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Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

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ANNUAL AUDIT REPORT FOR **2018**

Prishtina, August 2019

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List of Abbreviations

AG	Auditor General	MESP	Ministry of Environment and Spatial Planning
PAK	Privatisation Agency of Kosovo	MoF	Ministry of Finance
TAK	Tax Administration of Kosovo	MLGA	Ministry of Local Government Administration
WB	World Bank	PFMA	Public Financial Management and Accountability
EU	European Union	MAP	Ministry of Public Administration
GDP	Gross Domestic Product	MED	Ministry of Economic Development
BRK	Budget of the Republic of Kosovo	CHU/IA	Central Harmonisation Unit for Internal Audit
CBK	Central Bank of Kosovo	IAU	Internal Audit Unit
KC	Kosovo Customs	POE	Publicly Owned Enterprises
SAD	Single Administrative Document	BO	Budget Organisation
DDG	Donor Designated Grants	PRB	Procurement Review Body
IMF	International Monetary Fund	AFS	Annual Financial Statements
IFI	International Financial Institutions	UCHSK	University Clinical and Hospital Services of Kosovo
AC	Audit Committee	AFR/BRK	Annual Financial Report on the Budget of the Republic of Kosovo
PIFC	Public Internal Financial Control	AAR	Annual Audit Report
COPE	Committee for Oversight of Public Finance	KFMIS	Kosovo Financial Management Information System
LPFMA	Law no. 03/L-048 on Public Financial Management and Accountability	ISSAI	International Standards of Supreme Audit Institutions
LPP	Law on Public Procurement	IPSAS	International Public Sector Accounting Standards
LCS	Law on Civil Service	GFS	Government Finance Statistics (IMF)
TSA	Treasury Single Account	NAO	National Audit Office
KOSTT	Kosovo Transmission, System and Market Operator of Electricity		
PPRC	Public Procurement Regulatory Commission		
FMC	Financial Management and Control		

Foreword of the Auditor General

Honoured members of the Assembly,

I have the pleasure to submit to you the Annual Audit Report on 2018 Annual Financial Statements of the Budget of the Republic of Kosovo. The National Audit Office (NAO) continues to fulfil its core mission to strengthen public accountability for government expenditures, and through given recommendations to provide support in areas where improvements are considered needed.

The primary focus of our work has been evaluations of internal control systems, compliance with laws and regulations, as well as matters relating to value-for-money. We continue to work closely with the Assembly in order to provide complete and qualitative information on the use of public funds and to add value to efficient and effective functioning of public authorities.

We have identified that competent institutions greatly need to focus on better management of outstanding liabilities, as well as receivables and assets. Improvements are also needed in budget planning and increase of reporting quality.

The spreading of culture for wise spending of public money and in accordance with the law needs to be supported through application of good management practices and implementation of controls as required under the Public Internal Financial Control framework. In this regard, we have given a considerable number of recommendations in individual reports and we are closely following on how audited entities are addressing our recommendations.

Considering that this report is a summary of results and key challenges in the public sector, I hope the same will serve as a useful tool to identify areas where we need to work together for the benefit of public sector and citizens of Kosovo.

At the end, I would like to thank the Assembly of the Republic of Kosovo and Standing Committees for their comprehensive support and sincere cooperation in successful fulfilment of Institution's mandate. I look forward to our future engagement for holding budget organisations accountable on management and spending of public funds, strengthening of internal control, and on increase of transparency in public administration.

I also highly appreciate the cooperation and correctness of all budget organizations and publicly owned enterprises during the audit process.

Auditor General,

Prishtina, August 2019

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Introduction

The Annual Audit Report presents a comprehensive and analytical summary of our audit findings and recommendations for the fiscal year 2018 and expresses the Audit Opinion (in accordance with ISSAI 200) on the Financial Statements of the Government of Kosovo for 2018. The report presents a very important summary that provides the Assembly with the opportunity to hold the Government into account on the use of public funds. In this report, we have mainly addressed the Government's Annual Financial Report, but our findings and conclusions have also been obtained from the individual audit reports produced on budget organisations and other public authorities.

We have been able to report all audits in a timely manner, thus giving the opportunity to both the Assembly and the Government to initiate financial accountability procedures in accordance with the budget cycle. This has led to the timely review of reports and addressing of audit results. We are pleased to have noticed all stakeholders' increased interest on audit results. In particular, COPF has been very active in reviewing many of our reports and drawing conclusions from the hearings.

The report has been prepared in two main parts:

- a) The first part of the report is dedicated to the Government's Annual Financial Statements for 2018; and
- b) The second part presents important information for the reporting year, which is neither directly related to nor does affect the Government's AFS.

The first part contains eight main chapters that are an integral part to the BRK AFS:

- 1) Audit Opinion;
- 2) Analysis of State Budget;
- 3) Analysis of Explanatory Notes;
- 4) Assets and Stocks;
- 5) Accounts Receivable;
- 6) Outstanding and Contingent Liabilities;
- 7) Direct payments from Treasury and payments based on court decisions; and
- 8) Employment Data.

The second part contains information on the following issues:

- 1) Implementation of previous years recommendations;
- 2) Individual audits Opinions;
- 3) Good Governance;
- 4) Internal Audit System;
- 5) Management reporting, accountability and risk management;
- 6) Procurement;
- 7) Developments in Public Administration Reform;
- 8) Applicability of laws and legal challenges;
- 9) Performance audits; and
- 10) Publicly Owned Enterprises.

In addition to the two main parts, the report also contains three Annexes regarding: (1) Explanation of the types of opinions applied by NAO; (2) Progress in the implementation of recommendations; and (3) Three Main Financial Statements of the Government. More detailed information on individual audit reports can be found on our website www.zka-rks.org.

Executive Summary

In accordance with the 2018 Annual Work Plan, the National Audit Office published 126 reports, out of which: 94 regularity reports for budget organisations, 11 publicly owned enterprise audits, 9 donor project audits, 11 performance audits and Report on Government Financial Statements. The results of all these audits have comprehensively been summarised in this Report.

The Government's Financial Statements have been audited separately, the Auditor General has given an Unmodified Opinion with Emphasis of Matter thereon.

Our audits have resulted in issues that need to be addressed in order to ensure a better performance in spending of public funds. A systematic approach to this matter would ensure spending in line with priorities set, success in reform ambitions, and would pave ways for better services to the citizens.

The key issues in the report highlight the need for an enhanced attention of senior managers and budget holders to strengthen measures and improve processes in the following areas:

(a) Budget planning – Our reviews have concluded that budget planning still needs to be improved. At the end of fiscal year 2018, the actual amount of receipts was lower than the plan by 179 million or 8%, out of which 40 million euros relate to budget receipts, while the rest relates to non-implementation of the plan for disbursement of loans for capital projects under state borrowing – clauses and other non-budget receipts. In addition, the total amount of payments for the fiscal year for 2018 was lower than the final budget by 216 million or 10%. According to the current cash flow, the budget spending is executed at 98.5%. These percentages show that the differences between the initial and final budget are quite small, but the differences between planning and execution are quite high, mainly in the part of funds planned from borrowing from capital projects, which have not been executed according to the dynamics planned for their execution. During 2018, the budget has not been subject to review procedures resulting in a quite significant difference between the final budget and execution. However, given that revenues have performed as planned and there was no need for revision, the addressing of BO requirements has been enabled, mainly in the last quarter, through the transfer and reallocation mechanism under the LPFMA authorizations and the budget law. Therefore, due to inadequate initial projections, in many elements, and lack of revision during the year, the budget fluctuations of receipts and payments against execution have resulted in relatively high percentage of discrepancies. This has occurred mainly as a result of lack of follow up of planning by the BOs to implement capital projects financed by public borrowing. However, their inclusion within the budget law is conditioned by the fact that these finances derive from ratified international financial agreements and according to the legislation, they should be part of the budget law.

While the state budget undergoes through some more effective control procedures during approval, the approval of the budget or financial plans in publicly owned enterprises is unstable and far from initial forecasts. Due to poor planning, many objectives have remained unexecuted.

(b) Quality of reporting - Information both in the individual statements, and in the consolidated report of the Government, viewed in terms of quality and accuracy is generally well presented and is in accordance with reporting standards. As a result, 86 positive audit opinions and 19 reserved or modified opinions (including publicly owned enterprises) were issued. Significant shortcomings in the area of reporting have been identified with publicly owned enterprises. Only one, out of 11 publicly owned enterprises, has a positive opinion. This is an indication that their financial reporting for years has not improved and presents a very concerning situation.

(c) Misclassification of expenditures - continues to remain the most problematic issue in the area of reporting. During this year, high amounts of misclassification of expenditures across different economic categories were identified, totalling €22,011,636, a significantly higher amount than that of the previous year (€16,037,978). This has occurred for three reasons: **first**, errors in the case of planning through the budget process (€18,963,580); **second**, during the year, BOs for various reasons made payments from inadequate categories (€1,167,527); and **third**, execution of obligatory payments (court and enforcement decisions, direct payments under the authorisation of the LPFMA, Article 39.2) by the Treasury from inadequate categories, mainly due to lack of funds in the respective budget category of the BO. The most affected category by misclassifications was the category of Capital Investments, from which goods and services as well as subsidies were paid amounting to €19,454,266 or 88% of the total.

(d) Budgetary deficit - In the recent years, due to the discrepancies between revenues and expenditures, the Government has been continuously planning the budget with deficit. According to the Government's financial report, the maximum amount allowed by law for budget deficit for 2018 was 132.8 million (2%), the approved amount was 122.2 million (1.8%), while the factual (actual) deficit at the end of the year was 64.7 million (including donations) or 1%. Government has kept under complete control the deficit threshold and is within legal requirements. At the end of the year, according to NAO assessment the deficit was 66.3 million, which does not include the donor grants.

(e) Public debts - In addition to regular revenues, the Kosovo Budget is financed by domestic and external borrowings, which at the end of 2018 amounted to 1,093 million, without calculating 44 million of state guarantees, out of which 676.6 million are domestic debts and 416.2 million are external debts. The current level of public debt is 17.1% of Gross Domestic Product. The key problem regarding these debts is the inefficiency of spending, due to the fact that 393 million euros of ratified loans have not yet been withdrawn due to delays in starting and executing projects for which these amounts of loans have been ratified, while significant amounts of expense of interest rates and other fees have been paid within this period (18.7 million expenses of interest rates and €290 thousand of commitment of fees).

The amount of borrowings during this year was €121,918,000. This amount is comprised of: domestic borrowing €102,434,000, external borrowing €11,334,000 and receipts from sub-borrowing €8,250,000.

(f) Cash balance - The total amount of cash in the State Treasury Account as of 31st of December 2018 was 387.9 million, out of which 86.2 million were designated funds and 301.7 million are funds deposited, but not distributed. 56% of the designated funds or 48.2 million are OSRs carried forward as unspent funds to other municipalities and BOs. This amount has increased by 15.3 million compared to last year, and discloses the tendency that BOs first spend funds from government grants, and then own source revenues.

Based on audit results, there is no serious threat to the financial stability of the state.

The main challenges affecting the budget balance are outstanding liabilities and debtor claims, which can directly or indirectly affect government accounts. These accounts are related to:

(g) Outstanding and contingent liabilities - Outstanding liabilities of budget organisations to suppliers and other economic operators at the end of 2018 were about 259 million (226 million at central level out of which only expropriations from MESP 162 million, and 33 million at municipal level), an increase by 30% compared to 2017. In addition to these financial liabilities, there are also some potential or contingent liabilities that are the result of lawsuits filed against budget organisations which are expected to receive final court decision. The amount of these contingent liabilities is about 197 million (88 million at central level and 109 million at local level), with an increase by 39% compared to the previous year.

(h) Accounts receivable - The amount of debts that citizens and businesses owe to the Government is about 632 million, out of which at the central level are 462 million and at the local level 169 million. The vast majority of uncollected debt relates to TAK and Customs, which together compose 418 million of uncollected debt, or 66% of the total amount. The obligations of economic entities to TAK are 375 million, and to Customs 43 million. The total increase of accounts receivable during 2018, compared to the previous year, is 93 million or 17%.

The impact of these two categories in budget planning is of crucial importance for both revenue and budget spending, with the final impact on macro-fiscal sustainability, with the risk that due to their aging to turn into bad debt and thus never collected.

(i) Assets and stocks - Asset registration in government accounting still remains an unfinished process and is probably one of the key management problems. In our estimates, the registration process is slow and far from being completed. Total net assets at the end of the year were 8 billion and 438 million. As a result of new registrations during the year, the balance of capital assets with the value over €1,000, compared to the previous year, has increased by 358 million.

Other than the assets recording in the journal, the vast majority of organisations do not conduct inventory of assets and stocks at the end of the year to confirm the existence of assets, and to evaluate their functionality and use. Inventory commissions either conduct delayed inventory reports, or make no reconciliation at all of the registration balance with the accounting balance. The lack of stocktaking at the end of the year makes prevents a complete overview of the existence of assets and leads to mismanagement, misuse or even theft of assets.

(j) Liquidity of Budget Organisations - Due to failure to pay budget organisations' liabilities in a timely manner, the Treasury has executed about €29 million payments according to court and enforcement decisions and direct payments according to authorisations under Article 39.2 of LPFMA and economic operators and other claimants. Of these, 8.7 million from the Treasury were executed as direct payments to the account of the operators due to failure to pay obligations by budget entities within 60 days, while over 20 million are amounts paid on behalf of court and enforcement decisions for which lawsuits were filed against budget organisations. Compared to 2017, the trend of execution of direct payments by the Treasury has marked a 44% increase.

(k) Publicly Owned Enterprises - The audit results disclosed that the financial reporting of 11 audited enterprises contain shortcomings and are inaccurate. For this reason, a negative opinion was given in 10 cases. Apart from poor reporting, their financial situation is difficult and the financing structure is quite unfavourable. From the financial statements for 2018, it can be seen that six publicly owned enterprises have operated at a loss, totalling about 20 million, while the other five enterprises had a positive financial result, with a symbolic profit of just over €500,000.

Individual reports contain aggravating figures for the financial stability of these enterprises. Taken together, they owe over 144 million credit liabilities, of which 73 million are short-term liabilities, and over 71 million long-term liabilities. The payment of these liabilities is quite uncertain given the fact that most of them operate at a loss. Even the principle of continuity of activity in some of them may face serious challenges. Such financial trends in these enterprises are negative, and the Government as a shareholder may face serious challenges in its decisions on how to act in cases where their liquidity is highly uncertain, while debts and loans are to be repaid within the legal time limits, while services to citizens should be delivered.

(l) Implementation of recommendations - The recommendations given in the previous year have only been partially addressed. Out of the total number of recommendations given (1,121), 438 or 39% were fully implemented, 201 or 18% were in the process of implementation, 354 or 32% were not addressed and 128 or 11% were closed unimplemented.

Compared to a year ago, fully implemented recommendations have increased from 395 to 438 or from 34% to 39%, which can be seen as a positive development in the process improvement.

Treasury on behalf of the Ministry of Finance has prepared a plan for implementation of recommendations, which is approved by the Government with decision no. 08/69 dated 16.10.2018. This plan foresees a six-month reporting to the Government by certain departments on addressing and implementation of NAO recommendations.

Part I: Annual Financial Statements

1 Audit of Annual Financial Statements 2018

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

The legal basis for carrying out the audit of the 2018 Government Annual Financial Statements is determined by:

- Constitution of the Republic of Kosovo (Article 137 and 138);
- Law no. 05/L-055 on Auditor General and National Audit Office of the Republic of Kosovo (Article 19);
- Law no. 03/L-048 on Public Finance Management and Accountability (Article 47 and 48); and
- Annual Audit Plan for 2018/2019.

Audit was carried out based on:

- Regularity Audit Guideline;
- Quality Management Guideline;
- Regulation MoF. No. 01/2017 on Annual Financial Reporting by Budget Organisations; and
- International Standards of Supreme Audit Institutions (ISSAIs).

The audit has been planned and conducted based on International Standards on 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 information presented are in accordance with the laws, regulations and other acts. Risks, control environment and internal controls have been identified and assessed in the preparatory phase. At the planning stage of the audit, the materiality level of 1% of the total amount of budget receipts, namely the extent to which errors in presentation of the AFS data are tolerated is determined, which are not considered to have a significant impact on the credibility of the statements.

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

The Auditor General fulfils his responsibility by carrying out once a year the audit of the report of the Government on budget execution and accompanying reports. The Annual Audit Report is submitted to the Government and the Assembly, while the results of individual audits are reported separately to the audited entities and Municipal Assemblies.

Our analytical reviews have resulted in the fact that none of the 94 individual budget organisations had discrepancies with the requirements of Regulation No. 01/2017 on Annual Financial Reporting (format, structure, reporting deadlines, etc.). All BOs submitted the Financial Statements within the legal deadline as of 31 January 2019. However, by the time the Government Consolidated Statements were produced (31 March 2019), 51 BOs had made adjustments to their financial statements, 32 had no need for adjustments, and in the other 11, the audit identified unadjusted errors.

From this review results that the most common unadjusted errors in individual reports relate to:

- Existence of differences in the category of goods and services, and the status of capital investments, while in disclosures with the presentation of differences in accounts receivable, accounts payable, contingent liabilities and donor grants;
- Overstatement or understatement of the number of employees and irregular payments in the area of salaries by budget organisations;
- Misclassifications or expenditure records in inadequate codes, which affects understatement or overstatement of accounts; and
- Lack of disclosure of advances in individual statements.

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

1.1 Scope, and audit methodology

The Ministry of Finance is responsible for the preparation and fair presentation of the Annual Financial Statements in accordance with International Public Sector Accounting Standards - Financial Reporting based on Cash Accounting on behalf of the Government and is responsible for internal audits to enable the preparation of financial statements free of material misstatement caused by errors and frauds.

The Treasury General Director, within the legal deadlines and in the format required by the Law on Public Finance Management and Accountability (LPFMA) and in accordance with IPSAS, has submitted the annual financial statements for 2018 to the Government for approval. On 26 March 2019, these were approved by the Government, and on 29 March 2019, a copy of the 2018 Annual Financial Report of the Budget of the Republic of Kosovo was also submitted to the Auditor General.

The National Audit Office (NAO) is responsible for carrying out regularity audits, which include examination and evaluation of the Government's AFS. Our audit has focused on three key statements:

- Statement of cash receipts and payments;
- Consolidated statement of comparison of budget with execution; and
- Consolidated statement of cash and cash fund balances.

The audit objective was to provide reasonable assurance:

- Whether the financial statements give a true and fair view of the financial affairs for the audit period in all material aspects;
- Whether the financial statements give a true and fair view of the financial accounts and transactions for the reporting period;
- On the effectiveness of internal control and internal audit systems; and
- Whether the Government has taken appropriate measures to implement the audit recommendations for the previous year and other previous years.

The 2018 AFS examination has been taken in accordance with International Public Sector Auditing Standards (ISSAIs) and NAO internal guidelines. Our approach was based on a thorough understanding of the process through which the AFS have been produced. This understanding relates to the development of an audit strategy, which focuses on addressing the specific risks for an unmodified opinion, while providing an acceptable level of assurance for the statements obtained as a whole.

The approach taken also reflects the evaluation of the audit derived results of BOs, consolidated in the AFS. Our procedures included an analytical review of the statements, evaluation of the preparation process of the statements, 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 controls, accounting systems and a significant number of tests and procedures, which are considered necessary for the effective performance of the audit.

The following sections of the Report provide a more detailed summary of our 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 can be made to government systems and procedures which have characterised 2018, but certainly provide an acceptable level of assurance.

1.2 Audit Opinion

The NAO audited the AFR/BRK for the year ended on 31st December 2018, which includes a statement of cash receipts and payments, a consolidated statement of budget comparison with execution, a consolidated statement of cash and fund balance as well as explanatory notes/disclosures of financial statements.

In our opinion, the AFR of BRK presents a true and fair view in all material aspects for the year ended on 31 December 2018, in accordance with International Public Sector Accounting Standards (under cash-based accounting) and Law no. 03/L-048 on Public Financial Management and Accountability (with amendments and supplements).

We would like to draw your attention to the fact that in the Consolidated Statement of comparison of budget with execution, there is a planned amount, but without specifying the revenues in the amount of €10,500,000, and was identified a misclassification in expenditure planning in the total amount of €22,011,636. For more details, see the basis for opinion.

ISSAI 200: Unmodified Opinion with Emphasis of Matter

Basis for the Opinion

We have carried out the audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). Under these standards, our responsibilities are described in the section "Auditor's Responsibilities for Auditing of Financial Statements". We believe that the audit evidence we obtained is sufficient and appropriate to ensure a basis for an opinion.

Emphasis of Matter

Despite the issuance of unmodified opinion, NAO draws your attention to the fact that Statements contain some errors and uncertainties that were not considered material for issuance of the opinion because as such they are sanctioned by the Annual Budget Law of the Assembly of Kosovo, despite the fact that expenditure planning was not in accordance with International Public Sector Accounting Standards.

Errors and uncertainties relate to the following issues:

- When comparing Table 1 of the Initial Budget under the Law 06/L-020 for 2018 Budget and the data presented in the Consolidated Statement of Comparison of Budget with Execution, we have identified a discrepancy of €10,500,000. At planning of cash flow, under the initial budget, the item Other Receipts was estimated at €132,500,000, but upon analysis of this budget item, we were unable to identify the source of revenue, both at the initial budget and at the final budget. The Ministry of Finance was not able to provide proper explanations for the source of these revenues. Therefore, the conclusion is that the Revenue Budget as receipts was overstated for the same amount. For more details, see chapter 2; and

- Significant amounts of expenditures were planned and classified into inadequate economic categories at the approval stage of the 2018 Annual Budget, which later were spent and recorded in incorrect economic codes during the year. As a result of errors in the budget planning stage, but also of other errors during the year, in 44 BOs was identified incorrect classification of expenditures totalling €22,011,636. Out of these, €14,412,689 or 65% at 13 central level organizations, €7,049,876 or 32% at 27 municipalities, and €549,071 or 3% at 4 independent institutions.

From the total of these planned expenditures, €19,454,266 are capital investments which were spent for salaries, goods and services and subsidies; €1,777,874 out of Goods and Services were spent for salaries, subsidies and capital investments; and €779,494 designated for subsidies were incorrectly spent for salaries, goods and services, and capital investments. About 86% of misclassified amounts derive from budgeting, respectively the Budget Law.

The reasons for misclassification of expenditures were: €18,963,580 due to improper planning during the budget process; €1,167,527 due to payments into incorrect codes by budget organizations; and €1,880,529 due to payments out of inadequate codes by the Treasury on behalf of final court decisions and enforcement decisions, as well as direct payments under Article 39.2 of the LPFMA.

It is worth mentioning that the Government had submitted to the Budget and Finance Committee the Budget Draft law for 2018, and then this Committee subsequently submitted to the Assembly this draft law for approval with a large number of amendments to parliamentary committees, parliamentary groups and member of parliament, which were to a significant degree approved by the Assembly of the Republic of Kosovo in the final law. Due to this many of these planned expenditures under budget appropriation were not properly classified.

