digitalisation of the pre-university education, of a total of €5,637,519, has caused financial damage to the budget for the same amount.*

The Ministry has failed the project for digitisation of pre-university education. This project, fully financed through borrowing, was carried out without previous planning and was accompanied by shortcomings during the development, which led to the organisation's failure to achieve the goal and fulfil the mission. The Ministry has failed to properly manage the project by failing to appoint a project manager and responsible personnel. Payments for the work performed by the Economic Operator have been made without the works being accepted the acceptance committee, thus failing to ensure that the accepted product is in accordance with the contract. Agreement implementation was not monitored, therefore there were no reports as to whether this developed system was maintained two years after its acceptance, as set forth in the agreement. Furthermore, the Ministry failed to provide us with the necessary/sufficient documentation and access to information systems, required during the audit. This has significantly limited the audit scope.

As a result, MESTI has failed to fulfil the objectives of this project and the goal of the Ministry for the digitalisation of the learning process and the Matura exam/assessment.

## Topic: Joint report of parallel audit on Information System of Water Utilities of Tirana and Prishtina

The National Audit Office of the Republic of Kosovo and the Supreme Audit Institution of Albania have carried out a parallel audit of the Water Supply Utilities of Tirana and Prishtina, focusing on the information systems.

The audits focused on the companies providing potable water supply services, namely their information systems. In the water supply utility of Tirana, the audit focus also covered the contracts and their compliance with authorities.

**Kosova:** In Kosovo, potable water is supplied by seven regional water companies which deliver water supply services to around 79% of the Kosovo population. RWC Prishtina provides water and wastewater services for the municipalities of Prishtina, Fushë Kosova, Obiliq, Shtime, Lipjan, Podujeva, Drenas and Graçanica. This company is the largest water service provider in Kosovo, with a registered number of 153,509 customers or 37% of the total of customers throughout Kosovo. In addition, RWC Prishtina has the largest number of commercial/financial complaints filed against it by the citizens.

**Albania:** Tirana Water and Sewerage Utility JSC is the institution responsible for supplying potable water and for the collection, removal and treatment of wastewater in the Municipality of Tirana. The company's business activity in the service area it has been licenced for by the Water Regulatory Entity is:

- Selling and supplying the customers with potable water;
- Maintenance of potable water supply system/s;
- Production and/or purchase of water to meet the customers' demand;
- Collection, removal and treatment of wastewater;
- Maintenance of wastewater systems and purification plants;
- Carrying out laboratory activities.

**Audit message:** results from the parallel audit highlights significant shortcomings in IT governance, information security and service continuity. While in RWC Prishtina shortcomings have also been identified in the data quality, there have not been identified any major problems in Tirana WSU concerning the electronic data, however, the risk of their loss, interruption or alienation was high.

RWC Prishtina did not provide for an effective control environment in order to safeguard the integrity and continuity of IT systems, thus having an adverse impact on the complete achievement of the company's goals and reducing the reliability of the company's systems.

The Tirana Water and Sewerage Utility JSC was lacking the strategy, policies and regulatory acts which would define the management, responsibilities and obligations on using the information technology.

The Tirana WSU has not been planning and developing new IT services that would help the company achieve its institutional objectives. The steps taken to upgrade, improve and secure the services provided through information technology were insufficient to enter the process of data security and

the continuity of service delivery without interruption. Although there have been no major problems concerning the electronic data, the risk of their loss, interruption or alienation was high.

The 14 performance audit reports produced by the National Audit Office have resulted in 124 recommendations for the improvement of different aspects of the public administration.

### 1.3. Compliance Audits

The National Audit Office focuses on extending the compliance audits through which provides reasonable assurance that the accounting/financial reporting processes and the underlying transactions are in compliance with the authorities<sup>24</sup>. In conducting such an audit, focus is put on the processes and transactions related to the receipt and spending of public funds. They should be in compliance with the respective authorities and the latter serve as the criteria for conducting such an audit.

For year 2023, NAO carried out two (2) compliance audits and gave 12 recommendations wherewith.

#### Topic Procurement and management of contracts in the Ministry of Health

The audit focused on the procurement processes, from the planning up to the conclusion of contracts. The audit covered the procurement process for year 2023, including the planning, procurement procedures, contract management and the measures taken by the Ministry of Health to ensure that the they have been efficient all the way to the achievement of their goals.

Procurement processes were mainly focused on the goods and services category and on capital investments. The 2023 budget for the MoH for these two categories was €60,965,938, while €27,262,221 or 44% had been spent. In terms of funds, part of the funds (around €9 million) was from the investment clause for COVID 19 projects, which could not be spent.