Practices of poor planning, consequently, misclassification of expenditures have continued for years, and regarding this, recommendations for improvement have been consistently given. We have done a preliminary analysis to the 2019 Budget Law and noticed that improvements in this area are evident. However, final conclusions will be drawn after auditing 2019 Financial Statements, and this was the reason for not modifying the opinion.

Details on misclassifications of expenditures are given in following tables:

Table 1 - Misclassification per economic categories

Incorrect category	Correct category	Affected by the BO	Planned incorrectly	Under court decisions	Total
Capital investments	Wages and Salaries	130,960	18,073	343,977	493 010
	Goods and services	91,856	17,743,459	678,016	18 513,331
	Subsidies and transfers	113,718	319,881	14,326	447,925
Total Capital Investments					19,454,266
Goods and services	Wages and Salaries	269,872	5,610	535,627	811,109
	Subsidies and transfers	37,459	126,810	0	164,269
	Capital investments	36,953	579,395	186,148	802,496
Total Goods and Services					1,777,874
Subsidies and transfers	Wages and Salaries	177,370	0	0	177,370
	Goods and services	309,339	57,783	18,000	385,122
	Capital investments	0	112,569	104,435	217,004
Total subsidies and transfers					779,496
Total misclassification		1,167,527	18,963,580	1,880,529	22,011,636

The following table includes the 11 largest projects in the amount of €15,612,652, which were planned incorrectly under the Budget Law. Here are not included payments executed by the Treasury.

Table 2 - Planned in the Law on Budget

Entity	Incorrect Category	Correct category	Financial value	Nature of expenditure
Ministry of Education, Science and Technology	Capital investments	Goods and services	7,569,820	These payments relate to the purchase of textbooks for students of level I and II of pre-university education.
Office of the Prime Minister	Capital investments	Goods and services	2,174,676	Despite constant requests, to the FVA were not allocated sufficient funds for Goods and Services and Subsidies.
Prishtina	Capital investments	Goods and services	1,202,902	Payments related to expenses for goods and services (maintenance of public spaces, deratization of basements, treatment of stray dogs, selection of sportsman of the year, space disinsection, art in public spaces).

Prizren	Capital investments	Goods and services	923,878	Budgetary funds were spent mainly on contracts: Sweeping and washing of streets; Supplying farmers with wheat and corn seed; Physical security of the facility; Subsidizing sports clubs; Manifestations of June holidays etc.
MEST	Capital investments	Goods and services	780,247	These payments were made for: purchase inventory for schools, equipment for sport halls, etc.
Ministry of Infrastructure	Capital investments	Goods and services	689,310	Expenditures for road maintenance were paid from the budget of capital investments. Maintenance contracts under which activities are conducted, such as: vegetation removal, snow removal, dumping salt, grass cutting, monitoring, inspection etc. are not considered capital expenditures.
Ministry of Public Administration	Capital investments	Goods and services	588,300	The value of €500,000 was paid as "Support for implementation of public administration reform" while the value of €88,300 is for supply of inventory at the University of Mitrovica.
Ministry of Economic Development	Capital investments	Goods and services	512,372	In the register of capital assets, in the initial balance are identified (15) assets which by nature belong to the category of goods and services.
KHUUCS	Capital investments	Goods and services	416,594	These payments are for maintenance costs and servicing of medical devices.
Ministry of Economic Development	Goods and services	Capital investments	379,941	These payments are for the project "Information Integrated System for Economic Development of Kosovo (IISEDK)" of €379,941.
Glogoc	Goods and services	Wages and salaries	374,616	Payments for wages and salaries (Jubilee salaries, and salaries under collective agreement) executed by the Treasury in the amount of €374,616.

Recommendations for the Assembly of Kosovo

- The Assembly of Kosovo before approving the Annual Law on Budget Appropriations for the following year, should ensure that all expenditures are planned according to adequate economic categories, and that they are not in disagreement with requirements of International Public Sector Accounting Standards ; and
- To ensure that all planned budget revenues, are clearly specified according to the relevant funding sources.

Recommendations for the Government of Kosovo

- The Government of Kosovo should ensure that in the Draft Law for Annual Budget Appropriations, before being submitted to the Kosovo Assembly for approval, is done appropriate classification of expenditures into relevant economic categories and codes according to the Treasury accounting plan and reporting requirements; and
- To ensure that the source of budget revenues, under initial annual budget appropriations of the Annual Budget, is clearly specified and budget planning is done on a consistent basis.

Recommendations to the Ministry of Finance/Budget Department

- Upon preparation of the Annual Budget Draft Law, the Ministry of Finance should take all measures, exercise additional controls and ensure that budget organisations have planned and classified budget expenditures in appropriate economic categories, and not to submit the draft law to the Government with errors already in the planning stage. The Budget Department and the Treasury should work closely for elimination of these errors, before the Budget Plan is submitted to the Government;
- Before approving the Annual Budget Law, the Minister of Finance should ensure that legal amendments presented by parliamentary committees, parliamentary groups or members of parliament are in accordance with requirements of the accounting plan and do not implicate misclassifications of expenditures; and
- Upon planning of budget revenues, to ensure that there are sufficient and clear analyses for documentation of respective revenue sources.

2 Analysis of State Budget

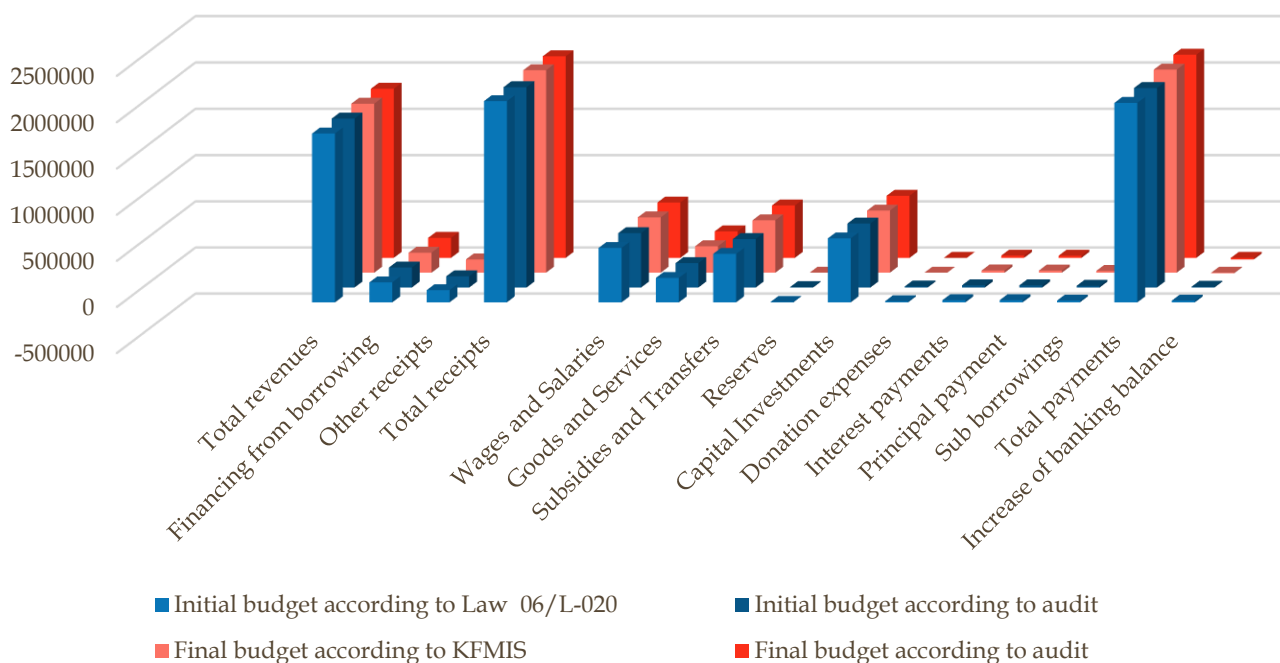
The Government's Consolidated Financial Statements present information on the initial and final projections of the 2018 budget, including funds and sources of funds, as well as spending of funds by economic categories. The budget for 2018 has been prepared and approved in accordance with Law no. 06/L-020 on 2018 Budget. The Government, during 2018, did not assess the need for budget review, and hence no six-month review process was undertaken to follow the changes to the initial budget projections. However, a number of budget changes occurred during the year across different economic categories within budget organisations. The Government has taken a number of decisions that somewhere increased and elsewhere decreased the funding and budget allocations of various organisations. Budget execution this year was followed by various shortcomings. The Government's decrease in funding and allocations has led to significant amounts of outstanding liabilities remaining unpaid, and a number of projects not being implemented and were carried forward to the following year.

In terms of planning, both revenues and expenditures have marked a deterioration trend compared to previous years. Budgeted revenues were executed by 92%, while expenditures are 90% at the final budget level. Budget execution based on current cash flow was 98.5%, which represents higher expenditure efficiency than the year before. The phenomenon of increased expenditures at the end of the year continued this year as well. This is especially an indicator of poor planning and control over capital project budgets.

More complete information on the initial planning and final budget is presented below.

Table 3 - Receipts and payments according to the initial and final budget (in '000 Euro)

No.	Budget item	Initial budget according to Law 06/L-020	Initial budget according to audit	Difference	Final budget according to KFMIS	Final budget according to audit	Difference
1.	Total revenues	1,828,425	1,828,425	0	1,828,425	1,828,425	0
2.	Financing from borrowing	216,814	216,814	0	216,814	216,814	0
3.	Other receipts	132,500	122,000	10,500	144,090	133,590	10,500
	Total receipts	2,177,739	2,167,239	10,500	2,189,329	2,178,829	10,500
1.	Wages and Salaries	590,000	590,000	0	600,202	600,202	0
2.	Goods and Services	265,000	265,000	0	287,249	287,249	0
3.	Subsidies and Transfers	526,000	526,000	0	568,475	568,475	0
4.	Reserves	4,800	4,800	0	222	222	0
5.	Capital Investments	694,000	694,000	0	673,547	673,547	0
6.	Donation expenses	12,000	12,000	0	0	0	0
7.	Interest payments	24,000	24,000	0	24,000	24,000	0
8.	Principal payment	24,000	24,000	0	23,164	23,164	0
9.	Sub borrowings	19,000	19,000	0	19,000	19,000	0
	Total payments	2,158,800	2,158,800	0	2,195,859	2,195,859	0
	Increase of banking balance	19,000	8,439	10,500	(6,530)	(19,593)	10,500



When analysing the Second Statement - Consolidated Statement of Comparison of Budget and Execution, we have found that there is a difference of €10,500,000 between the value presented in the AFS and the value according to audit. The difference is identified in the cash flow, in the Initial Budget column, at the item **Other Receipts** in the amount of €132,500,000.

According to the audit, under the Budget Law 2018 (Table 1), the budgeted value of Other Receipts is €132,500,000, which consists of sources presented in the following table.

Table 4 - Planning of revenues from Other Receipts (in euro)

Item - Other receipts	Under the law No. 06/L-020	According to audit	Difference	According to the final budget KFMIS	According to audit	Difference
Dedicated revenues PAK and ANS	11,000,000	11,000,000	0	11,000,000	11,000,000	0
Return of loans POE (KEK)	11,000,000	11,000,000	0	11,000,000	11,000,000	0
One-time revenues by PAK	100,000,000	100,000,000	0	100,000,000	100,000,000	0
One-time revenues by KPSF	0	0	0	11,590,000	11,590,000	0
Dedicated revenues	10,500,000	0	10,500,000	10,500,000	0	10,500,000
Total	132,500,000	122,000,000	10,500,000	144,090,000	133,590,000	10,500,000

We were unable to explain the funding of the difference identified in the amount of €10,500,000 as for this budgeted amount of receipts is not known the source of funding. This difference was followed throughout the year, and as such, is reflected in the final budget in the same amount. However, despite this difference within the table structure, the change in the bank balance and in net balance presented in the second statement is in full accordance with these elements in Table 1 of the budget law.

2.1 Analysis of General Budget Revenues and Expenditures

State revenues and expenditures should be balanced. As revenues under the initial budget were projected to be lower than expenditures, the difference was planned to be covered by borrowing funds, the repayment of some debts by publicly owned enterprises, the PAK one-time revenues, and from some other irregular sources. The Budget of the Republic of Kosovo for 2018 has not been subject to budgetary review procedures, but during the year, under Government decisions different adjustments were made to the initial budget appropriations. These adjustments are based on the legal authorisations granted based on the LPFMA.

The following statement shows the trend of revenues by initial, final projections and current amount of receipts and payments. The data for three years are obtained from the Statement of Receipts and Payments by the MoF.

Table 5 - Statement of receipts and payments in cash (in euro¹)

Description	Initial budget 2018	Final budget 2018	Outturn 2018	Outturn 2017	Outturn 2016
Receipts	2,177,739,000	2,189,329,000	2,009,673,000	1,923,360,000	1,777,908,000
Payments	2,158,645,000	2,195,859,000	1,979,559,000	1,836,805,000	1,763,242,000

In addition to the issues described in the basis for our audit opinion, the key issues arising from our analysis are as follows:

- a) Initial and final budget, in terms of both revenue planning and expenditure, have no significant differences. Final budget receipts resulted in €11,590,000 or 0.5% higher than initial budgets, while payments were €37,214,000 or 1.7%. Variances between the initial and final budget projections are quite low, but differences between planned and executed parameters are very high. Significant differences between the amounts planned and executed are mainly as a result of non-implementation of capital projects financed by external sources of financing (investment clause) and non-disbursement of loans.
- b) Revenues foreseen by the final budget were executed by €2,009,673,000, or 92% of the final budget, while expenditures were executed in the total amount by €1,979,559,000 or 90%.
- c) Receipts during 2018, compared to those a year ago, have increased by €86,313,000, or 4.5%, while payments by €142,754,000, or about 8%.
- d) The difference between total of receipts and total of payments is €30,115,000. This amount represents unspent funds and reflects the increase of cash in the bank account of the Budget of the Republic of Kosovo, which as on 31st December 2018 had a final balance by €387,874,000.
- e) The annual budget, except for the regular revenues financing, was also planned to be financed from borrowing funds. The amount of annual borrowings was planned at €216,814,000 or about 10% of total of receipts. However, borrowings at the end of the year were €122,018,000 or 6% of total of cash receipts. The vast majority of the borrowings by €102,434,000 are domestic loans, namely securities issue. Borrowing funds during 2018 were decreased compared to the previous year by €89,916,000 or 73%.
- f) In addition to tax, non-tax, and borrowing revenues, a considerable amount in the budget revenue items is comprised by the one-time financing of the Privatization Agency of Kosovo (PAK). The budget amount financed by the PAK was €86,146,000 or over 4%.

In small percentages, the public treasure has also been financed from some other irregular sources, such as: (a) External borrowing and sub-borrowings €19,584,000; (b) One-time revenues from the Pension Savings Trust €11,590,000; (c) Donor grants €8,319,000; (d) Repayment of loans by Publicly Owned Enterprises €10,876,000; (e) Dedicated revenues €10,493,000; and (f) the Deposit fund €3,612,000.

¹ Because the figures are presented in the statements in thousands, they are presented in full in the table, not rounded up.

Considering the trend of the last three years, one can notice that even tax and non-tax revenues as regular budget revenues in 2018 have increased by €75,051,000 compared to the previous year, while 2017 revenues have increased by €85,093,000 compared to 2016. Thus, during 2018, an increase of revenues by 4.4%, namely 5.3% compared to 2017 is noticed.

2.1.1 Analysis of Revenues by Economic Categories

The main sources for budget financing are (direct and indirect) taxes and non-tax revenues. The following table provides more complete information on the final budget and budget trends over the last three years.

Table 6 - Statement of Budget and Receipts by sources (in euro)

Receipts	Initial budget 2018	Final budget 2018	Outturn 2018	Outturn 2017	Outturn 2016
Direct taxes	267,040,000	267,040,000	267,504,000	238,034,000	232,121,000
Indirect taxes	1,378,385,000	1,378,385,000	1,344,130,000	1,315,236,000	1,227,392,000
Tax returns	(46,000,000)	(46,000,000)	(47,880,000)	(57,583,000)	(38,381,000)
Revenues from tax debts	8,000,000	8,000,000	0	0	0
Nontax revenues	202,000,000	202,000,000	192,865,000	185,881,000	175,343,000
Financing from borrowing	216,814,000	216,814,000	122,018,000	211,934,000	154,412,000
Grants and assistances ²	19,000,000	19,000,000	8,319,000	8,312,000	8,735,000
Other receipts ³	132,500,000	144,090,000	122,717,000	21,547,000	18,286,000
Total:	2,177,739,000	2,189,329,000	2,009,673,000	1,923,360,000	1,777,908,000

Direct taxes

This tax category consists of the following sources: Corporate Income Tax, Personal Income Tax, Property Tax, and Revenues from TAK fines. Collection of direct taxes was executed above the final budget level in the amount of €464,000, or about 0.2%.

The main item in this tax category is Personal Income Tax with €152,820,000 (57%), Corporate Income Tax €86,797,000 (32%), Property Tax €24,196,000 (9%) and other Taxes €3,692,000 or about 2%. Out of these, Personal Income Tax and Corporate Income Tax were collected by the Tax Administration of Kosovo (TAK), while property tax by the Municipalities. Compared to the previous year, direct taxes in the total amount have marked an increase by 12% namely 15%, compared to 2016.

² In the amount generated of 8,479,000 are also included third party payments in the amount of €178,000

³ In the total generated of €122,717,000 are included: Deposit Fund (3,612,000), Loan returns from Publicly Owned Enterprises (10,876,000), Dedicated Revenues (10,493,000); One-time PAK financing (86,146,000); One-time revenues of the Kosovo Pension Trust (11,590,000)

As a result of the increase of economic activity, but also the efficiency of TAK, during 2018 there was an increase in corporate income tax collection by over 11 million or 15% compared to the previous year.

Indirect Taxes

Value Added Tax, Customs Duty and Excise Taxes are the three main categories of indirect taxes, which are also the main sources for filling the public treasure. Indirect taxes participate with 66.4% in the total receipts structure. The total budget foreseen for this category of revenues was executed at 97.5%. Total collections compared to the previous year increased by 29 million or about 2%. The collected Value Added Tax was €799,020,000 (59.4%), with an increase by 5.7% compared to 2017, Excises €418,903,000 or 31.1%, with a decrease by 3%, Customs Tax by €123,747,000 or about 9.2% and the remaining of the indirect taxes was €2,460,000 or 0.3%.

Tax returns

The amount of tax returns by the end of the year was €47,880,485 or 3.6% of the overall total tax collected.

The vast majority of direct and indirect tax returns relate to: domestic VAT return by €39,613,731, excise return by €3,410,461, border VAT return by €472,404, corporate tax return by €2,278,775, and other types of returns by €2,105,114.

Tax returns occur due to inadequate tax charges and when reconciling the tax situation with TAK and Customs, the differences are calculated, and the excess of charges are returned to different entities. Planning of tax returns with the final budget was approximately realistic with the current state of returns, and at the end of the year, the total amount of returns resulted in a difference by 1.8 million more than planned.

Planning of tax return has marked an improvement, and the amount of tax returns during 2018 was 9.7 million lower than a year earlier, or 20%.

Budget performance of Customs and Tax Administration of Kosovo

Kosovo Customs and Tax Administration of Kosovo are the two main agencies for collecting direct and indirect taxes, such as customs duty, excise, corporate income tax, personal income tax, VAT and others. Although property tax is a tax category, it is not collected by these two agencies, but it is collected through municipalities.

The planned revenues in KC for 2018 were €1,175,000,000, while gross collected revenues were €1,135,015,816. When tax returns are deducted from this amount 4,231,318, it turns out that net collected income is €1,130,784,498, with a plan execution rate of 96%. Only from excise, VAT at the border and Customs on import alone were collected about €1.12 billion or 98% of all customs revenues. Despite continuous improvements, the process of managing revenues in Customs has in some cases been followed by shortcomings related to the calculation of the customs basis and the failure to apply uniform prices when re-evaluating goods for tax purposes.

Planned revenues in TAK for 2018 were €446,000,000, while in the gross amount were collected €468,388,976, including one-time revenues from the Kosovo Pensions Savings Trust (KPST) in the amount of 11.6 million euros. From this amount, tax returns during the year were €43,649,167, and the net amount of revenues remains €424,739,809, including revenues from the KPST. For net budget effects, the plan was implemented at 95%.

In general, the performance of revenues generated is quite good. Despite the satisfactory level of implementation of the plan in the collection of revenues, the process of collection and management of revenues in TAK has in some cases been followed by shortcomings. Of the 2,087 controls planned for 2018, 1,714 of them, or 82% of the planned number were executed. Further, according to TAK data, the total number of businesses conducting business activities is a total of 63,025. Of these, 23,271 are fiscalised businesses, 39,754 are non-fiscalised businesses, while the number of businesses not required to be fiscalised are 18,5802. It turns out that the approximate number of businesses that should be fiscalised, which have not been fiscalised yet, is 21,174.

The analyses above show that these two agencies have brought net revenues for the state budget in the total amount of €1,555,524,307 or have covered state payments at the level of 78.6%.

Non-tax revenues

Non-tax revenue group includes: all kinds of administrative and other taxes, all kinds of fines, inspection revenues, public property utilisation, utility fees, licenses, public property rents, concessional taxes, mining leases, etc.

These revenues are collected by both central and local government entities. The total amount of non-tax revenues collected during 2018 was €192,865,000 out of the €202,000,000 budgeted plan. Of these, the amount collected from Central Government Entities is €110,398,000, from Local Government €46,350,000, from Mining leases €25,233,000, from Concessional Taxes €8,792,000, and loan interest income for Public Enterprises €2,092,000.

The budget plan for non-tax revenues was executed at 95.5%.

Compared to the trend of the last three years, it can be seen that non-tax revenues have increased by 3.7% compared to 2017, namely 10% compared to 2016.

Non-disclosure of non-tax revenues for central level budget organisations

According to the Government's 2018 Annual Financial Statements, Non-Tax Revenues, Taxes, Charges and others were presented from Central Government BOs in the amount of €110,398,000 representing an increase by €6,953,000, or 6.7% compared to the previous year. The disclosure was done based on the type of revenue in accordance with the Government Finance Statistics (GFS) and not based on amounts for each BO, on the basis of which the budget has been planned.

The planning of these revenues to date has mainly been based on historical data and expectations in total amounts, but not on detailed plans by budget organisations separately. In the absence of a detailed plan for revenue generation, budget organisations have encountered difficulties in measuring performance against planning, and in the absence of the data planned, they have presented inaccurate and incomplete data in the individual AFS.

Taxes, charges and others in local government level budgetary organisations

Non-tax revenues – taxes, other local level charges relate to: municipal tax on construction permit, vehicle registration tax, tax on changing land destination, inheritance registration tax, municipal environmental permit, free individual activity licenses, business registration licenses, etc.

The budget plan for non-tax revenues at local level was in the amount of €55,000,000, out of which €46,350,000 or 84% were executed. The percentage of budget execution in 31 municipalities was below 90%. The poorest performing municipalities in the implementation of the revenue plan were: Zvečan 9%, Leposaviq 17%, Zubin Potok 29%, Rahovec 43%, Ranillug 49%, Deçan 54%, Viti 56%, Vushtrri 57%, and Podujeva 59%.

The most challenging issues in this area are: shortcomings in the process of revenue planning, land use under expired contracts, use of municipal properties without compensation, delays in issuing construction permits, circulation of funds from revenues outside the Treasury Single Account (TSA), registration in irrelevant economic codes, as well as legal shortcomings in the use of public property.

External and Domestic Borrowing

As a source for financing budgetary needs, the Government has also borrowed domestic and external debts. The amount of borrowings during 2018 was €122,018,000, out of which: €102,434,000 are internal debts, €11,334,000 are external borrowing and €8,250,000 are receipts from sub-borrowings for payment of instalments of these loans. The purpose of borrowing is to cover budget deficits and finance capital projects.

According to the final budget, the planned amount of borrowings was €216,814,000, while €122,018,000 or 56.3% were executed. Compared to the previous two years, borrowing has suffered a decrease by 73%, compared to 2017, and 26.5% compared to 2016.

In the following sections of the report, this part will be discussed in more detail.

Donor Designated Grants

Donor designated grants are funds that are to be used in accordance with the terms of the agreement between the Government and donors. These funds are planned by the annual budget and are part of the total budget revenues for financing various projects. This category does not include third parties payments.

The amount of grants according to the final budget was €12,000,000, out of which only €8,319,000 or 69% were received. Approximately same amounts were received also in the previous two years - €8,312,000 in 2017 and €8,735,000 in 2016. Failure to use these funds in a timely and efficient manner increases the risk for future grants being decreased.

Other receipts

The amount of other receipts in the final budget was foreseen at €144,090,000, while €122,717,000 or 85% were executed. This amount is comprised of: Deposit Fund €3,612,000, Return of loans by Publicly Owned Enterprises (KEC) €10,876,000, Dedicated Revenues €10,493,000 (PAK €6,494,000 and Air Navigation Service Agency €3,999,000); PAK one-time revenues €86,146,000; and One-time revenues of the Kosovo Pension Savings Fund €11,590,000.

2.1.2 Execution of Budget Revenues – Revenues Structure

The above analysis shows that direct and indirect tax revenues are the main sources for the public treasure and account for 78% of total budget revenues. These tax revenues are collected through the Kosovo Customs (KC) and the Tax Administration of Kosovo (TAK). These two agencies in 2018 have marked good performance in terms of the implementation of the revenue execution plan.

In 2018, revenues from planned direct and indirect taxes were €1,645,425,000 while the amount of €1,611,634,000 was executed, with an execution plan by 98%. This good performance has been influenced by: increase of public spending and consumption, increase of imports to support increased economic activity in the country, but also as a result of better customs monitoring, the effect of new measures to improve the environment of doing business, import facilitations for the manufacturing sector cases, plans to reduce the tax gap and the informal economy, measures to enhance the efficiency of collection of revenues by the collection agencies through simplifying the tax and customs system.

The implementation of the plan at almost a maximum percentage of revenue collection is an indicator that we are dealing with reliable and objective forecasting of mid-term budget revenue projections and good revenue collection efficiency.

Non-tax revenues are collected by Government and Municipalities. The total amount of non-tax revenue collected during 2018 was €192,865,000, out of which: €110,398,000 is the amount collected from Central Government entities, €46,350,000 from Local Government, €8,792,000 concession taxes, € 25,233,000 mining leases, and Interest revenues (Publicly Owned Enterprises) €2,092,000. The increase of non-tax revenues in 2018 compared to the previous year was about 3.8%, while the financing of total budget expenditures from this source is 9.7%.

From tax and non-tax revenues, budget expenditures were covered by 91%.

2.1.3 Analysis of expenditures according to economic categories

Overall expenditures for 2018 planned according to the final budget were €2,195,859,000, while the execution rate was €1,979,559,000 or 90% of the planned amount. Percentage of expenditures compared to the previous year was lower by 4.6%, but in the nominal value the expenditures of 2018 are by €142,755,000 higher than in 2017, and €216,315,000 than those in 2016.

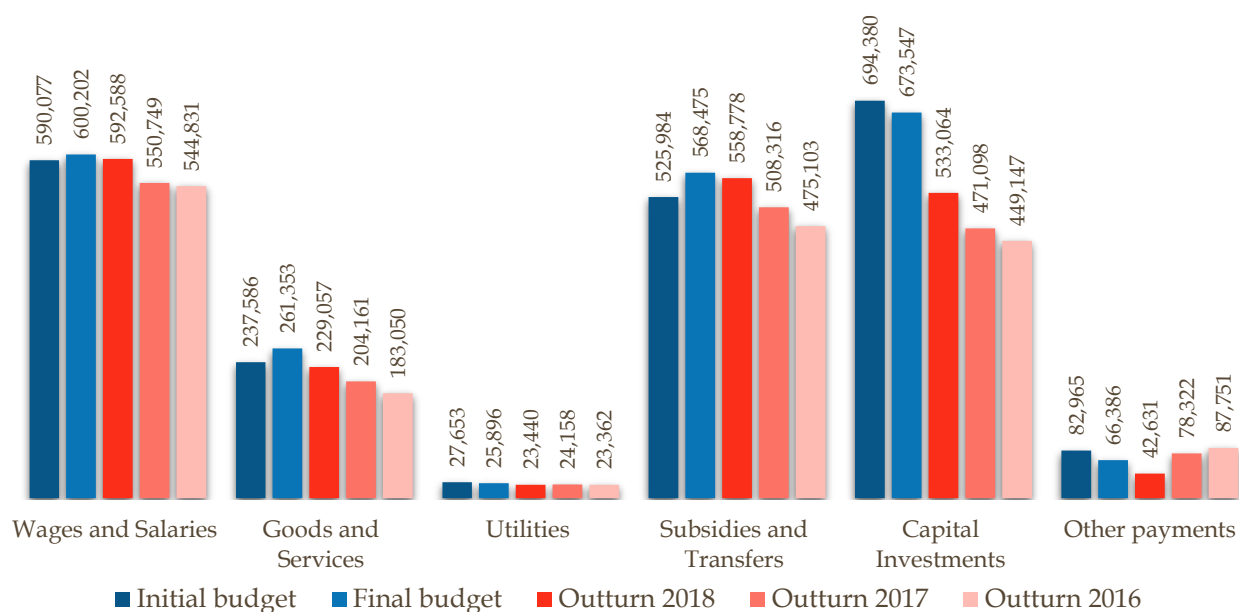
According to Law no. 06/L-020 on the Budget of the Republic of Kosovo, expenditures according to the initial budget were planned in the amount of €2,158,645,000, while in the final budget they were increased to €2,195,859,000 or by €37,214,000.

The following table shows the spending trend over the last three years by economic categories.

Table 7 - Statement of budget and expenditures by categories (in euro)

Expenditures	Initial budget	Final budget	Outturn 2018	Outturn 2017	Outturn 2016
Wages and Salaries	590,077,000	600,202,000	592,588,000	550,749,000	544,831,000
Goods and Services	237,586,000	261,353,000	229,057,000	204,161,000	183,050,000
Utilities	27,653,000	25,896,000	23,440,000	24,158,000	23,362,000
Subsidies and Transfers	525,984,000	568,475,000	558,778,000	508,316,000	475,103,000
Capital Investments	694,380,000	673,547,000	533,064,000	471,098,000	449,147,000
Other payments ⁴	82,965,000	66,386,000	42,631,000	78,322,000	87,751,000
Total:	2,158,645,000	2,195,859,000	1,979,559,000	1,836,804,000	1,763,244,000

Statement of budget and expenditures by categories (in '000 euro)



⁴ The execution amount includes the return of debt (€40,741,000) and Deposit Funds returns (€1,890,000)

The data in the table show that budgeted amounts for expenditures against factual expenditures have a quite significant difference. Expenditures incurred compared to the budgetary plan are 90% of the planned amount. The current budget expenditures do not include payments made from third parties in the amount of €178,000.

Poor planning of expenditures is especially noted in capital expenditures, which in comparison with the planned budget are executed at only 79%, although in par value they have increased by 62 million compared to the previous year. The government had a very ambitious plan to increase spending in this category, because of the 524 million planned in 2017, the amount of investment increased to 673 million this year, or about 150 million.

The analysis of budget services by categories resulted in the following:

Wages and Salaries

Expenditure planning for salaries was quite similar to current expenditures and was implemented at the rate of 98.7%. In the structure of general budget expenditures, salaries participate with 30% and represent the category with the highest percentage of expenditures. Expenditures fund for gross salaries has increased by approximately 42 million or 7.6% compared to 2017. This increase is due to the increase in the number of public sector employees during 2018 by 1,078 new employees, following the implementation of the Government's decision for increasing salaries in some government sectors as well as the payment for work experience.

When testing salaries, namely the employees work attendance, we found that 271 employees systemised in eleven (11) ministries were paid throughout the year in a total amount of €1,294,222 without attending workplace at all. It is about: MEST (32); MoH (22); MLGA (18); MCR (21); MED (18); MPA (20); MTI (26); MESP (29); MCYS (31); MI (32) and MLSW (22). These staffs have been deployed to these ministries as a result of the 2016 Brussels Agreement between Kosovo and Serbia, but they were included in payroll before normal working conditions were created. The issue of accommodation was entrusted to the MPA, which contracted three buildings in the three northern Kosovo municipalities, but which for many reasons were never used for this purpose. This problem goes even back to 2016.

Regarding the number of employees, according to the Budget Law no. 06/L-020, the number of staff allowed at central and local level was 84,428, while the current number of employees at the end of the year was 80,224. The average gross salary in the public sector for 2018 was €615. The average increase of gross salaries compared to the previous year was €35 or 6%.

Goods and Services

Considering the spending trend in this category over the last three years, it can be seen that spending growth is almost constant and amounts to 20-25 million annually. Over 229 million or 11.6% of the total budget was spent on the supply of goods and services. Increasing of expenditure in this category, compared to last year, was about 25 million or over 12%. This increase is due to increased demands for the increase of funds for the maintenance of capital projects. Despite continued requests by budget organisations to increase spending in this category, the Government has applied very restrictive policies in budget allocations in this area.

Subsidies and Transfers

Subsidies and Transfers participate in the total overall expenditure with about 28%. There has been a rapid increase in these expenditures in the last three years. Compared to 2017, the increase is 50 million or 10%, while compared to 2016, subsidies increased by 83 million or 17.6%.

Out of the total amount of subsidies by €558,778,000, the Ministry of Labour and Social Welfare spent 433,997,000 or 77.7% of which all schemes (pensions, social schemes, etc.) have been funded. The final impact on the increase of spending in this category was caused by war veterans and contribution pensions. The remaining part of subsidy budget by €115 million has been allocated to other ministries and municipalities to finance various programmes, such as; in the area of agriculture, culture, business stimulation and other activities.

Capital Investments

Despite initial budget projections were 694 million or 32% of the total budget was allocated for capital investment, with budget changes during this year this amount was decreased to 674 million or 30.7%, while only 533 million or 79% of the final budget was spent. In the previous year, the budget spent in this category was significantly higher or 90%. So, a decrease in spending performance has been noted. However, at par value in this category, 62 million were spent more than in the previous year.

The low percentage of capital expenditures was affected by the non-implementation of projects foreseen by the investment clause, according to which €62,127,422 was budgeted, while there was no expenditure at the end of the year. Budget for Capital Investments was executed at a higher percentage at central institutions - around 82%, while execution within municipalities was significantly lower at 73%. Poor performance of municipalities was affected by the failure to utilise own source revenues, which was only 54% at the level of all municipalities. The poorest performance was within the Municipality of Prishtina (38%), the Municipality of Prizren (62%), the Municipality of Gjilan (75%) and the like.

Capital Investments budget funds are destined for financing infrastructure projects, motorway construction, local roads, education, health, cultural and sports facilities, and other public services.

When preparing the annual budget, there is a permanent tendency noticed by the Government to increase the budget expenditures in this category from year to year in support of this budget category, because capital investments directly affect the national economic growth. But due to lengthy procurement procedures, operators' complaints made with the PRB, unresolved property issues, the rate of budget execution in this category has continued to remain the lowest for years.

The most significant shortcomings in this category of expenditures identified by individual budget organisation reports are:

- Low level of budget execution for capital investments (79%);
- Inadequate planning and expenditure approvals as “capital”, while they do not meet the criteria to be treated as such, because these funds are spent for the purchase of goods and services, the allocation of subsidies or other purposes;
- Most payments through final decisions of enforcement procedures, courts and Treasury are made from the category of capital investments, mainly due to the lack of budget in the adequate expenditure category;
- Partial planning of budgetary funds for projects financing, and consequently, interruptions and delays in a timely implementation of these projects, and recommencement of works following the provision of additional funds;
- Project revisions and subsequent adjustments of bill of quantities and bill of accounts and work overruns;
- Insufficient monitoring of procurement contracts; and
- Certification of payments for works not completed and supplies not received.

Other payments

This category of payments includes: Debt payments €40,741,000 and returns from Deposit Funds €1,890,000, totalling €42,631,000. Therefore, these payments have been made for servicing internal and external debts, payments for membership in international financial institutions and return of deposit funds.

Recommendations for the Ministry of Finance

- The Ministry of Finance, upon preparation of the initial budget should explain all budgetary items, so that the transfer of data from Table 1 to the financial statement is clear, consistent and free of errors;
- The Ministry of Finance upon budget preparation should plan expenditures across appropriate categories and codes, and prevent the possibility of misclassifications being repeated;
- The Ministry of Finance in coordination with municipalities to develop a more efficient process of monitoring and evaluating the plan for revenue collection, identify the causes that have affected the non-fulfilment of the plan and take appropriate and efficient actions in order to implement the plan; and
- The Ministry of Finance should ensure that capital project planning is subject to an analysis of the organisation's capacities for project management in line with the initial plans. Controls in project planning and budget execution should be strengthened to overcome the challenges identified in order to achieve the objectives within the time limits. A harmonization of cash flow with project planning is necessary to address the low levels of financial execution of capital projects.

2.2 Statement of Assets in Cash and Balance of Funds

Cash balance at the end of the year includes unspent amounts from: Donor Designated Grants, Municipal own source revenues and other BOs unused funds during 2018 and carried forward to 2019, Development Trust Fund, Dedicated revenues and other trust revenues (mainly different types of deposits), and Unallocated funds.

The Government manages the funds through the use of the Treasury Single Account (TSA). The vast majority of the accounts are held with the Central Bank of Kosovo (CBK). The total amount of cash in the account of the Budget of the Republic of Kosovo on 31st December 2018 was €387,874,000.

The details are presented below.

Table 8 – Statement of cash and balance of funds (in euro)

Bank accounts of the state budget	2018	2017	2016
Central Bank of Kosovo	374,663,000	339,906,000	257,393,000
Trust Development Fund	4,514,000	5,047,000	4,125,000
Transit money	4,031,000	10,179,000	7,371,000
Cash in the accounts of Diplomatic Missions	1,074,000	1,045,000	929,000
Cash (treasure)	1,851,000	1,583,000	1,385,000
Quota in International Financial Institutions	1,741,000	0	0
Total cash at the end of the year	387,874,000	357,760,000	271,203,000
Balance of funds	2018	2017	2016
A. Total designated funds	86,182,000	65,563,000	58,444,000
Donor Designated Grants	8,366,000	6,837,000	7,280,000
OSR carried forward in 2018	48,240,000	32,880,000	27,156,000
Trust development fund	11,437,000	10,321,000	10,058,000
Dedicated revenues	1,706,000	803,000	841,000
Other revenues	16,432,000	14,722,000	13,109,000
B. Undistributed funds	301,693,000	292,196,000	212,759,000
Total funds (A+B)	387,874,000	357,760,000	271,203,000

The balance of cash accounts held with the CBK has significantly increased compared to the previous two years. Cash at the end of 2018 has increased by €30,114,000 compared to the 2017 balance sheet and 116,669,000 compared to the end of 2016.

The table shows that own source revenues carried forward as unspent revenues is increasing, and the funds carried forward from 2018 are by 15.4 million or about 47% higher than the amounts carried forward from 2017, and 78% higher than those in 2016. There is a permanent tendency noticed with municipalities to spend general government grant funds first, and then their own source revenues carried forward.

In the case of analytical reviews of the Financial Statements, we have not found any discrepancies between the data presented in the above Statement with the data in the General Treasury Ledger and the Bank Accounts. About 97% of the cash is deposited in the Main Budget Account of the Republic of Kosovo at the Central Bank of Kosovo.

2.2.1 Cash and Transit Money

This amount represents the petty cash held by budget organisations, which was neither spent nor deposited in the CBK main account until 31.12.2018. The amount of this money held by all budget organisations is €1,851,000, with the majority of it being recorded in the MoH (722 thousand), MFA (498 thousand) and KIA (227 thousand). The transit money is money that has been received through commercial banks as revenue for 2018, but on 31.12.2018 were not transferred to the CBK Treasury account. The amount of transit money at the end of the year is €4,031,000.

Accounts of diplomatic missions, in accordance with LPFMA are accounts opened by the Treasury in commercial banks in the countries where the Government of the Republic of Kosovo has diplomatic missions, and which are held for the purpose of providing banking services to Embassies and Consulates in these countries, under the requirement of the MFA. The balance of funds in these accounts for 2018 was €1, 0474,000 approximately similar to the amount of the previous year.

2.3 Statement on Budget Deficit Ceiling

In accordance with Article 22.A.1 of Law no. 04/L-194 on amending and supplementing Law no. 03/L-048 on Public Finance Management and Accountability (LPFMA) it is set out that: “No Law on Budget Appropriations shall include an Overall Deficit exceeding 2% of Forecasted Gross Domestic Product (GDP)”.

Article 22.A.3 sets out that with a view to maintaining a Total Debt significantly below the Debt Ceiling laid down in Law on Public Debt, every fifth fiscal year, the Assembly shall review and if needed it may adjust:

- 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.

LPFMA no. 03/ L-048 (as amended and supplemented), includes an assessment of compliance for the budget deficit ceiling which should not exceed 2% of the Gross Domestic Product (GDP) which for 2018 was projected in the value of €6,641,600,000, while GDP at the end of the year amounted to €6,529,000,000⁵.

Article 7 of Law no. 05/L-063 on amending and supplementing the Law on Public Finance Management and Accountability (LPFMA) no. 03/L-048 states that: “For the purposes of compliance with the deficit ceiling, expenditures for capital projects financed externally from International Financial Institutions, the European Union or its institutions, or foreign governments or their development agencies shall not be taken into account”. Thus, total expenditures exempted

⁵ GDP data for 2018 are taken from Kosovo Agency of Statistics

from fiscal rules include Own Source Revenue Expenditures, Privatization Agency of Kosovo Expenditures, Return of government loans previously granted, and payments from external donors.

We have assessed the processes within the MoF to ensure the implementation of these requirements by the law on budget deficit ceilings and have assessed the current ceiling at the end of 2018. The Budget Law for 2018 adopted by the Assembly of the Republic of Kosovo is approved with a budget deficit by 1.7% of GDP, while the current deficit at the end of 2018 was 1%.

Therefore, when preparing the Draft Law on Budget Appropriations for 2018, the Government ensured that the planned deficit was within the limits allowed by the LPFMA.

Analysis of Budget Deficit

According to Article 46 of the LPFMA, the Minister shall submit to the Government a Final Report on the Budget, Revenues and Expenditures, which should provide comparative data for these years regarding the discussion of compliance with the deficit ceiling, including: causes of deviation and financing of deficits, if any, or the causes of budget surpluses, and investment of those surpluses, if any.

Financing of budget deficits, according to fiscal rules, is done by the funds of borrowing. The Government has complied with the above requirements and for the same purpose has entered into a borrowing of €114,677,000 or 1.7% of projected GDP. This amount was planned to cover expenses that were higher than the planned revenues. The current deficit amount at the end of the year was €66,329,138 or about 1% of GDP.

The budget deficit ceiling in relation to 2017, both in par value and percentage terms, was almost the same. The deficit according to initial budget was 1.5%, while the current deficit at the end of 2017 was 0.8%. Regarding the disclosure of data in the Budget Deficit Table for 2018, we have identified discrepancies in the presentation of Revenues or Expenditures and the calculation of the deficit, which are cumulatively presented in the table below.

Table 9 - Differences in calculation of deficit (in euro)

No.	Budget item	According to initial budget AFR	Deficit calculated according to audit	The actual at the end of the year according to AFR	The actual according to audit
1.	Total revenues	1,828,425,000	1,816,000,000	1,776,000,000	1,768,209,000
2.	Total expenditures	2,092,481,000	2,103,677,000	1,937,105,000	1,947,021,093
3.	Exempted from fiscal rules	(141,803,000)	(173,000,000)	(96,373,000)	(112,482,955)
4.	Deficit calculated	(122,253,000)	(114,677,000)	(64,732,000)	(66,329,138)

As can be seen from the data above, the deficit calculated with the initial budget according to the Ministry of Finance was €122,253,000, while according to our calculations; this amount should be €114,677,000 or with a difference of €7,576,000 more than calculated by the MoF.

According to the disclosures in the Government's financial statements, the current deficit at the end of the year was €64,732,000, while according to the audit calculations, this amount turns out to be €66,329,138, namely with a difference by €1,597,138 or 2%, due to inclusion in the AFR of donor grants which should not have been included in the part of receipts or expenditures.

More detailed information on the calculation of the budget deficit is presented in the table below.

Table 10 – Calculation of planned deficit and actual deficit for 2018

Serial no.	Budget revenues/expenditures	Deficit planned	Actual deficit
A	Total receipts/revenues (1 to 5)	1,816,000,000	1,768,209,000
1.	Direct taxes	267,000,000	279,094,000
2.	Indirect taxes	1,386,000,000	1,344,130,000
3.	Tax returns	(46,000,000)	(47,880,000)
4.	Non-tax revenues	202,000,000	192,865,000
5.	Budget support grants	7,000,000	0
B	Total payments/expenditures (6 to 16)	2,103,677,000	1,947,021,093
6.	Salary expenses	590,077,000	591,915,362
7.	Expenses for Goods and Services	237,586,000	226,761,329
8.	Utility costs	27,653,000	23,439,143
9.	Expenses for Subsidies/Transfers	525,984,000	558,043,256
10.	Expenses for Capital Investments	694,380,000	530,046,003
11.	Reserves	4,800,000	0
12.	Interest costs	23,197,000	16,816,000
13.	Payments from own source revenues carried forward from 2016	0	(19,331,086)
14.	PAK and Air Navigation Expenditures	(11,000,000)	(9,589,773)
15.	Investments clause	(62,000,000)	0
16.	PAK one-time revenue	(100,000,000)	(83,562,096)
C	Deficit (A minus B)	(114,677,000)	(66,329,138)

The following receipts were exempted from revenues calculation:

1. PAK and Air Navigation dedicated revenues (9,589,773) as these revenues by the relevant law are generated as a result of the sale of public assets, which means that they do not represent an increase in net value, but a change in the form of assets (from fixed assets to liquid ones);
2. Payments from own source revenues carried forward (€19,331,086) from 2017;
3. Receipts from PAK one-time financing (€83,562,096) from a public sector perspective are not classified as budgetary revenue, as it represents a change in the type of assets, from a socially owned enterprise to cash. As a result, it is also classified only as a financing item;

3 Analysis of Explanatory Notes

Government and BOs control and manage with public funds, and use these sources to achieve the objectives of service delivery. However, the Government should keep records and own detailed information about the public funds under its management.