The audit results show that the Ministry has not managed to have a considerable number of procurement process, planned and initiated already, finalized with signed contracts. The low level of implementation of the procurement plan has significantly affected the level of expenditures on capital projects and supply with medical equipment and drugs (the level was below the 50% of the Ministry's budget).

The failure to conduct analyses in time, prior to the initiation of the tendering process and poor controls during the process, even in the early stages of the tendering process, has resulted in the management's failure to sign the contracts. This situation has led to the retendering processes and in the ministry's failure to achieve its objectives of the current year. The consequences of the failure to

<sup>24</sup> "Compliance with authorities" means compliance with the acts or resolutions of the legislature or other statutory instruments, directives and guidelines issued by the public sector bodies with competences set forth in the statute which the auditees are expected to adhere to. In other words, it means compliance with the rules, regulations, standards and good practices.

conduct such activities have affected the functioning of healthcare services. The evaluation processes have not, in certain cases, managed to identify the errors in the estimation of the bid value, thus resulting in the need to amend them during their implementation.

Contract monitoring has revealed challenges such as delayed implementation of contracts/annex contracts and failure to apply the e-procurement platform for contract management. The delays in drafting the project of the Emergency Clinic in UCCK has resulted in the extension of the deadline for the construction tendering process, an important project, thus a part of funds had remained unspent for year 2023.

In order to achieve potential improvements so that the planned procurement processes are well analysed and containing the necessary information to prevent the chances of these activities being unsuccessful, this report has resulted in five (5) indispensable recommendations

### **Topic: Allocation for use of municipal property and their monitoring in the Municipality of Ferizaj**

The audit focused on the implementation of the procedures for allocating the immovable procedures for use and management of rented property for the January 2022 – September 2023 period.

The audit results show that the Municipality has not managed to maintain and increase the value of the rented property.

The audit found that the properties users have not made the investments stipulated in the contracts. The users of municipal properties have conveyed the rights using the property to third parties without prior approval of the Municipality.

Moreover, the Municipality has neither kept accurate financial records for any of the contracts nor has collected the rent receipts within the contracted deadlines.

The audit report has resulted in seven (7) recommendations to the Municipal Assembly and the Mayor regarding the undertaking of actions to improve the monitoring and management of rented properties in line with the law, by making sure that all the procedures are implemented in order to minimise the financial losses and to improve the transparency in the management of public properties.

# *Chapter IV*

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## **AUDIT 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 2022, the Government prepared an action plan for the implementation of the recommendations.

At the level of individual audits, most budget organisations do not implement a systematic process for monitoring the implementation of recommendations. Compared to 2022, the number of recommendations given to budget organizations has decreased, yet the level of implementation of recommendations remains not satisfactory. The number of fully implemented recommendations is at the level of 46% (including the POEs), whilst the rest of the recommendations are either 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 the shortcomings have been identified in. NAO, through individual audits, conducts an assessment of implementation of the recommendations given in the previous year, clearly reflecting the areas in which remedial measures and actions have been taken as well as the areas that need to be further improved.

In the AAR on AFR/BRK for year 2023 we have given a total of 19 recommendations to the Government.

Annex I of the report provides complete information on the progress of the recommendations given in the AAR -2022, while Tables 40 and 41 show the statistics on the recommendations to the individual organisations.

## 1. Implementation of recommendations given in the 2022 AAR

In October 2023, the Government of Kosovo approved the Action Plan on implementation of the recommendations, which obliges all BOs to implement it. The level of implementation of recommendations will be monitored by a mechanism, which will be decided upon by the Ministry of Finance, Labour, and Transfers in coordination with and support of the Office of the Prime Minister.

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 29 recommendations given in the 2022 AAR, two (2) have been fully implemented, two (2) were under implementation, 15 were not implemented and 10 are no longer applicable (the latter have been merged with other recommendations). Annex I shows the detailed data on the recommendations given in the 2022 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, liabilities; 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 2022

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 tables present the data on the state of recommendations for years 2022 and 2021, which are categorized by auditees.