IPSASB strongly encourages refraining from disclosing additional information, where possible, in order to increase transparency and raise financial accountability. Disclosure of appropriate information in the AFS regarding general government activities may increase the transparency of financial reports and provide opportunities for a better understanding of the relationship between government and stakeholders' activities.

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

Generally, the AFS contain multiple disclosures, which provide detailed information on the content of the figures in the three main Statements. However, our conclusion is that only analytical presentation of the figures in these three Statements is not sufficient. Although, compared to the AFR 2017 explanatory notes in AFR 2018 are more complete, but for some elements explanatory notes should be expanded, especially in areas where changes are difficult for users to understand.

3.1 Consolidation of Data from Individual Statements with Government Statements

The audit process of budget organisations has revealed a number of discrepancies between individual statements and their consolidation in the Government's Financial Statements. This is so because a number of BOs have not properly recorded and reflected certain items in their financial statements, which are mainly part of the disclosures. The Treasury has consolidated data as reported by individual organisations. Shortcomings in the consolidated figures relate to the following issues:

- In the AFS disclosures statement, assets were presented in the amount of €8,438,486,497, while according to individual audits, capital assets over €1,000 resulted to be €8,450,478,443, with a discrepancy or understatement by €11,991,946. This difference remains after the balance breaks, because some organisations have more assets than they have presented in the statements, and others have presented deficient asset balance data;
- Assets presented under €1,000 in the disclosure statement are in the value of €40,439,013, while according to individual audits, total of assets is €34,771,041, with a difference of €5,667,972. Therefore, as can be seen, there was an overestimation of assets at the same value, which was €5,438,0750 in central level organisations and €229,897 in municipalities. For detailed information on assets, please refer to Chapter 4 of this report;
- Stocks in the statement of disclosures in the BRK AFR were in the amount of €21,134,354, while according to individual audits this amount is €20,499,952. Stocks balance of central institutions in the AFS was €19,547,747, while according to the audit this value is

€18,788,225 or was overstated by €759,522. While in municipalities, the total value of stocks in the statements was €1,586,607, while according to the audit was €1,711,727 or was understated by €125,120;

- Unpaid liabilities at the national level are presented in the statement of disclosures in the amount of €258,792,000, while according to individual audit reports, the total value of unpaid liabilities was €259,137,000. There is therefore an understatement of liabilities by €345,000;
- The amount of contingent liabilities in the AFR has been presented in the total of €196,824,000, while the value of these liabilities under audit was €207,318,000, or €10,494,000 higher. For the same amount, the actual balance of these liabilities was understated in the financial statements; and
- Accounts receivable were presented in the balance of €631,702,606, while according to individual audit reports; the total value of accounts receivable was €634,131,000, with an understatement by €2,428,394. The value presented in the 2018 AFR for central level is €462,008,000, which during the audit resulted in understatement by €270,000, as this figure had to be presented in the amount of €462,278,000, while according to the consolidated financial report, the balance of receivables in 34 municipalities⁶ was €169,694,000, and according to the audit this amount was €171,853,000 or was understated by €2,159,000.

3.2 Basis of Preparation, Accounting Policy and Reporting

The Ministry of Finance, on behalf of the Government, prepares the Annual Financial Statements of the Budget of the Republic of Kosovo in accordance with LPFMA no. 03/L-048, as amended by Law 03/L-221, Law 04/L-116, Law 04/L-194, Law 05/L-063 and Law no. 05/L-007 as well as under IPSAS - Financial Reporting under the Cash Basis of Accounting.

The basis of the Government's accounting and reporting is the LPFMA and IPSAS according to the cash-based principle. Based on this, the information presented in these financial statements presents cash receipts and payments and the flow of cash balance.

According to the cash accounting principle, Receipts (revenues) are recognised when the money has been transferred to the Treasury account, received in commercial banks or is pending to be transferred to the Treasury account, and money collected by budget organisations officials is pending to be transferred to the CBK Treasury account.

Payments (expenses) are recognised when they arise from the Treasury Single Account, while the spending of petty cash and advances for travel expenses are recognised at the time of justifying of petty cash account and business travel.

⁶ North Mitrovica, Zveçan, Leposaviq and Zubin Potok have not reported accounts receivable, as they do not apply property tax or other charges that generate receivables. It is worth mentioning that property tax is budgeted year after year to be collected by these municipalities, but no concrete measure is yet implemented in this regard.

Money management is organised in the form of a Treasury Single Account. Treasury Single Account is a system of bank accounts used for revenue collection and expenditure execution, which is managed and controlled by the Treasury within the Ministry of Finance.

Treasury is also authorised to execute the Payment of invoices and payment requests under Article 39.2 of the LPFMA, and court and enforcement decisions, under Article 40 of the LPFMA. Such payments are made from the different categories of funds that were available, namely free to settle the obligation in accordance with the requirements of the LPFMA.

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

The assets presented in Annex 6 are based on the KFMIS notes, and include assets in the value over €1,000 in accordance with Financial Rule 02/2013. The list of non-financial assets is presented in the net accounting value after applying the depreciation rates under this regulation.

The report contains disclosures of information also for other accounts, which are presented in the annexes:

(7 and 8) Assets in the value of above and below €1,000; (9) Stocks; (10) Receivables; (11 and 12) Liabilities; (16) Number of employees outside the payroll; (17) Number of employees under special services agreements.

Transactions made between budget organisations, called "Interdepartmental Transactions", have not been consolidated in these financial statements in order to maintain the consistency of the information reported with the individual financial statements of budget organisations. Expenditures have been categorised by economic and functional classification of the Budget Law, based on IMF Government Financial Statistics (GFS) which are a 2014 version of the cash-based GFS.

Payments made by third parties are not considered receipts or cash payments, but are Government benefits. These payments are disclosed in the Third Party payments column of the consolidated statement of receipts and cash payments.

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

The reporting currency is Euro (€), while the disclosure of state debt is set out in Annex 20. Detailed data on state debt are presented in the 2018 Bulletin, published on the Ministry of Finance website.

The AFS are authorised upon the date of signature of the declaration by the Minister of Finance and the Treasury General Director and after approval by the Government.

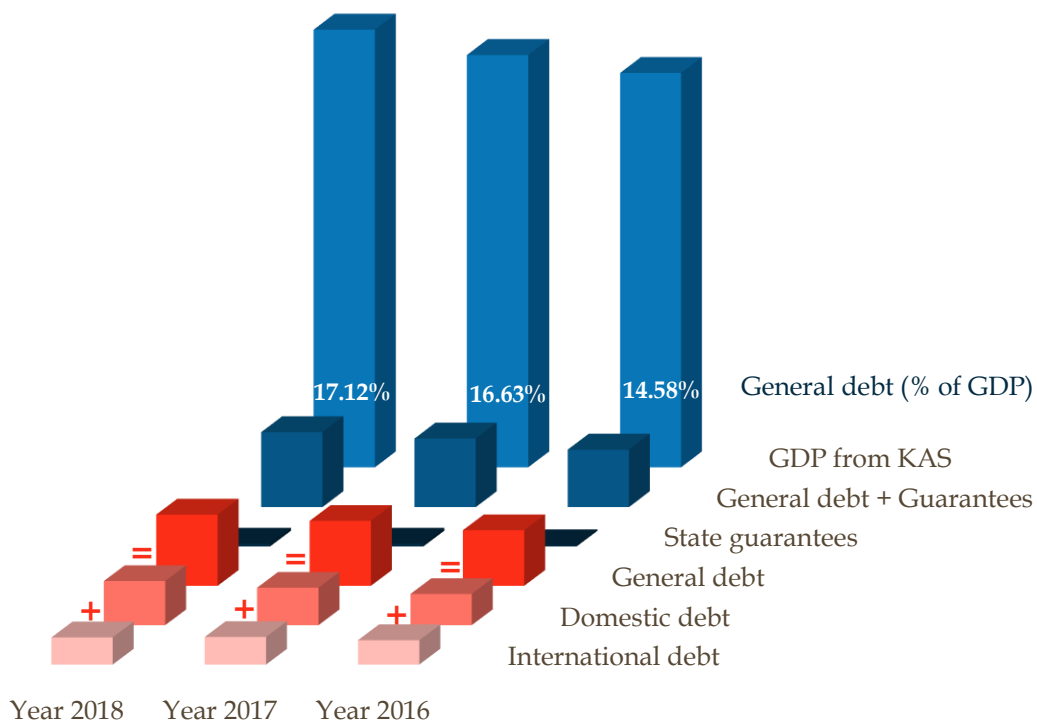
3.3 Public Debts and State Guarantees

Total state or public debts consist of External debt, Domestic debt, but for the purposes of calculating the total debt against GDP, State Guarantees also considered in the debt category. As a source of budgetary financing, these borrowings are obtained with the aim of covering budget deficits and for the purpose of financing capital projects. Kosovo has been receiving external debt since 2009, while since 2012; borrowing has also been made by domestic borrowing.

At the end of 2018, the general debt amounted to about €1,093 million, which is an increase by 9.7% compared to the previous year. This amount does not include state guarantees by €44 million. The following table shows the debt trend in the last three years.

Table 11 – State domestic and external debt (in euro)

Description	Year 2018	Year 2017	Year 2016
International debt	416,150,000	422,150,000	373,770,000
Domestic debt	676,620,000	574,270,000	478,970,000
General debt	1,092,770,000	996,420,000	852,740,000
State guarantees	44,000,000	44,000,000	20,000,000
General debt + Guarantees	1,136,770,000	1,040,420,000	872,740,000
General debt (% of GDP)	17.12%	16.63%	14.58%
GDP from KAS	6,641,600,000	6,257,000,000	5,985,000,000



For 2018 the Government has fully adhered to the legal limits allowed for borrowing public debt, where the public debt in relation to GDP this year was 17.12%. The Law on Public Debts stipulates that in no case shall the amount of the unpaid capital of the total debt exceed 40% of the Gross Domestic Product (GDP).

The data in the table shows that most of the debts (61.9%) are from domestic borrowing, while the external debts participate with a lower percentage (38.1%). As can be seen, compared to last year, external debt has decreased by 6 million as a result of the repayment of instalments and withdrawals in small amounts on ratified projects, while domestic debts have increased by more than €102 million from new securities issue.

State guarantees represent contingent liabilities and they become actual debts only in cases when the public entity fails to pay the guaranteed contractual obligations. In these cases, the Government is to pay the obligations to the guarantee. The table above shows that the Government has provided guarantees of €44 million (two guarantees of 10 million for 2015 and 2016, and 24 million for 2017).

Out of 1,092.77 million (excluding guarantees), 948.06 million are debts denominated in Euro currency and 144.71 million are Special Drawing Rights (consisting of EUR, USD, GPD, Chinese Yuan and Japanese Yen) and SAR (Saudi Riyad). In the value of total debt, the fixed interest rate debts are 932.6 million, while the variable interest rate is €160.1 million.

External debts

At the end of 2018, the accumulated external or international debt was €416,150,000, or 38.1% of total debt, while in relation to GDP, the amount of this debt was 6.3%.

Table 12 - External debt by creditors (in euro)

Creditor	Ratified debt	Withdrawn debt	Un-withdrawn debt	Unreturned debt ⁷	Returned debts
	(A)	(B)	(C=A-B)	(D=B-E)	(E)
IBRD	381,210,000	381,210,000	0	146,980,000	234,230,000
IDA	148,440,000	49,560,000	98,880,000	49,510,000	50,000
IMF	287,380,000	287,380,000	0	160,140,000	124,130,000
KfW	71,000,000	68,260,000	2,740,000	48,910,000	19,360,000
UniCredit	7,040,000	7,040,000	0	7,040,000	0
FOZHN, BIZH, SFZH	46,830,000	3,570,000	43,260,000	3,570,000	0
EBRD	139,900,000	0	139,900,000	0	0
EIB	42,000,000	0	42,000,000	0	0
NATIXIS France	66,000,000	0	66,000,000	0	0
External debt	1,189,800,000	797,020,000	392,780,000	416,150,000	377,770,000

⁷ The difference in the unreturned debt varies depending on the exchange rate at the reporting date for non-Euro currency loans.

External debt is borrowed through bank loans from external financial institutions, where the main creditors so far were the IBRD, IDA, EBRD and the IMF with around €956.9 million.

From the external debt ratified from 2009 to 2018, in the value of €1,189.8 million, the state has withdrawn €797 million, including the Consolidated Credit C from the former Yugoslavia, as part of the Kosovo State Debt, of which until the end of 2018, it has returned €377.7 million. The majority of the loan repayment was made for Consolidated Credit C in the value of 234 million or 62% of the repaid value and the IMF in the value of 124 million or 33%.

The amount not withdrawn from ratified credit agreements remains in the value of €392.8 million or 33% of the ratified debt.

During 2018, seven (7) agreements were signed, of which only two were ratified in 2018. Out of the ratified agreements are the Prishtina-Peja Highway Project, the Kijevo-Zahaq segment in the value of €80 million, and the agreement for the Kosovo's digital economy in the value of 20.7 million.

Domestic debts

At the end of 2018, the accumulated domestic debt was €676,620,000 or 61.9% of total debt, while in relation to GDP it was 10.18%.

The value issued during 2018 served to refinance the instruments maturing in 2018 in the value of 319.95 million and the new instruments planned under the 2018 Budget Law in the value of €102 million.

Table 13 - Domestic debts in the last three years

(in euro)

Domestic debt (net)	Year 2018	Year 2017	Year 2016
New issues	102,430,000	95,300,000	101,190,000
Stock of internal debt	676,620,000	574,270,000	478,970,000
Internal debt (% of GDP)	10.18%	9.18%	8.00%
GDP	6,641,600,000	6,257,000,000	5,985,000,000

Domestic and external debt services

External and domestic debt repayments for 2018 were €41 million, out of which 34.3 million were for external debt and €6.7 million were for domestic debt. The following table presents data on the return of domestic and external debt, including capital repayment, interest expenses, commitment fees and other fees as part of the debt.

Table 14 – External and internal debt services for 2018**(in euro)**

Debt returns	Capital	Interest paid	Commitment fees	Other fees	Total payments
External debt	22,030,000	12,010,000	290,000	0	34,330,000
Domestic debt	0	6,690,000	0	0	6,690,000
Total:	22,030,000	18,700,000	290,000	0	41,020,000

It is worth mentioning that ratified loans as of 2009 up to 2018 which have not yet been withdrawn by the Government, namely Projects Implementation Units, for 2018 were paid fees in the amount of €290,000.

State guarantees

For the purposes of calculating the total debt and determining the limit of such debts, State and Municipal Guarantees are treated as debt. At the end of 2018, the value of state guarantees granted was €44 million.

Audit conclusions

In the absence of proper preparations for the commencement of project execution, the un-withdrawn value of the ratified loans by the end of 2018 was €393 million, resulting in borrowing funds not being used efficiently and effectively. The reason for this was that borrowing arrangements have occurred long before the conditions for using these funds were created.

From the ratified agreements, the credit funds have not been withdrawn for 11⁸ projects in the value of €393 million. Unspent funds relate to the following unimplemented projects:

- Rehabilitation of Regional Roads, the project was implemented by the Ministry of Infrastructure, €29 million;
- Railway Rehabilitation Project 10, the project was implemented by the Ministry of Infrastructure and Infrakos, 42 million;
- Water Safety and Canal Protection Project, the project was implemented by the Ministry of Economic Development and POE Iber - Lepenci, 7 million;
- The wastewater treatment project, the project was implemented by the Ministry of Environment and Spatial Planning, 66 million;
- Road project 6 from Kijeva to Peja, the project was implemented by the Ministry of Infrastructure, 80 million;
- Competitiveness and Export Readiness Project, the project was implemented by the Ministry of Trade and Industry, 14.3 million
- Kosovo Digital Economy Project, the project was implemented by the Ministry of Economic Development, 20.7 million;

⁸ For 11 projects, two agreements are ratified in 2018, and others from previous years.

- Additional funding project for the Agriculture and Rural Development project, where the project was implemented by the Ministry of Agriculture, Forestry and Rural Development, 20.8 million;
- Kijevo-Zahaq Highway Project, the project was implemented by the Ministry of Infrastructure, 71 million;
- Rehabilitation of Railways 10, the project was implemented by Infracos, 39.9 million; and
- Project for Efficient Energy Measures in Municipalities, the project was implemented by municipality of: Ferizaj, Prishtina, Gjakova, Gjilan, 2.5 million.

The non-withdrawal of ratified loans was due to poor planning of projects that would be financed from borrowing, delays in setting up the Project Implementing Units, different procurement procedures from those foreseen under loan agreements, etc.

As a result, the Government of Kosovo has been paying a commitment fee for the value of committed assets which has not been withdrawn. Due to the discrepancy of the time dynamics between allocation of loan and project execution, the paid value of commitment fees for 2018 for loans not withdrawn by borrowers is €290,000 for all loans ratified by 2018.

NAO has also addressed, also in the previous report, the problem of Government entering into loans, before all preparations were made for project commencement, but similar practice has continued this year, increasing the balance of loans not withdrawn by 97 million, from 296 to 393 million.

Recommendations for the Government

- The Government should consider the reasons for delays in receiving funds and continue reforms in this area so through the new law on state debt, the Government should set out the conditions and criteria for selecting projects for financing, budgeting, and oversight of the level of utilization of these funds; and
- The Government should provide sufficient capacities of human resources that ensure implementation of projects funded from borrowing.

Recommendations for the Ministry of Finance

- The Ministry of Finance should continue with actions taken in addressing projects financed from borrowing, and submit twice a year to the Government for information and review, a consolidated progress report on borrowing projects, by identifying relevant challenges and proposing measures to overcome them; and
- The Budget Department should continue to support the implementation of this recommendation by drafting an Administrative Instruction on the selection criteria and prioritisation of capital projects, while the Treasury should, prior to negotiating the borrowing, to continue applying the request for a commitment letter to all line ministries and municipalities – those implementing the projects.

4 Assets

According to legal requirements, budget organisations are required to maintain accurate and complete asset records through systematic maintenance of the asset register as an integral part of the KFMIS with the aim of evaluating and reporting their values. In addition to recording and reporting, they should also ensure their effective safeguarding and use.

MoF Regulation no. 02/2013 on Asset Management in Budget Organisations obligates all organisations to maintain asset registers and to constantly renew or update them, depending on new purchases/acquisitions or systematic review of their condition of use.

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

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

Asset management is conducted through two centralised systems: KFMIS accounting register as an integrated system within the MoF, where assets with a value of over €1,000 are identified, and the “E-asset” application which is an integrated electronic system within MPA, where all public institutions should identify and report on their assets with values under €1,000.

Budget organisations have reported different asset values in the individual AFS, figures that were subsequently consolidated in the Ministry of Finance Statements. When auditing individual statements, we noted discrepancies between the reported figures and the audited values.

The main findings related to asset reporting and controls are:

Assets of central institutions - When conducting individual audits, it resulted that some organisations have not included part of their assets in their registers for various purposes, and as a result, the net value presented in the consolidated AFS was understated by €5,980,553. While an opposite situation was that some organisations, mainly due to non-calculation of annual depreciation or other errors made in registrations, non-capital assets were overstated when reporting to AFS for €5,438,075.

The following table shows the differences between the data presented in the AFS and the individual audits.

Table 15 - The condition of assets in central institutions**(in euro)**

Assets on 31.12.2018	According to AFS	According to audit	Overstatement/un derstatement
Capital assets (over €1,000)	2,619,095,058	2,625,075,611	5,980,553
Non-capital assets (under €1,000)	27,426,473	21,988,398	5,438,075

Identified errors or mismatches of the balances reported more or less have been identified in 20 central level organisations, including: 14 ministries, the Office of the Prime Minister, the University Clinical Hospital Services and four (4) agencies.

Other weaknesses in controls that are most commonly encountered when auditing assets within Central Institutions are:

- In ten (10) institutions, data reconciliation between the annual inventory report and the general asset register has not been completed;
- The e-assets system has not functioned in eight (8) institutions;
- Annual inventory has not been completed in seven (7) institutions or the process ended with delays in inventory of assets, namely the inventory reports were submitted after the preparation of financial statements; and
- Ministry of Innovation and Entrepreneurship has not reported assets above and below €1,000 to MoF.

Municipalities' assets - For the same reasons as mentioned above, the capital assets according to net value presented in the AFS have been understated in Municipalities by €6,011,393, while non-capital assets are overstated by €229,897. The following table shows the differences between the data presented in the AFS and the individual audits.

Table 16 - Municipalities' assets**(in Euro)**

Assets on 31.12.2018	According to AFS	Accordant to audit	Overstatement/un derstatement
Capital assets (over €1,000)	5,819,391,439	5,825,402,832	6,011,393
Non-capital assets (under €1,000)	13,012,540	12,782,643	229,897

The phenomena of errors and shortcomings related to assets have been identified in most municipalities. Out of thirty-eight (38) municipalities, twenty-three (23) of them have overstated or understated the assets presented in the AFS.

Other weaknesses in controls most commonly encountered when auditing municipality assets are:

- Municipality of Zubin Potok, Zvečan and Leposaviq have not reported assets with the value over €1,000. The municipality of Ferizaj, Novoberde, Mamusha, Zubin Potok, Zvečan and Partesh have reported assets under €1,000 with a value of zero, while the Municipality of Killokot has not reported assets under €1,000.
- In fourteen (14) municipalities, the e-asset system has not functioned;
- In thirteen (13) municipalities, inventory reports were conducted after the preparation of statements;
- In nine (9) municipalities, internal policies and procedures on asset management are missing;
- In eight (8) municipalities, no asset depreciation module was applied;
- In seven (7) municipalities, no asset inventory and valuation commissions were established; and
- In six (6) municipalities, data reconciliation between the general asset register and the inventory report was not conducted.

Other shortcomings identified at both central and local institutions are: poor management of official vehicles; lack of asset officials; partial inventory of assets; failure to record assets in asset registers and lack of asset barcodes.

Budget organisations also have uncertainties concerning registration and updating of assets at zero accounting value.

Stocks in Central Institutions and Municipalities 2018

Stocks or reserve equipment and office inventories in central institutions under the AFS are €19,547,747, while according to individual audits €18,788,225, with an overstatement by €759,522. Whereas the stocks of municipalities according to the AFS are €1,586,607, while according to audits €1,711,727 or are understated by €125,120.

In central institutions as well as municipalities were identified two cases each of stock overestimation or underestimation.