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

Table 40 – Implementation of the AG recommendations for year 2022

Auditees	No. of recomm. in 2022	No longer applicable <sup>25</sup>	To be implemented	Implemented		Partly implemented		Not implemented	
	Nr.	Nr.	Nr	Nr.	%	Nr.	%	Nr.	%
Central level institutions	166	11	155	76	49%	21	14%	58	37%
Independent institutions	53	1	52	31	60%	5	10%	16	31%
Local level institutions	372 <sup>26</sup>	12	360	140	39%	19	5%	201	56%
POEs	152	15	137	79	58%	10	7%	48	35%
Total of recommendations	743	39	704	326	46%	55	8%	325	46%

Table 41 - Implementation of the AG recommendations for year 2021

Auditees	No. of recomm. in 2021	No longer applicable	To be implemented	Implemented		Partly implemented		Not implemented	
	Nr.	Nr.	%	Nr.	%	Nr.	%	Nr.	%
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%
POEs	187	8	179	104	58%	70	39%	5	3%
Total of recommendations	836	17	819	417	51%	126	15%	276	34%

As seen from the tables above, the total number of recommendations given for year 2022, compared to year 2021, has decreased from 836 to 743 recommendations, whilst the number of unimplemented recommendations has increased from 34% to 46%. Therefore, the level of unimplemented recommendations or of those the implementation of which has not started was not satisfactory.

<sup>25</sup> Recommendations that are no longer applicable are as result of merging them or changes in legal acts

<sup>26</sup> In the 2022 AAR, 352 given recommendations were reported. This number also included 20 recommendations given in the audit reports for 2021 to the municipalities of Mitrovica North, Zvečan, Leposaviq and Zubin Potok, because the audit for 2022 was not carried out in these municipalities. So the assessment of the implementation of recommendations given is for 372 recommendations.

It is worth noting that the performance audit reports for 2022 has resulted in 195 recommendations given. With regard to the recommendations given by the Assembly of Kosovo for performance audits, this audit season the National Audit Office has not conducted any follow-up audit of the recommendations to assess the level of their implementation.

In general, BOs prepare the action plans for implementation of recommendations, but they do not follow any formal process of monitoring, evaluation 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 for regular monitoring of the implementation of recommendations by all BOs.

### **3. Implementation of recommendations given by the Assembly of Kosovo**

The Assembly of Kosovo has given recommendations on four (4) the deliberated audit reports on the University of Prishtina, the Telekom of Kosovo, HUCSK and RTK. The NAO has addressed the implementation of these recommendations given by the Assembly and out of the 10 recommendations given, four (4) were implemented, three (3) were under implementation, and three (3) were not implemented. Annex II gives details on the recommendations given by the Assembly of Kosovo.

Moreover, the two (2) recommendations given to NAO, one regarding the process of direct sales from PAK and the other one on reporting in the 2023 AAR about the amount of subsidies allocated by the Government to the POEs and making a categorisation on what those funds have been spent on, have been implemented.

In addition, the Assembly of Kosovo gave recommendations on the performance audit reports: "Assessment of students in the national and international exams" "Functioning of the Municipal Performance Grant System and the management of donor-funded projects for year 2021", "Financial and Operational performance of Trepça POE", "Management of the project for uniting the city of Ferizaj", "Payroll management system".

Regarding the recommendations given by the Assembly of Kosovo for performance audits, this audit season the National Audit Office has not conducted any follow-up audit of the recommendations to assess the level of their implementation. NAO will occasionally carry out follow-up audits of the implementation of the recommendations, which will cover more reports than those of one audit season. The recommendations of COPF and the Assembly of Kosovo will also be included following an adequate planning.

## 4. Audit Impact

Reports of NAO aim at promoting changes in the public sector by improving governance in terms of financial management. The actions that could be taken as a result of the audit process would make the financial statements present a true and fair view of the financial situation of the budget organisation, thus increasing the quality and reliability of the financial information disclosed.

The audit impact is measured with the extent which the budget organisations have improved to following the recommendations we have given in the previous year, and it is the best indicator as to whether the management is improving the existing policies, process and controls over the areas the shortcomings have been identified in.

In general, the audit impact on the vast majority of auditees was in improving the quality of financial reporting.

### Central level

Based on the audit reports, there is progress in the improvement of financial management and control systems, particularly in the area of assets and contingent liabilities.

As a result of the audits, improvements were found in the asset registers, the rectified value of capital projects accounted for as ongoing investments, as the following:

- The project “Prishtina-Hani i Elezit Highway R6” in the Ministry of Environment, Spatial Planning and Infrastructure (MESPI) kept as ongoing investment, was recorded as an asset in use, applying a depreciation with an impact of about €40,000,000 (project value €705,313,524);
- Transfer of assets (19 schools) from MESTI (€17,827,579); ME (€10,000,000), MCYS (€994,306), MESPI (€1,608,395) and MIET (€2,730,986), which had an impact with an aggregate amount of €30,430,280; and
- In HUČSK, the improvements in keeping the inventory register were evident, which had an impact of €3,427,790 in this register as well as the improvements in land registration with an impact of €1,000,000 in the register.

Furthermore, due to the actions taken regarding the correct presentation of the value of contingent liabilities in the AFS, an improvement of €4,741,000 in ME, €1,590,000 in MIA and €4,268,962 in the Health Insurance Fund (FSSH) was found in their presentation.

### Local Level

At the local level, our audit impact is more emphasised in the Municipality of Mitrovica South and the Municipality of Novobërda, which have significantly improved the issue of assets management by recording properties (land and buildings) in a total value of €221,434,089, which were not recorded in the assets accounting registers.

- Municipality of Mitrovica South has managed to increase the book value of assets by €74,312,661 since 2022.
- Municipality of Novobërda - has managed to increase the book value of assets by €147,121,428 since 2022.

Our audit has also had an impact on Municipality of Pristina, which has improved the reporting process for the category of contingent liabilities by €16,843,833 compared to last year.

## Publicly Owned Enterprises

The audit reports have resulted in the enterprises improving their financial management and reporting processes, such as the correct presentation of the ongoing investments; preparation of the financial statements and the annual report within the set deadline; correct presentation of contingent liabilities; revaluation of assets, which has resulted in higher value of the assets presented in the AFS; updated employment contracts; drafted internal regulations for the enterprise business management.

*\*This report is a translation from the original Albanian version. In case of any discrepancy, the Albanian version shall prevail.*

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***ANNEX***









# Annex I: Progress in the implementation of recommendations given in 2022 AAR









	Responsible institution	Recommendations given in 2022 AAR	Status
1	Government of Kosovo	Through MFLT, that the requirements for complete and true reporting in the statements of disclosures are fulfilled.	Unimplemented
2	Government of Kosovo	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..	Partly implemented
State Debt and State Guaranties			
3	Government of Kosovo	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.	Unimplemented
4	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 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..	Unimplemented
5	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 overcomes these challenges.	Unimplemented

6	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. 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.	No longer applicable <i>(merged in recommendation no.3)</i>
State Budget Analysis			
7	Government of Kosovo	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.	Implemented
8	Government of Kosovo	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.	Unimplemented
9	Government of Kosovo	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.	Unimplemented
10	Government of Kosovo	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.	Unimplemented
Assets			
11	Government of Kosovo	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.	Partly implemented
12	Government of Kosovo	Through MIA, to ensure that the e-assets system is used by all budget organisations.	Unimplemented
Accounts receivable			
13	Government of Kosovo	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.	Unimplemented







Outstanding and contingent liabilities			
14	Government of Kosovo	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.	Unimplemented 
15	Government of Kosovo	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.	Unimplemented 
Payments through court rulings and enforcement			
16	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 litigations. In addition, it should take actions to prevent or resolve numerous litigations, through the parties involved in the expropriation process.	Unimplemented 
17	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.	Unimplemented 
Employment data			
18	Government of Kosovo	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).	Implemented 
Internal Audit System			
19	Government of Kosovo	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.	Unimplemented 

20	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, contribute to increasing accountability and strengthening the role of IA and also drafting the annual report as required by IA.	Unimplemented 
Performance Audits <sup>27</sup>			
21	Government of Kosovo	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.	No longer applicable 
Publicly Owned Enterprises <sup>28</sup>			
22	Government of Kosovo and the POEs Shareholders Committees	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.	No longer applicable 
23	Government of Kosovo and the POEs Shareholders Committees	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.	No longer applicable 
24	Government of Kosovo and the POEs Shareholders Committees	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.	No longer applicable 
25	Government of Kosovo and the POEs Shareholders Committees	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.	No longer applicable 






<sup>27</sup> Recommendation was addressed to the auditees, which were informed on the taking of decisions.





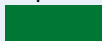
<sup>28</sup> The following no longer applicable recommendations to POEs are included in this report under the recommendation in Chapter III section 2. This is because, the same have been individually addressed to the Management Boards and respective managements of POEs.

26	Government of Kosovo	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.	No longer applicable 
27	Government of Kosovo and the Shareholders Municipal Committee	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	No longer applicable 
28	Government of Kosovo and the Shareholders Municipal Committee	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.	No longer applicable 
Implementation of recommendations			
29	Government of Kosovo	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. <sup>29</sup>	No longer applicable 

<sup>29</sup> Recommendations are given in each part of the report and all are subject to monitoring and implementation

## Annex II: Progress in implementation of recommendations given by the Assembly of Kosovo following deliberation of the audit reports

Responsible Institution	Recommendations given by Committee for Oversight of Public Finances	Progress in implementation of recommendations
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.	Partly unimplemented 
Deliberated audit report on AFS of RTK for year 2022		
1 RTK	The Government of the Republic of Kosovo, in coordination with the Board of RTK, should analyse the possibilities of providing the RTK with a permanent facility that meets the conditions for operating as a public television, as quickly as possible.	Unimplemented 
Deliberated audit report on AFS of RTK for year 2021		
1 Telecom 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..	Partly implemented 