Audit conclusions

Even in 2018, asset management controls have not provided sufficient assurance that organisations have complete controls over assets and manage the assets efficiently and in accordance with applicable laws and procedures. In addition, the fixed asset data in the KFMIS and e-asset management system are inaccurate and incomplete. The same asset management practices are still pursued by both central and local level institutions, although recommendations have been made for years to improve this area.

Recommendations for the Government

The Government should play a proactive role in addressing all asset management issues and build accountability mechanisms in order to:

- Ensure that all organisations have the proper assets officers in place and that there are no budgetary problems regarding the staffing of vacancies for these officials;
- All organisations should meet their legal obligations by recording and reporting all assets under their possession; and
- Take steps to fully operationalise the e-asset system, which is a problem inherited for years. On the contrary, it should repeal the part of the regulation which obliges BOs to use this system and keep data separately in other BO programmes.

Recommendations for the Ministry of Finance

- Treasury through end-year training regarding the drafting of financial statement, should strengthen the requirement that all budget organisations timely set up asset inventory and evaluation commissions and that the results of the inventory are reflected in the financial statements; and
- When receiving the AFS from budget organisations, it should establish formal controls, in particular regarding the reporting of stocks with zero status, and in such cases, it should require clarification, as there are significant differences in the reports of the last three years.

5 Accounts Receivable

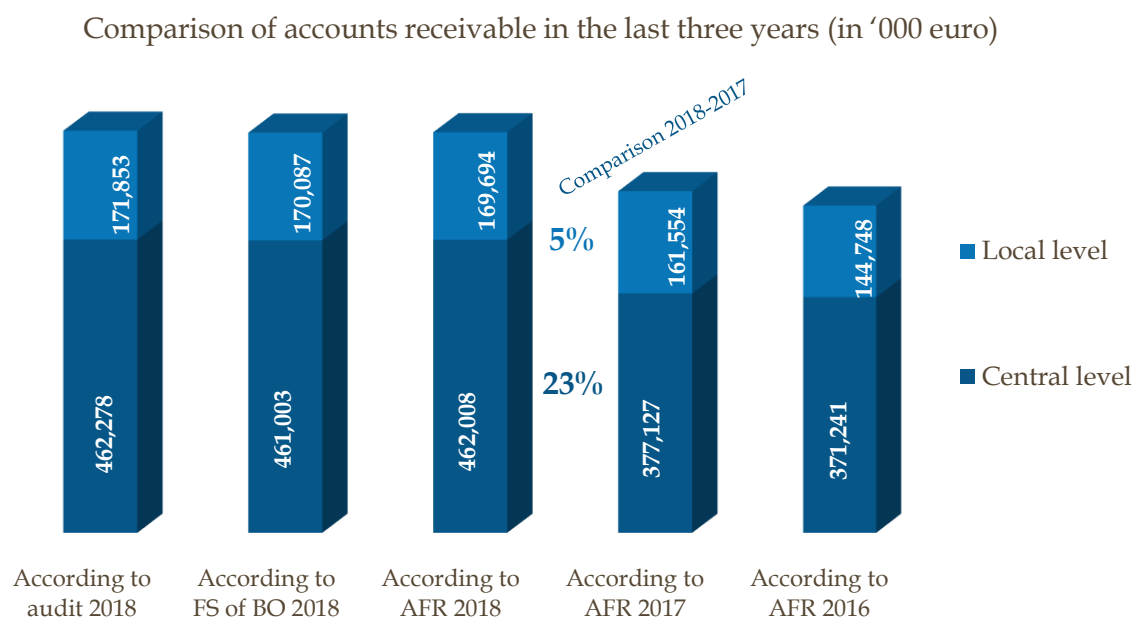
The current cash-based accounting of transactions means that the balance of accounts receivable is mainly consolidated and reported manually, both for the preparation of individual financial statements of the budget organisations and for the consolidated ones. As long as they are an extremely important short-term asset item, they require enhanced attention, both for audit purposes and throughout the entire budget process – all the more when such an accounting information collection leaves room for potential errors in their reporting or disclosure. Usually, the errors identified during the recent audits have been material.

For 2018, the total value stated in the 2018 Annual Financial Report (AFR) for central and local level amounts to €631,702,000, resulting in an understated difference by €2,429,000 from the total audited figure which resulted in €634,131,000. There are also differences when comparing individual statement notes with the consolidated ones (€612,000 underestimation in the AFR). This inaccurate disclosure is due to the lack of a formal structure for reporting, oversight and consolidation of data and due to almost technical errors in the transfer of FS to AFR notes when preparing consolidated statements.

Compared to 2017, this category marked an increase by 17% or expressed as a movement in an absolute amount by €93,021,000. This increase presents a much higher rate than the increase from 2016, by 4%.

Table 17 - Comparison of accounts receivable in the last three years (in euro)

Accounts receivable	According to audit 2018	According to FS of BO 2018	According to AFR 2018	According to AFR 2017	According to AFR 2016	Comparison 2018-2017
Central level	462,278,000	461,003,000	462,008,000	377,127,000	371,241,000	23%
Local level	171,853,000	170,087,000	169,694,000	161,554,000	144,748,000	5%
Total	634,131,000	631,090,000	631,702,000	538,681,000	515,989,000	17%



Central level accounts receivable

The value presented in the 2018 AFR for the central level is €462,008,000, which during the audit resulted to be understated by €270,000, as this figure should have been presented in the amount of €462,278,000. The errors were mainly:

- The biggest part of the difference comes from a technical error, where the value of €1,007 of Accounts Receivable of the Office of the Prime Minister is presented as the value of €1,006,750;
- In the Ministry of Environment and Spatial Planning, namely in the Environmental Protection Agency, accounts were understated by €1,166,540, since previous years balances were not included; and
- Ministry of Health (MoH) did not include €80,287 because MoH subordinate units had not reported the real balance of these accounts.

About 91% of the central level accounts receivable is comprised by the receivables from Customs and TAK, namely from the Ministry of Finance (audited figure €419,065,577). Compared to the previous year, central level A/R is characterised by an increasing trend of 23%.

Local level accounts receivable

According to the consolidated financial report, the balance of receivables in 34 municipalities⁹ was €169,694,000, but the audit has highlighted an understatement by €2,159,000. The amount to be reported as an A/R balance at the municipal level is €171,853,000. This over one million difference is due to manual harmonisation of data followed by a poor quality of reporting and monitoring by the relevant municipal directorates. Another problem is that in some municipalities, notes on the balance of receivables for business taxes do not exist at all, and it is up to the will of businesses whether they want to pay or not. In addition, some figures are not reflected at all in the consolidated financial statements. Precisely:

- Municipality of Ferizaj has not presented over €1 million in business taxes and construction permits;
- The Municipality of Mitrovica understated this category by about €500,000 because it did not include waste tax receivables, construction permits and rents;
- Municipality of Novoberde declared €360,000 A/R, but the same are not presented in the consolidated financial report;
- In Municipality of Istog A/R are understated by €196,101 as they do not include business charges, alcoholic beverages charges and rental charges;
- Municipality of Vushtrri with an understatement by €309,175, excluding receivables from primary waste management services;

⁹ North Mitrovica, Zvečan, Leposaviq and Zubin Potok have not reported accounts receivable as they do not apply property tax or other charges that generate receivables. It is worth mentioning that property tax is budgeted year after year to be collected by these municipalities, but no concrete measure is yet implemented in this regard.

- Municipality of Prishtine with €287,092 overstated, as since 2013, it continues to calculate receivables from the former 'Rilindja' facility, which has since been a government facility and exempt from this tax; and
- Municipality of Prizren has not reconciled final property tax balances with initial balances, overstating A/R by €214,234, and not providing evidence to justify the difference presented;

Local level accounts receivable generally include receivables from property tax, business tax, waste service tax, rents and others. This category is dominated by property tax which includes current charges as well as interest and penalties for failing to settle previous obligations. In recent years, the generation of accurate property tax data has been challenging when preparing individual financial statements. The notes are presented for granted from the current Protax property tax management system managed by the Ministry of Finance. In April 2018, the NAO published a report on the effectiveness of the property tax system. Among other things, there has been a reported failure to process payments in the current system, which also compromises the accuracy of accounts receivable reporting. Further, property tax liabilities have not been settled over the years for a number of facilities managed by the Privatization Agency of Kosovo, which have not yet been removed from the system. In addition, some of the individual audits have reported that there are properties without owners, which fictively increases the A/R balance.

In addition to the property tax, which is managed through the 'ProTax' application, the rest of the notes of accounts receivable are completely manually maintained in MS Excel or Access applications. This increases the risk of unauthorised controls and data changes.

The increasing trend of this category is highly linked with reported weaknesses regarding the forms of mandatory collection, charges and later invoicing as well as their aging. Municipalities have declared receivables that date back to 2002, which further complicates their collection due to the changing circumstances. Compared to 2017, A/R has marked an increase by 5%.

Recommendation for the Government and the Ministry of Finance

- In coordination with municipalities and revenue generating organisations, should review ways of collecting, consolidating, overseeing and reporting A/R so that subordinate units and relevant directorates are aware of the importance of these resources in budgetary performance and implementation of objectives. Where possible, processes in consolidating and updating data should be automated.

6 Outstanding and Contingent Liabilities

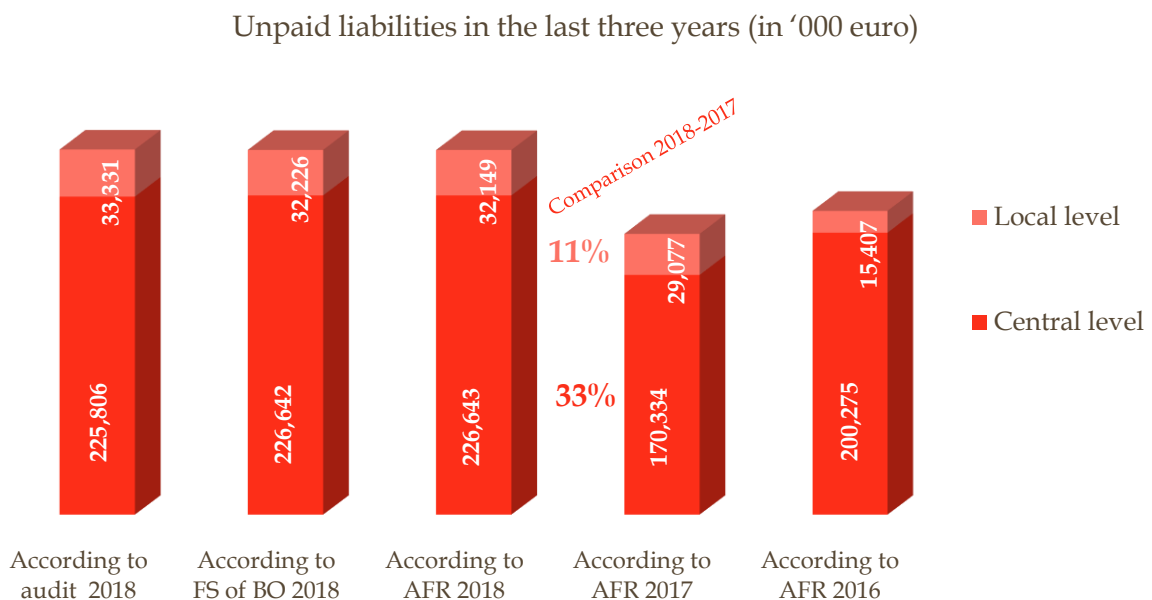
Outstanding liabilities represent invoices received for works/services completed by economic operators, but which are not paid. Due to the use of an accounting cash basis, the balance of the outstanding liability can only be disclosed in the financial statements. Consequently, they are collected manually by budget organisations and reported on a monthly basis to the MoF for further consolidation. The budget law and the secondary regulation on Public Funds Expenditure restricts the entry of BOs into liabilities, since they are obliged to order goods (purchase order) only when there are funds available, but such a thing is not always observed. This fact has led to an increasing trend of liabilities from year to year, both at local and central level.

In the consolidated financial report, total outstanding liabilities are presented in the amount of €258,792,000, a value which according to the audit is understated by €345,000, because it should be €259,137,000. Compared to the previous year, liabilities have increased by 30%.

Covering these liabilities has not been planned in the annual budget laws. But after the start of the fiscal year, the Ministry of Finance requires organisations to prioritize projects and plan the payment of debts carried forward. Despite this, organisations have been constantly facing accumulated debts dating back years ago, in almost all categories. As a consequence, direct payments from the Treasury and court decisions are further highlighted which are treated more in Chapter 7 and 7.1 of this report.

Table 18 - Unpaid liabilities in the last three years (in euro)

Unpaid liabilities	According to audit 2018	According to FS of BO 2018	According to AFR 2018	According to AFR 2017	According to AFR 2016	Comparison 2018-2017
Central level	225,806,000	226,642,000	226,643,000	170,334,000	200,275,000	33%
Local level	33,331,000	32,226,000	32,149,000	29,077,000	15,407,000	11%
Total	259,137,000	258,868,000	258,792,000	199,411,000	215,682,000	30%



Central level unpaid liabilities

The total value of central level unpaid liabilities is reported to be €226,643,000, but is overstated by €837,000 as this figure should have been presented in the value of €225,806,000. The reason for this is poor quality in collecting, consolidating and reporting records. More precisely:

- The biggest part of error stems from the FS of the Ministry of Environment and Spatial Planning (MESP), which has submitted approximately €950,000 more liabilities since they did not belong to this Ministry¹⁰;
- On the other hand, the Ministry of Infrastructure (MI) has understated liabilities for approximately €95,000, which was still unpaid in the category of subsidies, but did not declare them.

Over 70% of central level liabilities belong to MESP (over €160 million) for expropriation of properties. Their overall increase by 33% from 2017 is mainly due to the non-payment of liabilities by this Ministry, as a result of lack of financial means and inadequate management of the expropriation process by the three responsible ministries: Ministry of Infrastructure which is responsible for determining the expropriation segments, the Ministry of Finance responsible for determining the financial value of the expropriations, and the MESP which is the executor of the financial value payments determined by the MoF.

Over €38,000,000 or about 17% of central level liabilities are from MI, mainly for the R6 Prishtina - Han i Elezit Motorway construction project.

Local level unpaid liabilities

Reporting errors are considerably highlighted at the local level due to weak controls by the directorates and their reporting to the Chief Financial Officer. The amount reported as €32,149,000 is understated by €1,182,000, mainly from:

- Municipality of Prizren whose FS were understated by €904,746 due to errors in data consolidation;
- Municipality of Leposaviq with an understated difference by €213,095 because it did not calculate the interest rates required by the private enforcement agent for failing to settle previous year obligations;
- Municipality of Gjilan which reported €208,427 more, as it had not reconciled some payments that had already been paid by the reporting date; and
- Municipality of Rahovec did not present €133,000, also due to poor controls.

¹⁰ MESP, in co-operation with the Ministry of Economic Development (MED) and Gjakova Regional Water Company, signed a Memorandum of Understanding under which the Ministry will finance the implementation of the project in the value of €200,000, a value which was paid in 2018. Additional invoice of €950,000 was invoiced by the implementing EO Kosova Water and Energy to this Ministry, and the same presented it as an obligation, although the agreement did not oblige the Ministry to pay this.

Municipalities with the highest liabilities are Gjilan €7,577,653 or 23% of total local level debt, then Prishtina €7,545,271, and Prizren and Ferizaj with over €3,000,000 each.

Recommendations for the Ministry of Finance

- The Ministry of Finance, in coordination with organisations that have unpaid liabilities, should review the priority of payment of unpaid liabilities. What is more, the MoF should look into the possibility of not doing any budget allocations, before the unpaid liabilities are paid. In cases when liabilities are significant, the payment of these debts should be carefully programmed in order to avoid additional interest expenses and other administrative costs.

6.1 Contingent Liabilities

Under the liabilities are also disclosed contingent liabilities that present different claims by complainants which are likely to become liabilities for organisations in the future, depending on court decisions that may be in the favour of complainants. These relate to expropriation compensations, debt compensation, material damage, salaries and other financial implications in this regard.

In the consolidated report, the total contingent liabilities are €196,824,000, but are understated by €10,494,000 as it would have to be presented in the amount of €207,318,000. This category, as such, is subject to potential errors in disclosure, because they depend on co-operation between the legal offices of the BOs, the State Advocacy and the judicial authorities. But the differences also relate to some errors made by the Ministry of Finance in consolidating the notes received from budget organisations. The increasing trend of these liabilities and concurrently the lack of due diligence and non-commitment in reporting them are disturbing. Compared to the previous year, these are higher by 39%.

As a disclosure shortcoming, the 2018 AFR does not contain the 2017 and 2016 contingent liabilities columns at all.

Table 19 - Contingent liabilities during the last the years (in euro)

Contingent liabilities	According to audit 2018	According to FS of BO 2018	According to AFR 2018	According to 2017 audit	According to 2016 audit	Comparison 2017- 2018
Central level	94,436,000	94,667,000	88,043,000	75,602,000	28,953,000	16%
Local level	112,882,000	112,903,000	108,781,000	66,165,000	26,146,000	64%
Total	207,318,000	207,570,000	196,824,000	141,767,000	55,099,000	39%

Central level contingent liabilities

The value of central level contingent liabilities was reported in the 2018 AFR as €88,043,000, but was understated by €6,393,000. According to the audit, it should be €94,436,000. The reason for this is the poor quality in the collection, consolidation and reporting of data from BOs to MoF, and the latter in some cases has incorrectly carried forward the data. Some of the errors were:

- The Ministry of Education reported €4,998,660 in its FS, an amount which was also confirmed by the audit, but only €4,499 was presented in the AFR;
- Similarly, the University of Prishtina and the Memorial Management Agency reported €1,795,439 in the FS and 754,828 respectively, but they were not presented in the AFR at all;
- On the other hand, the Constitutional Court of Kosovo (CCK) did not report any contingent liabilities at all and this was confirmed by the audit. But the AFR shows the amount of €754,828. We can conclude that the MoF has confused these two organisations, whereby instead of disclosing the value of contingent liabilities to the Memorial Agency (see item above), the same have been assigned to the CCK;

The Ministry of Environment leads regarding the high level of contingent liabilities (€25,870,000) including potential land expropriation obligations. In its 2017 statements, only 1.3 million were reported, excluding cases in judicial expropriation process. While for 2018, the auditor has recommended to include them. To some extent, this has contributed to the overall increase in contingent liabilities

Local level contingent liabilities

Local level contingent liabilities as an amount exceed those of the central level. Lawsuits against municipalities are of different nature, starting from claims for jubilee salaries to expropriation lawsuits. Due to the non-structured and informal approach in data harmonisation, the audit has highlighted a number of errors. The reported amount as €108,781,000 was understated by €4,101,000, mainly because for the Municipality of Prizren, like the unpaid liabilities, contingent liabilities in the value of €4,130,000 were not presented in the AFR at all. A similar case was with Istog, where €152,019 was not presented in the AFR at all.

The municipalities with the highest liabilities are Prishtina with €38,280,748 or 35% of total local level debts, then Rahovec with €32,695,000 and Gjilan with €9,836,300.

Recommendations for the Ministry of Finance

- The Ministry of Finance, in coordination with budget organisations, should ensure that BOs make an estimate of contingent liabilities so that disclosures in the AFR are as accurate as possible.

7 Payments according to Article 39.2 of LPFMA

For 2018, the Treasury executed payments in the amount of €8,684,200¹¹ according to Article 39.2. Compared to 2017, payments executed within this year have increased by €80,200 or about less than 1%. Entering into liabilities without prior commitment of funds, negligence and irresponsibility of the responsible officials in the payment of invoices on time are the main reasons for the execution of these payments.

The table below shows the trend of these payments over the last three years.

Table 20 – Payments according to Article 39.2 of LPFMA (in euro)

Payments by categories	Total 2018	Total 2017	Total 2016
Goods and Services (Utilities)	1,673,869	1,892,000	666,000
Subsidies and Transfers	0	316,000	0
Capital Investments	7,010,331	6,396,000	4,239,000
Total	8,684,200	8,604,000	4,905,000

The following are some of the BOs where higher payments were executed according to Article 39.2 of the LPFMA that cover 87% of the total of these payments:

- Ministry of Infrastructure 4,184,557€
- Municipality of Ferizaj 1,208,960€
- Municipality of Prizren 980,941€
- Municipality of Prishtina 601,411€
- Municipality of Gjakove 592,175€;

This manner of making payments may increase the risk of such practices continuing by BOs. In reviewing the process of these payments, we have not noticed any irregularities while the procedure for handling suppliers' requests for delayed and unpaid liabilities according to Article 39.2 of the LPFMA has been consistently applied by the Treasury.

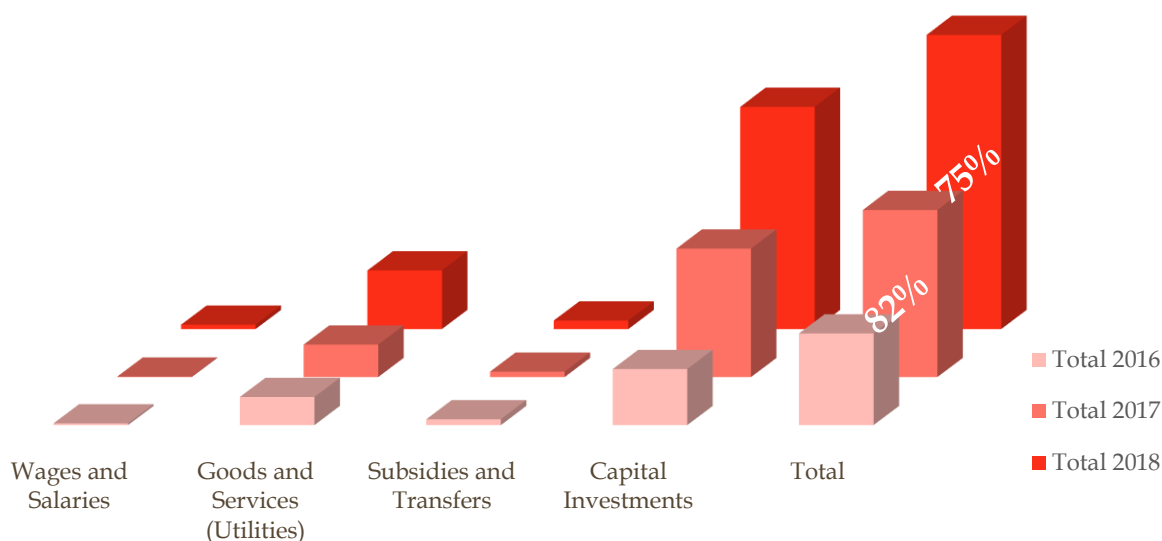
¹¹ According to Article 39.2 of LPFMA, when an invoice has not been paid by the Budget Organisation for a period longer than 60 days, the operator is entitled to request the execution of payment directly from the MoF/Treasury

7.1 Payments according to Court and Enforcement Decisions

In 2018, payments in the amount of €20,260,075 were made by court and private enforcement agent decisions. Compared to 2017 data, the amount of these payments increased by € 8,716,075 or 75%. As the table shows, the trend of these payments in the last three years has increased enormously, which is an indication that budget organisations are becoming less liquid in the performance of liabilities to economic operators and other debtors.

Table 18 – Payments by court and enforcement decisions (in euro)

Payments by categories	Total 2018	Total 2017	Total 2016
Wages and Salaries	303,522	34,000	117,000
Goods and Services (Utilities)	4,058,530	2,251,000	1,949,000
Subsidies and Transfers	590,977	373,000	404,000
Capital Investments	15,307,046	8,886,000	3,881,000
Total:	20,260,075	11,544,000	6,351,000



Failure to make payments on time damage operators as they collect their debts after long periods of time, which may affect the regular exercise of business due to lack of working capital. These processes cause delays and additional spending for the budget, as well as undermine the credibility of public institutions.

Below are some of the BOs that make up nearly half of the total payments made through court decisions and enforcement procedures, such as:

• Municipality of Ferizaj	€2,895,937
• Ministry of Environment and Spatial Planning	€2,372,453;
• Municipality of Leposaviq	€2,230,658
• Municipality of Mitrovica	€1,053,387
• Ministry of Culture, Youth and Sports	€1,033,181;

The main reasons for the payment of invoices by the Treasury according to court decisions mainly dealt with unpaid payments under the collective agreement to pay jubilee employee salaries, the payment of three follow-up salaries following the employee retirement for the employees who were left out of payroll list in the absence of budgeted positions, for the payment of invoices which were disputable from previous years, for the compensation of convicts without grounds, non-payment under regular procedures for spending of public money, and delays in payment for economic operators due to lack of budget funds.

In the course of our analytical reviews, we have noted that the annual financial report, Annex 19 and the register of court decisions included payments in the amount of €600,000 which belongs to the Kosovo Property Comparison and Verification Agency (KPCVA) which in fact is not a payment for a court decision, but is only a transfer from economic code 14410 "costs - court decisions" to code 83093 "deposits - compensation schemes". The payment of funds through code 14410 has been used as a method of transferring funds into economic code 83093. For the same amount, court payments have been overstated in the financial statements.

As shown in the table, 75% of these payments were made from the category of capital investments, which means that many capital projects had to be reduced in order to pay these liabilities.

8 Employment Data

According to Law no. 06/L-020 on the Budget of the Republic of Kosovo for 2018, the approved number of employees for central level (Ministries and Independent Institutions) was 40,550, while the current number at the end of 2018, according to the BRK AFS was €37,317. Therefore, there is a difference between the number of current employees and the budgeted employees by 3,233. This difference represents the positions approved by the budget law, but which are not staffed by the budget organisations during 2018.

The most highlighted differences and causes that have led to the failure to staff the approved positions are with:

- Ministry of Internal Affairs, where the reasons for not staffing positions (664) was insufficient budget for approved positions, non-approval of positions by MPA, extension of deadlines due to lack of institution's capacity to evaluate numerous applications;
- The University of Prishtina, the reason for not staffing these positions (541) was the failure in the announced vacancies;
- Ministry of Defence, where the reasons for not staffing positions (490) were: early retirement, voluntary demobilisation as a result of violations, incomplete engagement of KSF reserve component, incomplete recruitment as planned;
- The Kosovo Judicial Council, where failure to staff positions (288) was due to the lack of conducting recruitment procedures; and
- The Ministry of Justice, which failed to staff the approved number of positions (226) due to the prolongation of recruitment procedures, including the deadline for complaints.

The number of employees approved for municipal level according to Law no. 06/L-020 for the Budget of the Republic of Kosovo for 2018 was 43,878, while the current number at the end of 2018, according to BRK AFS for local level was 42,907, with a difference of 971 unstaffed positions compared to the number allowed.

The biggest differences in the failure to staff the positions were mainly observed in the following municipalities: North Mitrovica 400, Zubin Potok 252, Leposaviq 192, Zveçan 157 and Shterpce 124.

With regard to the budget allowed for salaries for unstaffed positions, in some cases, the budget was decreased by Government decisions to declare savings, or the budget went into surplus, while in other cases, as with the Kosovo Judicial Council, the budget was spent in the increasing of salaries for judges and administrative staff.

8.1 Employees out of the Payroll List and with Special Service Agreements

Number of employees out of the payroll

According to the BRK AFS for 2018, the total number of employees outside the payroll in central level institutions (Ministries and Independent Institutions) was 407.

The largest number is found in the Kosovo Clinical and University Hospital Service (299). These workers are employees specialising and specialists who are not on the payroll of UCCK, but are only present in duty shifts. The reasons why they were not recruited according to regular recruitment procedures was the lack of budget in this category. In addition, there are 48 employees in the Procurement Review Body engaged as technical and professional experts. In the Office of the Prime Minister there are 33 employees outside the payroll who are practitioners based on the Co-operation Agreement no. 166 between the Ministry of Labour and Social Welfare - Employment Agency of the Republic of Kosovo (EARP) and the Office of the Prime Minister (OPM), regarding the engagement in Active Labour Market Measures - **Work Practice**. The duration of the agreement is 6 months, extended for 6 more months with an Annex Contract.

According to the BRK AFS for 2018, the number of employees outside the payroll in the municipal level was 100. Municipalities with the largest number of these employees are Shterpce (28), Mamusha (25) and Mitrovica (22).

Special Service Agreements

According to BRK AFS for 2018, the total number of employees through Special Services Agreements (SSA) was 2,493. 12 Compared to their number in 2017 which was 2,929; there is a decrease by 436 or about 18%.

The key findings stemming from the individual audit reports for 2018, regarding these employees were: their engagement without complying with any recruitment procedures as required by legal rules, the period of engagement of officers longer than the deadline set by rules, agreements concluded for these positions were for regular positions, not for experts in the relevant fields, and extension of engagement of officials with SSA from previous years.

Recommendations for the Government

We recommend the Government to take appropriate measures to prevent staff from being paid outside the payroll, namely, where appropriate and necessary, the Government should resolve their status on the basis of recruitment and regular employment contracts.

Recommendations for the Ministry of Finance and Ministry of Public Administration

In cooperation with budget organisations, they should assist through the budget process and regular recruitment procedures to enable staff to be engaged in regular positions where the number of staff is permitted by budget appropriations.

¹² In total are included Ministries, Independent Institutions and Municipalities.

Part II – General

9 Implementation of Recommendations

The importance of audit reports lies in identifying weaknesses in governance systems, in particular, in financial systems, while the implementation of audit recommendations serves as a mechanism to remedy these weaknesses and making systems more efficient and effective in the achievement of objectives. Analyses in this area have shown that the current level of implementation of audit recommendations is unsatisfactory.

Following the receipt of the 2017 AFR, the Government prepared an Action Plan for the implementation of the recommendations, and the same was submitted to the Assembly (COPF), however, no progress was reported.

At the level of individual audits, most budget organisations do not implement a systematic process for monitoring the implementation of recommendations. Although compared to 2016 the number of recommendations has declined, however, a small number of recommendations have been fully implemented, while the biggest part are in the process of being implemented or are unimplemented, including previous years recommendations. In addition, a number of recommendations have been treated as closed due to changes in the legal basis as well as changes in the reporting structure, which will not be repeated.

Stagnations in the full implementation of the recommendations lead to the repetition of control weaknesses and shortcomings and the systematic repetition of irregularities year after year. The causes and reasons that have affected poor progress are different, which will be explained below.

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

The NAO, through individual audits, also makes the evaluation of implementation of recommendations given in the prior year and other previous years, clearly reflecting the areas in which corrective measures and actions were taken, as well as areas where no changes were noted.

Appendix II of the report provides complete information on the progress of the recommendations given in the AFR, while Table 1 and 2 present the statistics of recommendations for individual organisations.

In performance audits, the measuring of the implementation of recommendations is done by performing specific assessments, also known as the "follow-up phase".

Issues and recommendations for Publicly Owned Enterprises will be addressed in a separate section of this report.

9.1 Implementation of Recommendations Given in AAR for 2017

In the AAR for 2017, the Auditor General recommended the Assembly to request from the Government a report on recommendations given in the AAR of 2017, and to prepare an action plan for the implementation of recommendations as well as reports regarding the progress of this plan on quarterly basis.

In December 2018, the Government of Kosovo approved the Action Plan for implementation of recommendations, whereby obligating all budget organisations (BO) to implement it. The same was sent to the Assembly of Kosovo (COPF). However, according to the COPF, there is no action or report regarding the review of the progress of recommendations.

Based on information gathered during the audit process for budget statements as well as individual audits, we have noticed that actions undertaken by the Assembly of Kosovo, Government and other institutions have reflected little progress on implementation of recommendations although compared with previous year in number, their level has declined.

Out of 35 recommendations¹³ given in 2017 AAR, five (5) were fully implemented, 17 were in the process of implementation, and 13 others were not addressed yet. Annex II presents detailed data on recommendations given in the 2017 AAR.

Non-implementation of recommendations, certain weaknesses and irregularities have been repeated, particularly in areas such as:

- Incorrect reporting of expenditure on the AFS due to misclassification (including also direct payments by the Treasury) and insufficient disclosure of information;
- Weaknesses in governance areas related to self-assessment and risk management;
- Weakness in procurement procedures;
- Weaknesses in revenues and expenditures management;
- Lack of internal audit services for small independent institutions; and
- Inefficient management of resources in municipalities.

¹³ Five (5) recommendations for were given for the Assembly of Kosovo, 29 for the Government / Ministries, and 1 for the Municipal Assemblies. Out of these recommendations, six (6) were given regarding the performance audit.

9.2 Implementation of Recommendations Given in Individual Reports 2017

Assessment of implementation of recommendations is a part of permanent audit process. The assessment and how many have been implemented is done for each budget organisation during the regular audit, and the results for the previous year are presented in the audit reports for the following year.

The table below presents the data on the status of 2017 and 2016 recommendations, which are categorised according to audited organisations.

Audited organisations are divided into: Central Level Institutions¹⁴, Independent Institutions¹⁵ and Local Level Institutions (38 municipalities).

The table below shows the number of recommendations given and the percentages of their implementation.

Table 22 – Implementation of recommendations for 2017 budget organisations

Audited entities	Total no. of recommendations	Fully implemented		Partially implemented		Unimplemented		Closed unimplemented	
		No.	%	No.	%	No.	%	No.	%
Central Level Institutions	357	144	40%	59	17%	103	29%	51	14%
Independent Institutions	164	106	65%	19	12%	22	13%	17	10%
Local Level Institutions	600	188	31%	123	21%	229	38%	60	10%
Total	1,121	438	39%	201	18%	354	32%	128	11%

¹⁴ 21 Ministries, the Office of the Prime Minister, Tax Administration of Kosovo, Customs and KHUCS

¹⁵ Independent institutions include the Kosovo Assembly, the Office of the President, University of Prishtina and 28 institutions

The following chart illustrates the progress of recommendations by institutions.

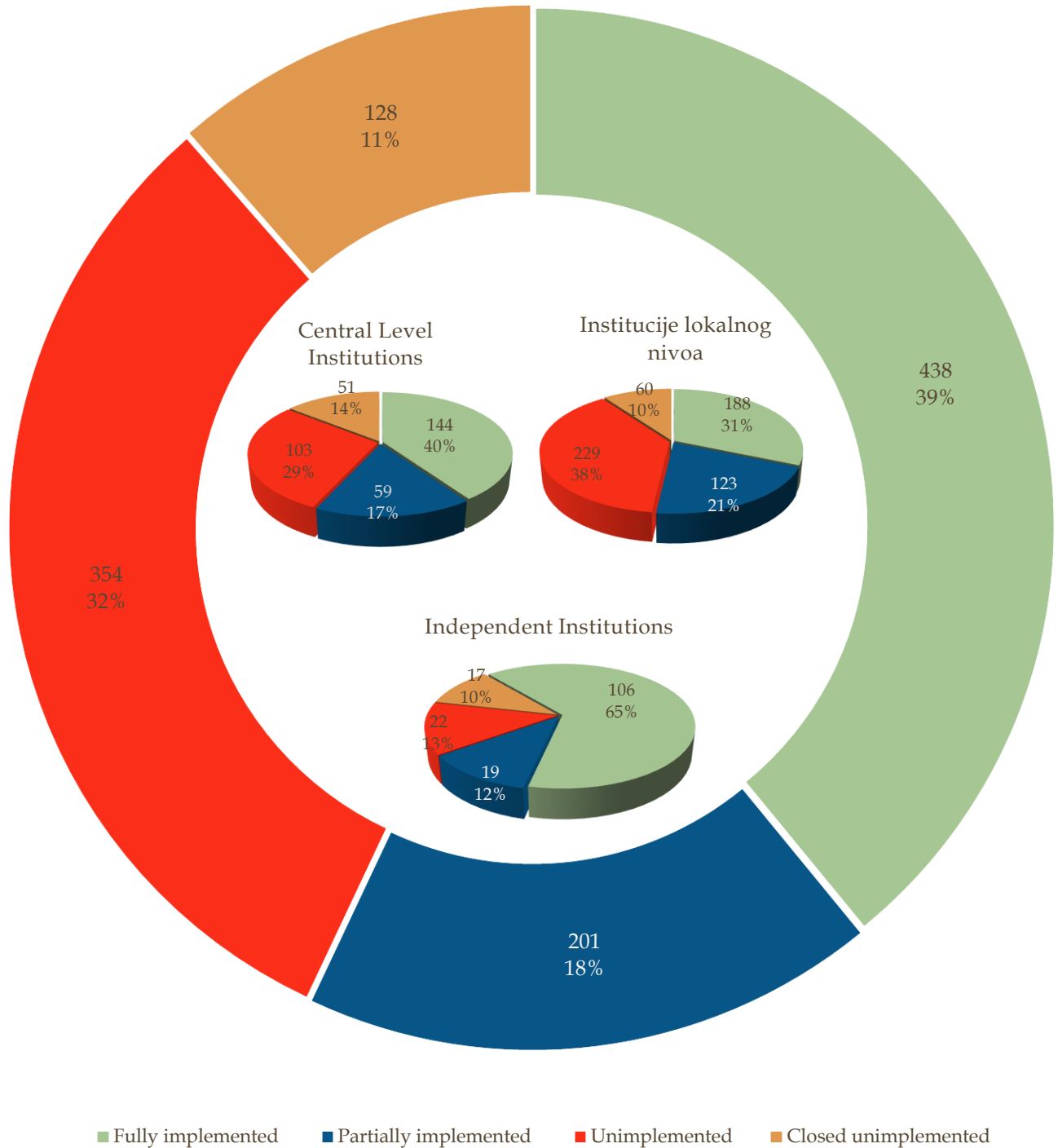


Table 23 – Implementation of budget organisations of BOs for 2016

Audited Entities	No. of total recommendations	Fully implemented		Partially implemented		Unimplemented	
		No.	%	No.	%	No.	%
Central Level Institutions	307	112	36%	57	19%	138	45%
Independent Institutions	220	118	54%	63	29%	39	18%
Local level Institutions	650	165	25%	191	29%	294	45%
Total recommendations	1,177	395	34%	311	26%	471	40%

As seen from the tables above, the total number of recommendations given for 2016/2017 has been declining, which is reflected by the level of institutions; however, the level of recommendations unimplemented is still high.

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

In 2019, the NAO sent "Rules of Procedure for Implementation of Audit and Action Plans" to Budget Organisations as well as Action Plans forms for their recommendations and monitoring (progress).

In order to improve the situation, greater commitment and accountability by persons responsible is needed, including regular monitoring of implementation of recommendations by all Budget Organisations.

Implementation of recommendations given in performance reports

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

Monitoring of implementation of recommendations from individual performance audit reports is done through special audits, which are also known as the "follow-up phase". Following this process, the results on implementation of recommendations are produced. Through performance audits, the NAO has provided the Assembly and auditees with useful recommendations to improve and enhance economy, efficiency and effectiveness in important sectors, such as: the judiciary, health, environment, information technology systems, and public procurement.

Performance audit recommendations have included both central and local government levels. However, despite the recommendations made, the reviews of report by the COPF and relevant Assembly Committees, and the organisation of public discussions on audit results, the understanding of the importance of implementing performance audit recommendations is still not at a desirable level. This is due to the fact that for the majority of audit reports, organisations do not even prepare Action Plans for implementation of recommendations, and on the other hand, their implementation takes longer.

For the 2018/2019 auditing season, the NAO has conducted a follow-up audit on “Monitoring and Management Responsibilities in the Use of Medical Devices” Case: Computerized Tomography” The conclusion of the follow-up audit was that out of 10 recommendations given, no recommendation was fully implemented, seven (7) recommendations have been partially implemented and three (3) recommendations have not been implemented at all. While, in the area of environment, based on the audit recommendations, measures have been taken by the Government to approve the Air Quality Action Plan, and the Hydro-meteorological Institute has put in place the software and mobile application for reporting air quality data at real time. In addition, PPRC, in co-operation with the Ministry of Finance, based on the recommendations given on the audit, Value for money in centralised procurements, has undertaken a number of corrective actions by further supplementing and advancing the Public Procurement Regulation and Operational Guidelines drafted by the PPRC. The level of implementation of recommendations in this area remains to be assessed through the second phase audit following the implementation of centralised procurements. Further, the recommendation given on the Property Tax System, despite some of the improvements made during the audit process, the system continues to produce a number of incomplete data. Our recommendation regarding the initiation of discussions by the Parliamentary Committee on Health on the challenges in the application of the Health Information System has been addressed; however, the implementation of this system by Health Institutions remains to be assessed by follow-up audit.

Reasons for low implementation of recommendations

The lack of formal processes for proper and systematic monitoring of action plans for implementation of recommendations, and lack of adequate commitment to address them are among the main causes for such low level of implementation of recommendations. In addition, lack of effective oversight by the Government and oversight bodies has led to the fact that budget organisations should avoid complete and consistent implementation of financial management guidelines as a result of which recommendations are repeated.

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

Recommendations for the Assembly of the Republic of Kosovo

Ensure that the action plan for the implementation of recommendations prepared by the Government has been reviewed by the COPF. In addition, it should specify the actions, time limits and persons responsible for the implementation of recommendations and their monitoring. It should also ensure that the progress achieved on the recommendations given is reviewed at least once a year.

Recommendation for Municipal Assemblies

We repeat the prior year recommendation that mayors should discuss on a regular basis reports of managers responsible for implementation of action plans and, at least twice a year, should report to the Municipal Assembly on the progress and challenges in this area.

10 Opinions on individual audit reports

The NAO has carried out regularity audits of AFS for 2018 in 92 Budget Organisations. Audit opinions are presented in the following table, while audit findings are presented in the individual reports of BOs.

Table 21 - Number and type of opinions given for 2018

Audited entities	Unmodified opinion	Unmodified opinion with Emphasis of Matter	Qualified opinion	Qualified opinion with Emphasis of Matter	Adverse opinion with Emphasis of Matter	Total
Central level organisations	7	13	0	6	0	26
Municipalities	3	33	0	2	0	38
Independent institutions	27	2	1	0	0	30
Total	37	48	1	8	0	94

As shown in the table, individual audits of BOs resulted in 85 unmodified opinions (37 of them unmodified and 48 unmodified with emphasis of matter), as well as 9 modified opinions (1 qualified opinion and 8 opinions with emphasis of matter).

In percentage terms, in 90% of the audit cases in terms of reporting they present a fair and true view of the AFS, and in 10% of the cases the statements contained material errors and irregularities. Compared to the previous year there is an improvement, as in 2017, in 17% of BOs, the statements contained material errors. The reasons that influenced the modification of the opinions, and those on the emphasis of matter, are detailed in Appendix II to this report.

The following table shows the organisations with qualified audit opinions.

Table 25 – Budget organisations with qualified opinion

Budget organisations	The error term	Nature of findings	Reason for modification
1. Qualified opinion			
Central Election Commission	113,199	Irregular payments	Payments for the CEC member salaries to whom the mandate had expired.
2. Qualified opinion with emphasis of matter			
Ministry of Culture, Youth and Sports	981,595	Misclassification of expenses; Irregular payments; Non-justification of subsidies, and Lack of work attendance.	Payment in the amount of €390,455 from inadequate economic categories; At the Archaeological Institute of Kosovo payments in the amount of €273,913 were made to employees engaged in field work under a regulation that was repealed by a government decision; the subsidies provided in the amount of €153,864 were not justified by their beneficiaries and the payment in the amount of €163,363 for wages and salaries in the absence of evidence of work attendance.
Ministry of Communities and Returns	100,430	Payments without work attendance.	Payments for salaries for 21 employees in the value of €100,430, without employees attending work.
Ministry of Trade and Industry	139,711	Payments without work attendance.	Expenditures for salaries in the amount of €139,711 for 26 employees without work attendance.
Ministry of Foreign Affairs	343,527	Non-reconciliation of expenditures with the accounting registers.	Amount spent on goods and services by €343,527, for which end of year reconciliations with the accounting register have not been made.
The Office of the Prime Minister	869,149	Lack of evidence on the payment regularity.	Irregular payments, Payments for projects not included in the initial budget plan in the amount of €869,149 were paid by Government decisions from the reserve fund and from additional appropriations during the year. There is insufficient evidence of the regularity of these expenditures for these payments.
Ministry of Public Administration	121,905	Payments made without evidence of work attendance and rent payments for unused facilities.	Expenditures for salaries in the amount of €99,916 for 20 employees who did not attend regular working hours and expenditures for the three rented premises in the amount of €121,989, which were not utilized.

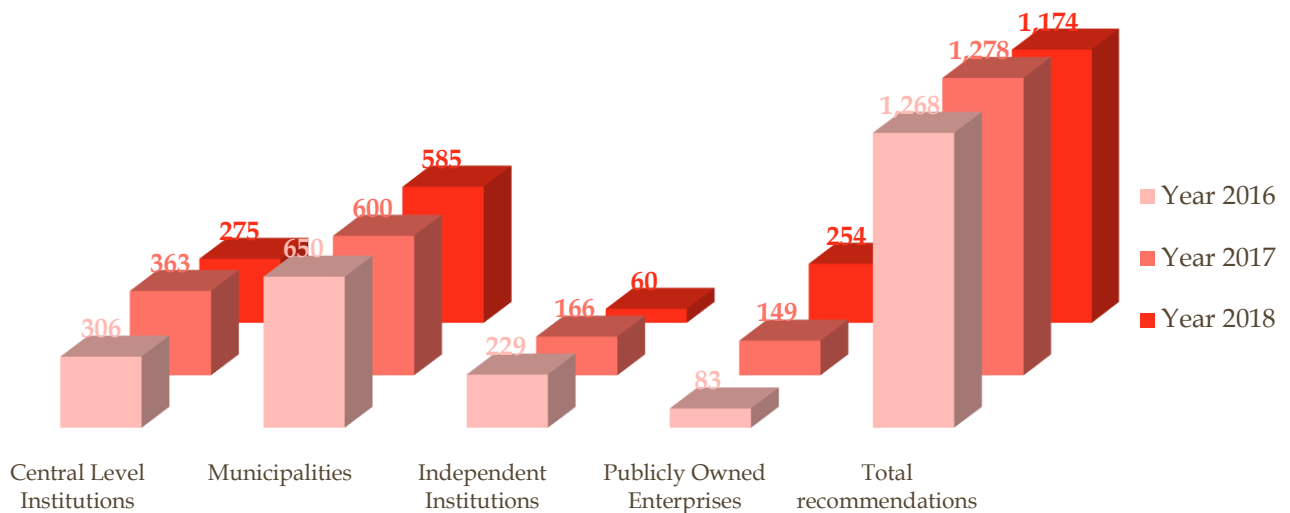
Novo Berde	149,181	Budget overstatement/ understatement of revenues and donor designated grants in the Budget Execution Report; Lack of evidence of work attendance.	Budget execution report, cash inflow into Treasury account, non-tax revenues as budget was materially overstated by €100,000, while their execution was overstated as well by €1,000; The budget execution report, the final budget of the donor designated grants was incorrectly presented at €34,285 or €5,788 less, while the execution of the grants was overstated by €13,007; and • Of the 20 cases audited in the Directorate of Education, 14 of them lacked evidence of work attendance for educational staff. The gross salary for these employees during this period was €3,393.
Ferizaj	364,680	Lack of documentation for 12 payments from court decisions.	12 Payments from the category of Capital Investments, Goods and Services in the amount of €364,680, which the Municipality has failed to provide for audit matters.