2	Telecom 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	Telecom of Kosovo	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.	Partly implemented 
Deliberated audit report on AFS of the HUCSK for the year 2021			
1	HUCSK	The Ministry of Health should ensure that Board members are appointed fully in compliance with Law No. 04/L-125 on Health.	Implemented 
2	HUCSK	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..	Unimplemented 
3	HUCSK	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 

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

Table nr. 40 – Audit opinions to the central level for three years

No.	Auditees	Audit Opinion		
		2023	2022	2021
1	Assembly of the Republic of Kosovo	Unmodified	Unmodified	Unmodified
2	Office of the President	Unmodified	Unmodified	Unmodified
3	Office of the Prime Minister	Unmodified	Qualified	Qualified
4	Ministry of Finance, Labour and Transfers	Unmodified	Unmodified	Unmodified
5	Ministry of Agriculture, Forestry and Rural Development	Qualified	Qualified	Qualified
6	Ministry of Industry, Enterprise and Trade	Qualified	Qualified	Qualified
7	Ministry of Environment, Spatial Planning and Infrastructure	Qualified	Qualified	Qualified
8	Ministry of Health	Qualified	Unmodified	Qualified
9	Ministry of Culture, Youth and Sports	Qualified	Qualified	Qualified
10	Ministry of Education, Science, Technology and Innovation	Qualified	Qualified	Qualified
11	Ministry for Communities and Returns	Qualified	Qualified	Qualified
12	Ministry of Local Government Administration	Unmodified	Qualified	Qualified
13	Ministry of Economy	Unmodified	Qualified	Qualified
14	Ministry of Internal Affairs	Unmodified	Qualified	Qualified
15	Ministry of Justice	Unmodified	Unmodified	Unmodified
16	Ministry of Foreign Affairs and Diaspora	Unmodified	Unmodified	Qualified
17	Ministry of Defence	Unmodified	Qualified	Qualified
18	Ministry of Regional Development	Unmodified	Unmodified	Unmodified
19	Hospital and University Clinical Service of Kosovo	Unmodified	Qualified	Qualified
20	Health Insurance Fund	Qualified	Qualified	Unmodified
21	Public Procurement Regulatory Commission	Unmodified	Unmodified	Unmodified
22	Academy of Sciences and Arts of Kosovo	Unmodified	Unmodified	Unmodified
23	Electronic and Postal Communications Regulatory Authority	Unmodified	Unmodified	Unmodified
24	Agency for the Prevention of Corruption	Unmodified	Unmodified	Unmodified

25	Energy Regulatory Office of Kosovo	Unmodified	Qualified	Unmodified
26	Kosovo Privatization Agency	Unmodified	Unmodified	Unmodified
27	Procurement Review Body	Unmodified	Unmodified	Unmodified
28	Prishtina University	Qualified	Qualified	Qualified
29	Constitutional Court	Unmodified	Unmodified	Unmodified
30	Kosovo Competition Authority	Unmodified	Unmodified	Unmodified
31	Kosovo Council for Cultural Heritage	Unmodified	Unmodified	Unmodified
32	Elections Complaints and Appeals Panel	Unmodified	Unmodified	Unmodified
33	The Independent Supervisory Council for the Civil Service of Kosovo	Unmodified	Unmodified	Unmodified
34	Prosecution Council of Kosovo	Unmodified	Unmodified	Unmodified
35	Agency for information and Privacy	Unmodified	Unmodified	Unmodified
36	Air Navigation Services Agency	Qualified	Unmodified	Qualified
37	Water Services Regulatory Authority	Unmodified	Unmodified	Unmodified
38	Railway Regulatory Authority	Unmodified	Unmodified	Unmodified
39	Civil Aviation Authority of Kosovo	Unmodified	Unmodified	Unmodified
40	Independent Commission for Mines and Minerals	Unmodified	Unmodified	Unmodified
41	Independent Media Commission	Unmodified	Unmodified	Unmodified
42	Central Election Commission	Unmodified	Qualified	Unmodified
43	Ombudsperson Institution	Unmodified	Unmodified	Unmodified
44	Academy of Law	Unmodified	Unmodified	Qualified
45	The Judicial Council of Kosovo	Qualified	Unmodified	Qualified
46	Kosovo Property Comparison and Verification Agency	Unmodified	Unmodified	Unmodified
47	Radio Television of Kosovo	Qualified	Qualified	Adverse
48	Trust Fund	Unmodified	Unmodified	Unmodified
49	Customs of Kosovo <sup>30</sup>	-	Unmodified	Unmodified
50	Tax Administration of Kosovo	-	Unmodified	Unmodified
51	Free Legal Aid Agency	-	Unmodified	Unmodified
52	Agency for the Management of Memorial Complexes	-	Unmodified	Unmodified

30 In 2023, Kosovo Customs and Kosovo Tax Administration were audited within the MFLT; Agency for Free Legal Aid within the Ministry of Justice and AMKMC within the Ministry of Education, Science and Technology.