10.1 Recommendations Given in Individual Reports for 2018

In addition to audit opinions, individual reports of BOs also contain recommendations for improvement for each area where errors and irregularities have been identified. The following table presents details over the number of recommendations given in the last three years.

Table 26 - Number of recommendations given in individual reports for the last three years

Audited entities	Year 2018	Year 2017	Year 2016
Central Level Institutions	275	363	306
Municipalities	585	600	650
Independent Institutions	60	166	229
Publicly Owned Enterprises	254	149	83
Total recommendations	1,174	1,278	1,268



The data shown in the table indicate a decrease in the number of recommendations compared to previous years. The biggest decrease in the number of recommendations is in the Independent and Central Level Institutions. While the increase in the number of recommendations in Publicly Owned Enterprises was due to the increase in the number of audited enterprises, from 6 in 2016 to 11 in 2018.

11 Good Governance

Good governance in the public sector encourages good and long-term decision-making as well as efficient and effective utilization of both financial and human resources. To achieve this, state institutions should respect the basic principles of accountability, transparency, effectiveness of controls, risk management, internal audit functioning, and good administration of public resources.

In the good governance function, the Government of Kosovo has developed the Public Internal A Finance Control Strategy, the procedures for financial management and control, and has adopted the Law on Public Internal Financial Control.

Strategic planning, risk register, self-assessment as well as internal audit functioning are some of the requirements that every public institution is to put in place for good governance, towards achieving institutional objectives. The results of individual regularity audits have revealed that despite the progress made over the years, public institutions, with a particular emphasis on local level institutions have not yet come to realise the importance and benefits they may have from the implementation of requirements related to good governance. The development of strategic plans, risk register, self-assessment questionnaires are not yet understood as mechanisms that can enhance accountability, increase transparency and contribute to sound financial management. The implementation of these requirements is still accompanied by weaknesses in terms of quality and action undertaking to address existing challenges.

The most significant challenges faced by budget organisations in this area are:

- Out of a total of 94¹⁶ budget organisations, 16¹⁷ of them or 17% did not prepare a strategic plan. This weakness is particularly pursued in the local level, and where strategies exist, they are not implemented or monitored to determine if objectives are being achieved;
- Preparing the risk register is still a challenge for many organisations. 24¹⁸ organisations have not prepared a risk register, most of which are also at local level. Furthermore, where this register was prepared, it has not been updated and monitored to prevent errors and shortcomings in the system;
- Better situation stands with the self-evaluation process. Only two (2) out of 94 budget organisations did not complete the self-assessment questionnaire; and
- Establishment of Internal Audit Units and Audit Committees in all organisations still remains a challenge and there is still lack of sufficient staff/auditors in public sector institutions.

Despite the fact that most of the Public Institutions have prepared the above mentioned documents, they are still not monitored, evaluated and have not been put into good governance function. This is due to the fact that the results of individual audits have shown shortcomings in financial management and control in important areas, such as: capital investments, subsidies, personnel management, asset management etc. Frequent staff changes in the procurement department are a challenge which is negatively affecting contract management, good services and value for money given, as well as lack of monitoring and control over the funding provided for NGOs in the education sector, weaknesses in receipt of goods and in the field of personnel.

11.1 Internal Audit System

Internal Audit (IA) is an important function of the system that assures the senior management that internal control mechanisms are designed and function properly. Audit Committee (AC) is an advisory body of senior management of budget organisations, and a support for internal auditors ensuring their independence, assessing appropriateness of resources and ensuring the implementation of recommendations given.

One of the objectives of the Public Internal Financial Control Strategy (PIFCS) 2015-2019 is the advancement of the IA through implementation of the programme for professional development, quality assurance for compliance and updating of the legal framework. Thus, the importance and sensitivity of the profession obligate IAs to have the appropriate professional level.

The Central Harmonisation Unit is the co-ordinator of the entire process of internal audit and, *inter alia*, monitors public sector entities for public internal financial control. As positive developments in this period within the PIFCS 2015-2019 is the fact that the Law on Public Internal Financial Control was adopted in April 2018 and, at the beginning of 2019, Administrative Instruction no. 01/2019 on the Establishment and Functioning of the Audit Committee, and Regulation 01/2019 on the Establishment and Implementation of the Internal Audit Function was approved.

¹⁶ 30 independent institutions, 38 local level organisations, and 26 central level organisations

¹⁷ 12 local level organisations and 2 central level organisations, 2 independent institutions

¹⁸ 22 local level organisations and 2 central level organisations

A better situation was the coverage of the current year with audit activities, as about 58% of the audits focused on the current year. Whereas, regarding the actions taken by BOs management in the implementation of recommendations, we found that 51% of the recommendations given were fully implemented while the rest were in process or unimplemented.

The shortcomings identified in the internal audit system are presented below:

AI no. 23/2009 and Regulation 01/2019 on Establishment and Functioning of internal audit function determines criteria that should be met for the establishment of the IAUs, and determines the minimum number of auditors that the BO should have. We identified that eight (8) municipalities¹⁹ had not established the IAU despite the fact that they meet the criteria for doing so. While out of 72 BOs with IAU, 35 of them had fewer auditors than foreseen either by the AI in force for 2018 or the new regulation; and

Establishment of Audit Committees (AC) in all organisations still remains a challenge. Of the 72 BOs that had IAUs, 55 of them had established Audit Committees in 2018, which covered 61 internal audit units. However, it is worth mentioning that in six (6) municipalities²⁰, such a thing was done in 2019. Further, out of 55 BOs where AC has been functioning, we found that 16 of them had held fewer than four (4) meetings. This indicates that ACs are not yet effective to fully support the work of the IAU.

Internal audits continue to remain focused on compliance, and less on handling of performance and system audits. Despite improvements in internal control system compared to the previous year, it is not on a satisfactory level yet, and this is an indicator that IAU should further strengthen so that they act as a preventative mechanism of errors and irregularities.

11.2 Management Reporting, Accountability and Risk Management

Management reporting and accountability

In order to have a proper planning, supervise the activities on a regular basis and allow effective decision-making, the Management should put in place reporting and monitoring mechanisms. Accountability as a process is the acceptance of responsibilities, holding persons into account for their actions and disclosing results in a transparent way.

Although, a range of internal controls are applied by Heads of BOs to ensure that systems operate as intended, we have noticed that the measures applied are weak and ineffective and therefore do not provide an effective and timely response to the identified operational problems.

Out of the individual audits conducted in a total of 94²¹ organisations, in 52²² of them we identified weaknesses in management controls and accountability. Central and local level institutions continue to operate with ineffective controls in the area of capital investments, subsidies, personnel, asset management, revenues, and accounts receivable and contingent liabilities. As a

¹⁹ Municipalities such as: Zubin Potok, Mamusha, North Mitrovica, Partesh, Leposaviq, Zveçan, Kllokot and Hani i Elezit

²⁰ Obiliq, Malishevë, Viti, NovoBrda, Junik and Mitrovica.

²¹ 30 independent institutions, 38 local level organisations, and 26 central level organisations

²² 4 independent institutions, 35 local level organisations, and 13 central level organisations

result of the lack of controls, there is a large number of payments executed through court decisions and by the Treasury due to delays in the performance of obligations in a timely manner by organisations. Payments were also made from the contingency expenditure fund (reserves) for cases that are not treated as urgent cases, not explaining the circumstances that caused the additional needs, and the reasons why they were not provided for by the budget law. In addition, the current format of management reporting at the local level does not provide a basis for effective internal controls, as written reporting to senior management is often done only on request, rather than on a regular basis.

Most of independent institutions have put in place effective controls over the management of public finances. However, in two institutions, the audit identified shortcomings in accountability, function and mission performance. The consolidation of functional²³ bodies remains a challenge that does not depend directly on independent institutions and the updating of the Organisational Structure according to the mandate and mission of the institutions.

Risk management

Risk management is a process related to identification, analysis, evaluation and actions/measures taken by the Management to control and respond to risks threatening the Organisation. Individual audits performed in the total of 94²⁴ organisations, 24²⁵ of them or 26% have not drafted a risk register under the FMC requirement. Out of them, two (2) were from central level and 24 from local level. Moreover, in eight (8) intuitions both in central and local level and in two (2) independent institutions, although they had drafted the risk register it was not monitored and updated. A small number of public institutions have taken risk management seriously, putting it into function to prevent and avoid errors, while most institutions have not taken advantage of the benefits from monitoring the risk register. This makes it impossible for the management to respond immediately to address and manage risks which hinder the achievement of organisation's objectives.

Recommendations for the Ministry of Finance

- To ensure that all organisations should develop a risk register, by monitoring risk management through appropriate actions to put under control potential threats against objectives.
- To ensure that through monitoring, the management of budget organisations, which are obligated to establish the IAU, establish this unit as soon as possible, and should staff it to ensure the efficient and effective functioning of the internal control system. Whereas BOs which are not obliged to have IAU should exercise the internal audit function through other ways provided for by regulations; and
- To ensure that public sector entities establish Audit Committees, which should be effective in holding meetings and contribute to enhancing the accountability and strengthening of the IA role and support them in the achievement of objectives.

²³ Oversight Board and Commissions

²⁴ 30 independent institutions, 38 local level organisations, and 26 central level organisations

²⁵ 22 local level organisations, and 2 central level organisations

12 Procurement

In 2018, public institutions contracted 30% of the Kosovo budget through public procurement procedures, signing 12,412 contracts (including annex contracts) in the total of €631,622,686. In 2018 in order to increase accountability, transparency and efficiency the public procurement system has further advanced. In September 2018, public institutions were required to publish all contracts signed. The majority of the contracts signed following this request were published on the electronic procurement platform.

In addition, one of the key developments in the field of public procurement for 2018 was the increased use of the e-procurement platform. As of January 2018, all procedures in the value of over €10,000 were conducted through electronic procurement, from the initiation of the procedure until the contract was signed, while for procedures up to €10,000, e-procurement was not always used. At the end of the year, it was managed that all bids were submitted electronically. These developments have affected the decrease of the physical contact between Contracting Authorities and Economic Operators, real-time monitoring of activities was enabled and transparency was increased.

Despite the advancement in the system, the 2018 audit has identified that procurement activities continue to be followed up with shortcomings ranging from procurement planning, developing procurement procedures, to contract management. During 2018, 499 contracts were signed outside the procurement plan. Of these, municipalities comprise the majority with about 72%, central institutions with over 15%, and independent institutions with about 13%.

12.1 Regularity issues in the area of procurement

Individual audit reports for 2018 have shown that the previous year recommendations are not being implemented sufficiently and the entire procurement process is accompanied by shortcomings. It is worth mentioning that independent institutions are better in the implementation of procurement procedures, as weaknesses in the development of procurement procedures have been identified in only three institutions²⁶. Whereas, for 15 independent institutions, procurement procedures were developed by the CPA

In addition to the independent institutions, there were improvements in the development of procurement procedures for 2018 also in six municipalities where the audit has not identified any weaknesses in the development of procurement procedures²⁷.

The following table presents main issues encountered in the central or local level institutions.

²⁶ The Office of the President of the Republic of Kosovo, Kosovo Judicial Council, Memorial Complex Management Agency

²⁷ MA Kamenica, MA Viti, MA Mamusha, MA Zubin Potok, MA Hani i Elezit and MA Graçanica (only the signing of two identical contracts was identified in Graçanica with existing centralized contracts)

Table 27 – Regularity issues in the area of procurement

Issue	Impact	Actions required by budget organisations
Improper planning of procurement activities has led to a large number of annex contracts and activities outside the procurement plan.	Poor assessment of needs and needs for annex contracts affects the non-implementation of projects on time and potentially damages budget.	BOs need to carry out more detailed analysis on needs before finalising the procurement plan, in order to know exactly what is being procured during the year and avoid as much as possible the need of annex contracts
Entering into contractual obligations by signing contracts without sufficient budget available.	Entering into liabilities beyond the funds approved by the budget, risks the progress and failure of timely implementation of projects and damages the budget dedicated to other projects.	Discontinue practices of entering into contractual obligations if sufficient funds have not previously been committed to ensure the completion of projects under the contract.
Development of procedures without drafting execution projects and commencement of projects without providing preconditions for implementation.	Initiation of procedures in the absence of drafted projects as well as drafting of executing projects not in compliance with technical specifications, results in projects not being completed in the foreseen time limits, impedes the real value of investment planning and additional project costs.	Ensure that the legal requirements are strictly applied, ensuring that the design of the main projects is done in accordance with the conditions on the ground so that their implementation is carried out on time and without additional costs.
Entering into contracts by not complying with procurement procedures	Entering into contracts in the absence of procurement procedures besides undermining transparency, and eliminating competition, can also result in poor value for money spent	Ensure that procurement procedures are developed for each purchase required. The development of procedures and the signing of the contract in accordance with the LPP is mandatory and should ensure transparency, competition and value for money.
Awarding contracts to economic operators that have not met the eligibility requirements of the tender dossier	Not complying with the tender dossier criteria increases the risk of signing contracts with irresponsible EOs. This increases the likelihood of discrimination against other competing operators	Ensure that all procurement requirements are strictly complied with during the evaluation and that no irresponsible operator is awarded a contract.

<p>Delays in completing capital projects and failure to apply penalties for delays.</p>	<p>Delays in the completing projects affect the CAs in not achieving the objectives set. Failure to apply penalties damages the budget.</p>	<p>Ensure that causes that have affected the implementation of the works under the dynamic plans are analysed in order to prevent delays and ensure that the project is put in use as planned. Also, in case of delays penalties should be applied in accordance with the law.</p>
<p>Non-confiscation of performance security or validity of performance security for a period shorter than the contract duration foreseen.</p>	<p>Non-confiscation of performance security of the contract and the performance security for a time shorter than the requirements of the contract increase the risk that EOs fail to fulfil their contractual obligations and consequently the objectives of the CAs are not met.</p>	<p>In order to fulfil the contract, performance security should be required according to needs, and whenever the contract is not timely fulfilled, or not fulfilled according to specifications, this performance security should be confiscated.</p>
<p>Failure to appoint contract managers, lack of contract management plans and poor contract management.</p>	<p>Shortcomings in the contract management process, impede the progress of this phase and impede the evaluation of how the contract is being executed without providing assurance that the contracts are executed in accordance with the conditions and specifications provided.</p>	<p>Ensure that the person responsible for its management is appointed after the conclusion of each contract, which should follow up on the fulfilment of the contract in accordance with all requirements and standards foreseen.</p>
<p>Payment for unfinished work and without sufficient evidence.</p>	<p>Making payments without accepting works and making payments without sufficient evidence increases the risk that payments will be made while works will never be completed.</p>	<p>Ensure that no payment is made before the works are completed, the works, goods or services are accepted and there is sufficient evidence to support the works performed.</p>

We recommend the Government of Kosovo and the Ministry of Finance to ensure that:

- The electronic public procurement platform is being fully utilized in all organizations;
- Changes in public procurement rules are timely adopted by budget organizations;
- No CA develops procurement procedures nor identical purchase contracts are signed for which there are already centralised contracts entered into by the CPA; and
- Causes that affect the repetition of the same shortcomings year after year at all stages of procurement have been identified and eliminated.

13 Applicability of laws and legal challenges

In audits carried out of individual statements for budget organisations there were instances of non-compliance with certain legal provisions (including shortcomings in the development of procurement procedures, employment, personnel management and payment processing, which are addressed in separate sections of the AAR). However, cases have been selected dealing with legal challenges of particular importance which will be reported as follows.

MCYS - Noncompliance with Organic Law with Law on State Administration - Organic laws that regulate the activity of subordinate cultural institutions in MCYS in many cases conflict with the general laws on the basis of which the Ministry should function. The directors of these institutions report to the culture department, although the Law on State Administration, the Regulation on the Standards of Organisation of State Administration, and the Regulation on the Internal Organisation and Systematization of Workplaces in the MCYS clearly state that the only organisational units under the subordination of departments are the similar divisions.

Cultural heritage institutions are not regulated by specific laws, and they report to the Department of Cultural Heritage within MCYS. They base their activity on the Law on Cultural Heritage (except for the Kosovo Museum, which is based on the Law on Cultural Institutions). Based on this regulation, these institutions are not entitled to have budget codes and manage their own budget, but these should be performed by the Ministry. However, we have noticed that these institutions make expenditures contrary to their existing legal regulation. Moreover, this issue was also presented in previous year's report, but the audit team has not noticed that the Government/MCYS has taken action to address this issue.

Recommendations for the Government of Kosovo and MCYS

Government of Kosovo and Ministry of Culture should initiate procedures immediately for aligning organic legislation of subordinate institutions with the general legislation on organisation of administration and for management of public finances. In addition, managing and spending of the budget of cultural heritage institutions should be done by respective departments, or delegation of certain functions to subordinate units.

Kosovo Landfill Management Company - *Failure to extend waste management license* - KLMC manages with Waste Landfill in approximately 70% of Kosovo territory. Law on Waste no. 04/L-60 (Article 16-par. 1), stipulates "Collect, gather, shipment, treat, elaborate, recycle and deposit the wastes perform only licensed person". Despite efforts to obtain the license, the company has been still operating under a temporary license since 2012, due to a lack of response from the Ministry of Environment and Spatial Planning.

Failure to provide waste disposal fees - Law on Waste no. 04/L-60 Article 14, par. 2, stipulates that "According to the provisions of the Law on Publicly Owned Enterprises, the Ministry of Economic Development, in accordance with the relevant municipalities set out the fees for the disposal of municipal waste in landfills designated". KLMC failed to secure the fee on this request and still continues to invoice its services based on the inherited fees as of 2012. This (expired) fee only covers household waste collection in the value of €5.31/tons. The company continues to

accept other types of waste for which it had no license or fee, such as: glass, rubber, soil and stone waste, animal waste and customs waste disposal. For these types of waste, the Company's Board of Directors, in January 2016, set the tariff at €50/ton. This action was taken by the company due to not receiving a response from competent fee setting body, namely MED. Moreover, these two issues are also highlighted in previous year report.

The Regional Waste Company "Unity-JSC" Mitrovica - Lack of regulation on the management of non-current assets. According to Article 34.1 of the Law on Publicly Owned Enterprises, all POEs shall prepare and enforce the regulations required by the Law on Business Organisations. Also, Article 7.2 of the Company's Statute requires the company to issue regulations which contain provisions on the administration and operation of the company. The company had not prepared any asset management regulations that should have been adapted to the needs and requirements of the company based on applicable standards and laws. This has resulted in assets not being adequately managed during the year. Consequently, the company's asset register is deficient as it does not include all those assets that were of zero value, but which were still in use.

Regional Waste Company "Unity - JSC" Mitrovica - Lack of relevant regulations. According to the POE Law Article 34.1, all POEs shall prepare and enforce the regulations required by the Law on Business Organisations and Article 7.2 of the Company's Statute states that the company shall issue regulations which contain provisions for the administration and operation of the company. The Company had not prepared any regulations on revenues and accounts receivable which should set out the procedures for revenue, provisioning for bad debts and how to handle them. In addition, the company had not issued a regulation setting out the levelling of salary coefficients which contains provisions on the administration and functioning of the company.

Regional Waste Company "Unity-JSC" Mitrovica - Non-publication of documents on the company's website. According to Article 34.2 of the Law on POEs, a complete and current copy of all POE Regulations shall be published and maintained on a publicly accessible website maintained by the POE. The business plan, quarterly reports, annual reports and other important information for the public should be published on the website. The company did not yet have a functional website where its regulations and reports would be published. This situation occurred because there were insufficient funds to develop the website.

Recommendations for Government, Municipalities and relevant Publicly Owned Enterprise Boards

- The Government should consider the issue of operating without work license of publicly owned enterprise KLMC, and in cooperation with MESP and Steering Board of this Enterprise, and within a reasonable time to equip the same with valid work license;
- In cooperation with the MED should solve the problem of setting fees for collection and disposal of waste for the needs of KLMC;
- The Shareholder and Chairperson of the Board of the POE "Uniteti" should ensure that internal regulations on asset management are drafted, setting out standard procedures for documenting, safeguarding, disposing of assets, and a complete and accurate asset recording, as well as officials responsible for its management;
- The shareholder and Chairperson of the Board of POE "Uniteti" should ensure that all necessary actions are taken to issue relevant regulations on the handling of revenues and accounts receivable in order to improve internal controls by establishing procedures and clear controls in support of applicable standards and rules; and
- The shareholder and the Chairperson of the Board should ensure the creation and operation of the website with company's data and publish all regulations, reports and documents required by law on publicly owned enterprise for the purpose of transparency to stakeholders.

14 Performance Audits

In the recent years, the National Audit Office has been paying great importance to performance audits in order to promote accountability for the efficiency, effectiveness and economy of public funds.

During 2018, the NAO focused on auditing several areas of social and economic interest, such as: grants and subsidies in agriculture, traffic safety, policy-making process, environment, and employment policies, social housing, own source revenues management, evaluation of IT systems at the national level, essential medicines for citizens, and audits to implement health-related area recommendations. The approach applied to performance audits reflects the framework incorporated in ONISA standards, based on 3²⁸ E's.

In addition we have carried out the Evaluation of IT systems at central and local level, where out of 105 BOs, we have covered 37 central level organisations and 26 municipalities. During this season, 10 performance audit reports from different areas were published and through these reports we provided 131 recommendations to audited entities. The following is a summary of the performance²⁹ audit reports.

The following is a brief outline of the contents of performance reports, including the audit objective, findings, and messages.

(a) Efficiency and effectiveness of employment policies

The unemployment rate in the country is alarming; therefore, policies at the government and sectoral level should serve as a response to the unemployment situation created in the country. This can be achieved through adequate planning of the necessary human resources and financial capacities for policy implementation as well as through the establishment of sustainable monitoring mechanisms.