Table nr. 41 – Audit Opinions to the local level for three years

No.	Auditee	Audit Opinion		
		2023	2022	2021
1	Glllogoc	Unmodified	Qualified	Unmodified
2	Fushë Kosova	Qualified	Qualified	Qualified
3	Lipjan	Unmodified	Unmodified	Unmodified
4	Obiliq	Qualified	Unmodified	Unmodified
5	Podujeva	Qualified	Qualified	Unmodified
6	Prishtina	Qualified	Qualified	Qualified
7	Shtime	Qualified	Unmodified	Unmodified
8	Graçanica	Qualified	Qualified	Qualified
9	Dragash	Unmodified	Unmodified	Unmodified
10	Prizren	Unmodified	Qualified	Qualified
11	Rahovec	Qualified	Unmodified	Qualified
12	Suhareka	Unmodified	Unmodified	Qualified
13	Malisheva	Qualified	Unmodified	Qualified
14	Mamusha	Unmodified	Unmodified	Qualified
15	Deçan	Qualified	Qualified	Qualified
16	Gjakova	Qualified	Qualified	Unmodified
17	Istog	Unmodified	Qualified	Adverse
18	Klina	Unmodified	Qualified	Unmodified
19	Peja	Qualified	Unmodified	Qualified
20	Junik	Unmodified	Unmodified	Unmodified
21	Mitrovica	Unmodified	Qualified	Qualified
22	Skenderaj	Unmodified	Unmodified	Unmodified
23	Vushtrri	Qualified	Unmodified	Qualified
24	Gjilan	Qualified	Qualified	Qualified
25	Kaçanik	Unmodified	Unmodified	Qualified
26	Kamenica	Qualified	Qualified	Unmodified
27	Novo Bërd	Qualified	Unmodified	Qualified
28	Shtërpca	Unmodified	Unmodified	Qualified
29	Ferizaj	Qualified	Qualified	Qualified
30	Viti	Qualified	Qualified	Unmodified
31	Partesh	Unmodified	Unmodified	Qualified
32	Hani i Elezit	Unmodified	Unmodified	Qualified
33	Klllokot	Qualified	Qualified	Qualified
34	Ranillug	Qualified	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 vjetor të auditimit nga Zyra Kombëtare e Auditimit për auditimin e Raportit Vjetor Financiar të Buxhetit të Republikës së Kosovës, për vitin e përfunduar më 31.12.2023 (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 dërguar 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 stafin përgjegjës për zbatimin e tyre.

Hekuran Murati  
  
 Ministër i Financave, Punës dhe Transfereve

Datë: 28 Gusht 2024, Prishtinë

Legal basis for financial reporting	Requirements from International Public Sector Accounting Standards	MFLT Comment	NAO response and comment
<p><b>IPSAS</b></p> <p>LPMFA, Article 1.2 and Article 46 section “C” defines the accounting principle that the Government of Kosovo applies for reporting, namely;</p> <p>the Government of Kosovo uses the cash basis of accounting and reporting, according to LPFMA. Based on this, the information presented in these financial statements presents the cash receipts and payments and the balance of the cash flow.</p>	<p><b>Mandatory statements according to IPSAS</b></p> <p>IPSAS: page 2218, paragraph 1.3.4 – An entity shall prepare and present the financial statements including the following components:</p> <p>A statement of cash receipts and payments for General Government. Cash balances controlled by the entity;</p> <p>A statement of comparison of the budget with the execution for the General Government (when the budget is published).</p> <p>Accounting policies and explanatory notes;</p> <p><b>Annexes/ additional non-mandatory information according to IPSAS</b></p> <p>IPSAS: page 2220, paragraph 1.3.10 – An entity that reports by using the cash basis of accounting often collect information on items that are not recognized in cash-based accounting.</p> <p>Examples of the type of information that may be collected include details on:</p> <p>Receivables, payables, borrowings and other liabilities, non-monetary assets and accrued income and expenses;</p>	<p>The Government, namely the MFLT has implemented the requirements of LPFMA and IPSAS (cash principle). In the draft AAR 2023 it is noted and confirmed that the AFS are in line with LPFMA and IPSAS and that the information presented give a true and fair view in all material aspects.</p> <p>The information in the annexes of the AFR, according to section 2 of IPSAS on cash basis where the entity may give information on the items, are not recognised in the cash-based accounting and are not consolidated in the AFS, namely in the mandatory statements according to IPSAS and should not have an impact on the audit opinion on the 2023 AFS.</p>	<p>The LPFMA, namely paragraph 1.2, mandates the reporting of disclosures (points v,vi,vii). In addition, the Regulation no. 01/2017 on Financial Reporting, paragraph 2.3, defines the types of reports that BOs must prepare.</p> <p>The requirements of the applicable financial reporting framework define the form and content of the FS as well as what constitutes a complete package of FS. Moreover, Article 47 of the LPFMA obliges the Auditor General (NAO) to give an opinion precisely on these statements as to whether they give a true and fair view.</p> <p>According to IAS 700, paragraph A26 the auditor’s opinion covers the whole set of Fs as defined by the applicable framework of financial reporting. Given that our legislation foresees two parts of financial statements (the part with tables based on cash and the part reports which includes the items, mainly the material ones such as assets, accounts receivable, accounts payable or contingencies) as integral part of the set of FS, the audit</p>

Commitments and contingent liabilities; and  
Performance indicators and achievement of objectives on service delivery.

will then cover all the set of financial statements taking into consideration the materiality as well. No changes will be made to the report.

# Annex VI: Key Financial Statements of the Government

## Statement of receipts and payments in cash for the General Government

For the year ending on 31 December 2023

		2023	2022	2021
	Note	Treasury Single Account '000 €	Treasury Single Account '000 €	Treasury Single Account '000 €
<b>RECEIPTS</b>				
Direct Taxes				
Corporate Income Tax	2	184,864	159,942	113,946
Personal Income Tax	3	255,941	215,560	189,521
Property tax	4	46,085	34,554	36,258
Other direct taxes	5	3,403	3,773	2,440
Indicative taxes				
Value Added Tax	6	1,365,580	1,220,007	1,038,218
Customs duty	7	156,214	132,663	124,606
Excise	8	554,989	517,264	501,295
Other indirect taxes	9	101	313	565
		2,076,882	1,870,248	1,664,685
Tax returns				
Tax returns	10	-61,277	-67,069	-58,912
		-61,277	-67,069	-58,912
Non-tax revenues				
Taxes, charges and others by BOs of the Central Government	11	148,074	149,311	129,563
Taxes, charges and others by BOs of Local Government	12	62,511	55,596	57,271
Concession fee	13	25,980	18,404	16,972
Royalties	14	26,722	29,857	19,235
Interest revenues (loans to POEs)	15	3,594	3,365	3,074
Revenues from Dividend	16	-	-	10,000
		266,881	256,532	236,116
Borrowing				
External state borrowing	17	96,745	98,198	117,334
Receipts from sub-borrowing service	18	8,216	8,149	8,005
Internal state borrowing	19	-141,805	5,854	144,247
		-36,845	112,201	269,586
Grants and donations				
Donor Designated Grants	20	13,823	9,738	16,800
EU grants for energy	21	67,500	-	-
Grants for budget support	22	-	10,250	-
		81,323	19,988	16,800
Other receipts				
Deposit Fund	23	4,547	5,548	4,462
Repayment of loans by Publicly Owned Enterprises	24	37,877	11,387	11,387
Dedicated revenues	25	5,958	5,888	4,645
PAK one-off financing	26	-	-	39
<b>Total Receipts</b>		<b>2,865,640</b>	<b>2,628,552</b>	<b>2,490,973</b>
<b>PAYMENTS</b>				
Operations				
Wages and salaries	27	767,305	653,436	668,124
Goods and services	28	397,978	337,414	306,255
Utilities	29	28,779	25,952	25,287
		1,194,062	1,016,802	999,666
Transfers				
Subsidies and transfers	30	1,079,450	1,065,195	842,897
Capital expenditures				
Property, plants, equipment, transfers	31	560,868	422,579	423,941
Other payments				
Debt payment	32	89,163	83,322	111,192
Subsidies for Publicly Owned Enterprises	33	1,947	35,724	-
Returns of funds and deposits	34	508	1,386	1,044
<b>Total payments</b>		<b>2,925,998<sup>1</sup></b>	<b>2,625,008</b>	<b>2,378,740</b>
<b>Cash increase/decrease</b>		<b>-60,358</b>	<b>3,544</b>	<b>112,233</b>
<b>Cash at the beginning of the year</b>	<b>35</b>	<b>445,734</b>	<b>442,189</b>	<b>329,955</b>
<b>Cash at the end of the year</b>	<b>35</b>	<b>385,375</b>	<b>445,734</b>	<b>442,189</b>

<sup>1</sup> It includes expenses from court and enforcement decisions in the amount of €51.9 million, details by category in notes 27 to 31.

## Consolidated statement of the comparison of the budget with the execution for the General Government

For the year ending on 31 December 2023

	2023			2022		2021	
	Note	Realization A '000 €	Final budget B '000 €	Initial Budget C '000 €	Budget changes D=B-A '000 €	Realization A '000 €	Realization A '000 €
<b>CASH INFLOW</b>							
Direct Taxes		490,294	504,516	504,516	14,223	413,829	342,165
Indicative Taxes		2,076,882	2,097,299	2,097,299	20,417	1,870,248	1,664,685
Tax returns		-61,277	-76,380	-76,380	-15,103	-67,069	-58,912
Non-tax revenues		266,881	261,200	261,200	-5,680	256,532	236,116
Grants and assistance <sup>2</sup>		81,323	97,500	97,500	16,177	19,988	16,801
Borrowing		-36,845	554,880	554,880	591,725	112,201	269,586
Other receipts <sup>3</sup>		48,382	42,377	42,377	-6,005	22,823	20,533
<b>Total receipts</b>		<b>2,865,640</b>	<b>3,481,392</b>	<b>3,481,392</b>	<b>615,752</b>	<b>2,628,552</b>	<b>2,490,973</b>
<b>CASH INFLOW</b>							
Wages and salaries		766,557	768,935	745,528	2,378	652,641	667,312
Goods and services		394,950	463,799	459,410	68,850	333,374	302,410
Utilities		28,778	34,168	34,136	5,390	25,950	25,287
Subsidies and transfers		1,078,206	1,157,938	1,100,284	79,732	1,064,068	842,570
Capital expenditures		554,433	857,004	819,948	302,570	419,253	419,807
Reserve		-	357	5,442	357	-	-
Interest		42,215	46,855	46,855	4,640	35,039	30,881
Others <sup>4</sup>		60,859	189,411	173,255	128,552	94,684	90,473
<b>Total payments</b>	36	<b>2,925,998</b>	<b>3,518,467</b>	<b>3,384,858</b>	<b>592,469</b>	<b>2,625,008</b>	<b>2,378,740</b>
<b>Increase/(Decrease) in cash</b>		<b>(60,358)</b>	<b>(37,075)</b>	<b>96,534</b>	<b>23,283</b>	<b>3,544</b>	<b>112,234</b>

<sup>2</sup> The budget planning includes designated grants from donors (€12 million) as well as budget support grants (€85.5 million, specifically €75 million as grants from the EU for energy), as projected funds for receipt in 2023.

<sup>3</sup> It includes dedicated revenues, loan repayments from publicly owned enterprises, one-off PAK reviews and receipts from deposits.

<sup>4</sup> It includes principal payment, sub-lending, designated donor grants, securities discount, IPI membership fees and returns on deposit (net) funds.



## Consolidated statement of financial assets and balance of funds for the General Government

For the year ending on 31 December 2023

	Note	2023 Treasury Single Account '000 €	2022 Treasury Single Account '000 €	2021 Treasury Single Account '000 €
<b>Financial assets - cash</b>				
Central Bank of Kosovo	37	345,232	419,664	423,322
IFI fees	38	8,395	8,210	3,734
Development Trust Fund	39	3,566	3,256	2,636
Cash in transit	40	22,894	10,845	6,946
Accounts of Embassies of the Republic of Kosovo	41	3,899	2,527	2,068
Cash in hand (cash boxes) and open advances	42	1,389	1,233	3,484
<b>Total financial assets in cash</b>		<b>385,375</b>	<b>445,734</b>	<b>442,189</b>
Specific purposes				
Designated by donors	43	17,472	15,505	15,818
Own source revenues - central level	44	3,027	2,584	1,436
Own source revenues - local level	45	81,387	90,005	80,078
Development Trust Fund	46	3,510	7,974	7,354
Dedicated revenues	47	3,431	2,285	467
EU grants (contingency) for energy	48	22,740	-	-
Others	49	29,262	24,807	19,812
Unspent funds from borrowing	50	6,226	16,177	5,131
		167,056	159,337	130,095
<b>Undistributed cash balance</b>		<b>218,320</b>	<b>286,396</b>	<b>312,094</b>
<b>Total Balance of Funds</b>	35	<b>385,375</b>	<b>445,734</b>	<b>442,189</b>

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