Audit message - *The conclusion of the audit is that employment policies at the governmental and sectoral level are not efficient and effective. The process of planning, implementing and monitoring employment policies, both at the governmental and sectoral levels, has been characterised by numerous shortcomings, which have contributed to the failure to promote and create employment.*

The Office of the Prime Minister has not preceded a proper assessment of the employment aspects, with particular focus, the responsibilities of line ministries were not clearly defined and the full identification of financial resources was not made. Employment-related strategic priorities and sectoral employment objectives have not been properly monitored as monitoring is not based on sound analysis. The implementation of proactive labour market measures, especially during 2017, was impeded by major delays in the functioning of the Employment Agency, the lack of

²⁸ Economy - reducing the cost of resources used for an activity, while obtaining and maintaining quality; Efficiency - the relation between outputs in terms of the goods, services, outcomes and resources used to produce them; and Effectiveness - the extent to which objectives have been achieved and the relation between the intended impact and the actual impact of an activity.

²⁹ Complete individual reports may be found on: <http://www.zka-rks.org/publications/>

specialising of a number of unemployed people, the preparation of lists with a limited number of unemployed people to undergo the process of selection, and lack of prioritisation of long-term unemployed people during the selection process. These shortcomings make it impossible to identify the unemployed persons who are more likely to become long-term unemployed persons; do not provide equal opportunities for a significant number of unemployed persons, and affect the increase in the number of long-term unemployed persons.

(b) Effectiveness of special housing programmes

The Government has failed to establish sustainable mechanisms that would help implement, coordinate, and monitor Special Housing Programmes, and as a result the Special Housing Programme has not been functioning properly. As a result, most of those in need of social housing have failed to benefit and many citizens will continue to live in dangerous or inadequate housing.

Audit Message - *The audit conclusion is that the Special Housing Programme has not been performing well. There are several reasons why this programme has not been performing well.*

First, the programme is not sufficiently funded and the resources available are not effectively allocated. The success of the programme largely depends on the construction of new/expensive apartments. As a consequence, it is difficult for municipalities to generate sufficient funding to meet all housing requirements. Moreover, the resources available are not consistently allocated to the most-in-need citizens, and there are cases that they are benefited by the people who do not enjoy this right and who live in apartments dedicated for this programme.

Second, performance and practice across municipalities are significantly different, and on the other hand complicated state criteria are not consistently applied, resulting thus in frequent irregularities and undesired results. The apartments intended for this programme are mainly built in urban areas, and as a result, applicants living in rural areas have little chance of obtaining housing in the areas where they live.

Third, there are shortcomings regarding information, monitoring and inspection system. The Government and municipalities have not developed a system to identify social housing needs, and as a result, there are no accurate data on the number of those who need this programme.

(c) Own source revenues management at local level

Own source revenue management at the local government level is not being developed according to best practices. The Government has failed to be fully effective and efficient throughout the process, both at central and local levels, with the aim of achieving municipal objectives to improving services to citizens. The defining of utility tariffs varies from one municipality to another, and as a consequence, costs for the same services are considerably emphasised with cases where rates for the same service are over four (4) times higher. This can cause dissatisfaction and affect the well-being of citizens.

Audit message - *The conclusion of the audit is that municipalities' own source revenues are not well managed. The reasons for this are:*

First, the lack of adequate procedures and guidelines by the Ministry of Finance on the planning of own source revenues create difficulties for municipalities in applying a unique system of municipalities;

Second, the lack of internal municipal procedures for the planning process, without developing comprehensive analysis regarding the existing potential for revenue generation creates difficulties in objective planning and revenue collection. Prices for services provided to citizens have not been determined on the basis of adequate analysis and calculations; and

Third, there are shortcomings in the reporting and transparency system. The audited municipalities have failed to have effective reporting to provide important data and sufficient information to users of these reports. Municipalities do not have a formal and functional process in place which would ensure transparency in identifying the needs of citizens to the project approval by Municipal Assemblies.

(d) Evaluation of IT systems at central and local level

Central and local level budget organisations face significant shortcomings in information technology governance. About 70% of them lack strategy, policies and procedures for the development and maintenance of information technology systems, inappropriate organisational structure of the Information Technology Department. It should also be highlighted that some Budget Organisations that have stated that they have the proper documentation, after reviewing it, it has been noted that those documents are inappropriate and incomprehensive. Their absence risks the failure to achieve the objectives of the budget organisation and may risk information security. Failure to use these services causes risks and vulnerabilities to the data being processed.

Audit message - *Audit conclusions are that there are numerous deficiencies in information technology governance, information security and poor control in information systems in the area of information technology.* The audits carried out show that despite investing in these applications, none of them has achieved the full objective for which they were funded. Moreover, although some of them have been in use since 2010, they are not yet fully operational. In addition to audits, the questionnaires also highlighted that there were parallel applications performing the same function as these, which resulted in additional budget costs. This is occurred due to the lack of a detailed plan or strategy for their development and progress, lack of training in the use, lack of professional capacity, lack of attention on security of these applications and the security of the data they contain.

(e) Management of essential medicines list

Responsible institutions have failed to fully meet the goals set out in the Essential Medicines List. The process of planning, distribution and monitoring of medicines, both at secondary and tertiary level, has been accompanied by shortcomings. As a consequence, citizens do not receive the medicines entitled to when they need them.

Audit message - *The conclusion of the audit is that Management of Medicines List has not been maintained effectively and efficiently. There are a number of reasons that have contributed to the failure to meet the intended objectives through the Essential Medicines List.*

First, the Essential Medicines List has not been updated since 2013 and there is a risk that important and cost-effective medicines will not be on this list. About 30% of medicines are never ordered, while there are important medicines that have been consistently requested but were not included in the essential list. For 2015-2017, the University Clinical Centre of Kosovo has spent around €3.5 million on medicines and consumables outside the essential list.

Second, due to improper planning, hospitals lack medicines when needed. Annual planning of medicines until final approval undergoes changes in accordance with the available budget, but these changes are not documented as to which medicine a priority is given. As a result, changes have also been made on vital medicines, the effect of which can be fatal to the patient. In 2016, there are vital medicines which have been reduced to 74% of the planned initial amount. Another factor that has contributed to the shortage of medicines is the delay in the distribution process.

Third, the Ministry of Health and Health Institutions do not monitor the planning and distribution of medicines. Whereas, the Health Insurance Fund does not prepare monitoring reports to present the amount distributed in each quarter, the validity of contracts for each medicine on a continuous basis and the stock balance at the end of each year.

(f) Procurements with negotiated procedure without publication of a contract notice

In 2015-2017, on average around €428 million were contracted annually through public procurement. Out of this 428 million, on average, some 13% were contracted through the negotiated procedure without publication of a contract notice which compared to the European Union is twice as high. Given the importance of using the negotiated procedure without publication of a contract notice, the National Audit Office has assessed whether the Contracting Authorities have sufficiently justified and documented the use of this procedure, and whether they have managed to achieve more economical prices.

Audit messages - *Audit conclusions are that in some cases negotiated contracts have resulted in higher costs than open procedure contracts. In the absence of sufficient analysis, needs assessment and market recognition, contracting authorities have entered into contractual agreements through negotiated procedure which in some cases have resulted in higher costs for services/goods received than prior contracts with open procurement procedures or opportunities found in the market.*

The report states that none of the audited Contracting Authorities made any analysis of the benefits and costs following the implementation of the contracts and thus had no basis on which to make subsequent purchasing decisions. The four public institutions audited by the NAO had not acted adequately to avoid using negotiated procedure without publication of a contract notice or to obtain the best price in cases when negotiated procedure was inevitable. An element that had contributed to this situation in most Contracting Authorities was the lack of market research – identification of potential suppliers and identification of the solutions offered. As a result, 65% of the contracts audited through negotiated procedure were entered into under minimal competition

conditions. Of them about 47% with only one economic operator and 18% of them with only two economic operators. This manner of procurement of goods and services, and works is not transparent and does not guarantee that the Contracting Authority has received the expected value for money spent. With some improvements in terms of market research and analysis of preliminary contracts, the audited Contracting Authorities could ensure higher competition and more economical prices.

(g) Development of capacities in the policy-making process and co-ordination in Kosovo

This audit report was carried out under the agreement between the KNAO and the Swedish Agency for International Development and Cooperation (SIDA). The purpose of this audit was to make a mid-term evaluation of the Policy Development Project. The project has overall achieved significant results by contributing to capacity building for policy development within the Government, introducing mechanisms for conducting policy analysis, impact analysis and support mechanisms for effective involvement of civil society. Irrespective of this, there is a risk that after the completion of the Project, the Government will not have sufficient capacity to carry out the necessary analyses of economic impact, strategic planning and other components of the policy and legislation development process.

Audit messages - *Audit conclusions are that there is low and inconsistent effectiveness in the policy development process. The reasons for this are:*

First, communication between the Project and the intended beneficiaries is not sufficient. Neither the Government nor the Project has developed a system to identify ongoing capacity development needs in the policy-making process. Lack of interactive communication by long-term Project experts with line ministries and Prime Minister's Office (OPM) departments can create difficulties in clearly identifying their development needs and filling in these gaps.

Second, most of the activities carried out by long-term and short-term experts seem to be filling in more current gaps, with their direct involvement in policy and legislation analysis being developed, in commenting on concept papers (CP) and other draft policies as direct expertise. In particular, experts are directly involved in economic impact analysis, communication development, strategic planning, etc. However, capacities for such analyses are not being developed within the OPM, except for the training provided by the Project.

Third, communication is not sufficient between Government institutions, and between the Government and citizens. The approach pursued by the Offices for Public Communication (OPCs) to inform the public is mainly focused on the activities of the institutions they represent, rather than interactive communication including citizens' participation in governance and the decision-making process.

(h) Process of management of grants and subsidies in the agriculture sector

To develop the agricultural sector and increase competition in the market, the Government of Kosovo allocates around €48 million of public funds each year. The public institutions responsible for the design and implementation of programmes for the agricultural sector and the management of public funds for this purpose are: the Office of the Prime Minister, the Ministry of Agriculture, Forestry and Rural Development and the municipalities for the implementation of municipal plans in this sector. The audit has concluded that there are significant shortcomings that risk the effectiveness and sustainable development of the agricultural sector.

Audit message - *The audit conclusions are that the management of agricultural programmes does not ensure the achievement of the intended results for the development of the agricultural sector.* The reasons for this are:

First, the current method of managing agricultural programmes does not ensure the achievement of the intended results for the development of the agricultural sector, and the programme monitoring process does not ensure the measurement of results and the creation of sustainability in the development of the agricultural sector. In addition, the Ministry of Agriculture, Forestry and Rural Development has approved two separate programmes of financial support in the value of €8 million which were approved without prior analysis. With their approval, the Ministry has exceeded the budget foreseen for grants for 2018. These programmes do not provide sustainable results and effective use of funds.

Second, despite the fact that the Programme for Agriculture and Rural Development 2014-2020 has been designed and was based on the principles of the Instrument for Pre-Accession Assistance for Rural Development (IPARD), structures have not yet been established under IPARD rules and unlike countries in the region, Kosovo has not received EU funds to finance the implementation of measures and programmes envisaged for the agricultural sector. The mechanisms established by the Ministry have failed to properly manage the grant and subsidy process, which has been followed-up by up to eight months of delays like shortcomings in the evaluation of farmers' applications.

Third, co-ordination between the Ministry and Municipalities on supporting the agricultural sector is not good, as there are cases where farmers for the same purposes have benefited both from the Ministry and the Municipality. Also, municipalities do not conduct controls after allocating grants or subsidies and consequently do not have information on whether they have contributed to the improvement of the agricultural sector or whether the funds have been used for the purpose for which they were intended.

(i) The effects of splitting tenders into lots

The focus of this audit was on tenders split into lots with a value of over €4 million or about 18% of the total value of tenders divided into lots (€22.8 million). Through the division of procurement activities into lots, the municipalities involved in this audit had three objectives, and the audit has revealed that the four audited municipalities had partially achieved their intended objectives through the splitting of tenders into lots.

Audit message - *The audit conclusions are that the splitting of tenders into lots failed to promote the development of small and medium-sized enterprises (SMEs) and increase competition. It is unclear whether the splitting of tenders into lots has achieved the intended effect, envisaged by public procurement legislation, which is to stimulate the development of SMEs and increase competition, as municipalities were unaware of the number of economic operators in Kosovo in general, and small and medium-sized enterprises in particular, that conduct business within the municipality or nationally. Municipalities had only partially achieved their objective of parallel implementation of contracts due to inadequate budgeting. The four municipalities had achieved the efficiency objective in terms of developing procurement procedures, and have concluded their procurement activity as planned. In this respect, no tender was cancelled due to lack of bids; all contracts were signed on the scheduled date. The audited municipalities did not act as required according to the Public Procurement Operational Guidelines and best practices to collect information on market characteristics and recent market developments that may affect competition. As a result, the municipalities had no information as to whether the segregation of tenders was appropriate or not, and the decision to split the tenders into lots was not based on complete information.*

(j) Implementation of recommendations on medical equipment case “Computerised tomography”

To assess the level of implementation of the recommendations, we have audited the Ministry of Health, the Kosovo University Clinical Hospital Service, the University Clinical Centre of Kosovo, and the General Hospitals; Peja, Prizren and Mitrovica. The audit covers the period 2015-2017.

Audit messages - *The recommendations given in 2015 have not been fully addressed. Out of them, seven recommendations have been partially implemented and three have not been implemented at all. As a consequence, the management and monitoring of medical equipment with a focus on Computerized Tomography installed in UCCK and General Hospitals continue to be accompanied by substantial shortcomings, thereby risking the professionalism of medical staff and increasing the risk of ascertaining inappropriate diagnoses for citizens of the country. Despite the investments made, due to lack of timely maintenance, the equipment was often out of service for up to six months during the year. Furthermore, there are cases where Tomography has operated outside the parameters recommended by the manufacturer, thereby risking the professionalism of the medical staff and increasing the risk of ascertaining inappropriate diagnoses for the citizens of the country. Further, major stagnations are in the legislative aspect and the inability to maintain medical equipment with internal capacities. However, it is worth mentioning that there has been a slight improvement in the functioning of medical devices compared to the period when the audit was conducted in 2015. This progress is related to the description of computerized tomography malfunction in shift books and the establishment of oversight bodies. Despite this, the responsible institutions have failed to provide proper services to the citizens. Furthermore, failure to prepare an action plan for implementation of the recommendations indicates a lack of responsibility and will of the responsible institutions to improve the management of medical equipment and thus the delivery of medical services to citizens.*

We recommend the Government of Kosovo and Municipalities:

- The Government should provide sustainable mechanisms that would help implement programmes and housing issues properly, and ensure sustainable social and economic development;
- The Government should ensure that the policies designed serve as a response to the created unemployment situation in the country. Government policies should promote the redistribution of employment across different sectors that are more promising and have the potential for new jobs;
- The government should provide support for Information Technology Systems and ensure that they are reliable, secure and intangible against computer attacks. The government should ensure that information is confidential and maintain the integrity and availability of data;
- The Government should take appropriate action to ensure that essential medicines and medical equipment at UCKK and General Hospitals are available to citizens throughout the year at any time they need;
- The Government should be more focused on capacity development at the government level by enhancing and using the capacity of local experts to conduct the necessary economic impact analyses, strategic planning and other components of processes for policy and legislation development;
- The Government should ensure that monitoring and accountability mechanisms are in place to assess the results achieved in the agricultural sector through subsidies and assistance from public funds; and
- Municipalities should ensure the full achievement of the objectives intended through the splitting of tenders into lots and carry out a comprehensive market analysis that includes the collection and analysis of market data and their documentation.

15 Publicly Owned Enterprises

The National Audit Office (NAO), besides budget organisations, this season has also audited the AFS of the 11 (eleven) Publicly Owned Enterprises (POEs) of 2018. Of them: three (3) were audited for the first time by the NAO, six (6) were audited for the second time, and two (2) for the third time.

The audit of AFS for 2018 has highlighted that the financial management and control system in POEs needs substantial improvements. The fact that ten POEs were given modified opinions shows poor quality of financial systems in POEs. The financial data reported in the Financial Statements contained material misstatement and misstatement of accounts. This weakens the quality of financial reporting and transparency regarding the management of public funds. Moreover, in most public enterprises a good governance mechanism has not yet been installed which would contribute to the implementation of effective policies ensuring that objectives are being achieved economically and efficiently.

Post of Kosovo and Kosovo Telecom are in particularly bad situation. In addition to operating at a loss of 18 million, they also have numerous short-term liabilities in the amount of 60 million. Equally in a bad position is the RWC Hidroregjioni Jugor - Prizren, which has over 16 million short and long term liabilities, and Kosovo Railways - Trainkos, which has over 5 million such liabilities. The negative financial trends in these two companies not only risk the services they provide, but also risk a significant number of employees who are working and are dependent on the existence of these companies.

Lack of strategic plans, management accountability, incomplete quarterly reports, inadequate segregation of duties, lack of publication of regulations, reports and information needed for transparency purposes, ineffective internal audits, and inaccurate presentation of transactions and items of the financial statements, including the financial statements with errors and misstatements are an indicator of the need to review existing arrangements. Existing budget planning processes were inadequate. They do not contain sufficient analyses and do not consider the risks that may occur and endanger POEs in the achievement of the objectives set.

The Steering Board of Publicly Owned Enterprises do not appear to be sufficiently competent and efficient in issuing policies and taking measures to make major changes to the current situation. The tendency to make sometimes the management responsible of the failures and sometimes the Steering Boards does not help the POEs get out of the difficult situation. The government has subsidised some of them permanently, but doing so on a sustainable basis does not appear to be happening soon. Unless immediate action is taken to improve the situation, the burden of failure will be put heavily on both the Government and municipalities.

In order to improve the current manner of managing Publicly Owned Enterprises, the NAO has made a number of recommendations, which are presented in individual audit reports and addressed to the persons in charge of POE governance.

15.1 Audit Opinions on Publicly Owned Enterprises

The table below shows a table of opinions on 2018 AFS.

Table 28 - Opinions given on audited POEs

No.	Audited enterprises	Audit opinion
1	KLMC JSC	Unmodified opinion with Emphasis of Matter
2	Bus Station Prishtina JSC	Qualified
3	Horticulture JSC Prishtine	Qualified
4	Kosovo Railways Trainkos JSC	Qualified
5	RWC Hidroregjioni Jugor JSC Prizren	Adverse
6	Post of Kosovo JSC	Adverse
7	Kosovo Telecom JSC	Adverse
8	RWC Prishtina JSC	Adverse
9	RWC Pastrimi JSC	Adverse
10.	RWC Uniteti JSC Mitrovice	Disclaimer of opinion
11.	RWC Drini i Bardhe JSC Peje	Disclaimer of opinion

The irregularities identified during the audit that caused the modification of opinion is related to the following causes:

Qualified Opinions - were issued due to failure to reevaluate non-current assets for more than five years, namely since their transformation in 2007 when they were under the management of the Privatization Agency of Kosovo, for incorrect presentation of cash flow by activities (operating, financing and investing), for non-recognition of assets received and used according to the requirements of the conceptual framework for financial reporting, and explanatory notes that were incomplete and inaccurate (Kosovo Railways - Trainkos JSC, Horticulture JSC, and Bus Station - JSC).

Adverse Opinions - were given because information regarding accounts receivable, accounts payable, balance sheet, stock capital, non-current assets, was not revaluated for more than five years, cash flow by activities (operating, financing and investing), deferred income were not recognized as liabilities, considerable suspicions to continue with activities on a going concern basis, stocks were recorded as accounts receivable, inaccurate presentation of tax asset amounts and VAT tax liabilities, and the explanatory notes were incomplete and inaccurate (RWC Hidroregjioni Jugor JSC, Post of Kosovo, Kosovo Telecom, RWC Prishtina JSC, RWC Pastrimi JSC).

Disclaimer of Opinion - The NAO refused to give an audit opinion because we were unable to provide the necessary audit evidence to provide a basis for an audit opinion. Limitations in obtaining information and the inability to draw clear and grounded audit conclusions have also caused the inability to form an audit opinion (RWC Uniteti JSC Mitrovica and Drini i Bardhe JSC Peja).

Recommendations for the Ministry of Economic Development and Relevant Board of Directors

- The MED, in co-operation with the Chairpersons of the Boards of Directors of the respective POEs, should analyse the causes that have influenced the Modification of Opinions and take all necessary action to ensure that matters that have affected the opinion are corrected or prevented. In addition, it should ensure that effective processes are in place to confirm that the production of 2019 AFS addresses all issues raised by the 2018 audit. This will be done by taking concrete actions to address them systematically, including the review of draft AFS by Management with particular focus on high risk areas and areas where errors were identified in previous years; and
- Shareholders should hold POE's Boards of Directors to account and accountable for preparation of true and fair AFS in order to improve the quality of reports for respective enterprises and for implementation of recommendations.

15.2 Previous Year's Recommendations

The POEs audited by private audit companies last year resulted in lower number of recommendations, because the focus and methodology of their work was mainly focused on financial reporting, and less on compliance.

See the table below for the level of implementation of the recommendations.

Table 29 - Implementation of external audit recommendations for 2017

No	Audited entities	No. of recommendations	Implemented	In process of implementation	Un implemented
1.	KLMC JSC	11	7	1	3
2.	Bus Station Prishtina JSC	12	2	7	3
3.	Hortikultura JSC Prishtina	19	13	3	3
4.	Kosovo Railways Trainkos JSC	13	8	2	3
5.	RWC Hidroregjioni Jugor JSC Prizreni	13	7	2	4
6.	Post of Kosovo JSC	5	1	3	1
7.	Kosovo Telecom JSC	13	4	0	9
8.	RWC Prishtina JSC	20	13	3	4
9.	RWC Pastrimi JSC	2	1	0	1
10.	RWC Uniteti JSC Mitrovice	15	0	2	13
11.	Drini i Bardhe JSC Peje	20	9	4	7
	Total recommendations	143	65	27	51

The table above shows that:

- From the recommendations given in the previous year, 45% of them have been implemented, 19% of them are in the process of implementation, and 38% of them are still not implemented; and
- POEs that have been audited for more than two years by the NAO (KLMC JSC and Kosovo Railways Trainkos JSC), show a more serious effort in implementing the recommendations given by the preliminary audit, even by influencing the change/improvement of the auditor's opinion on their AFS.

15.3 Procurement in Publicly Owned Enterprises

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

The audit results have shown that the existing controls in the area of public procurement of publicly owned enterprises are followed up by shortcomings at all stages. All issues raised in this area are presented in detail in the individual audit reports, but in summarised manner, we present them in the following table.

Tale 30 – Key issues identified during the audit of Publicly Owned Enterprises

Issue	Cause	Impact	Actions required by Management
Purchase of goods and services without procurement procedures (in the majority of audited enterprises)	Insufficient functioning of internal controls in the process of planning and execution of purchases of goods and services.	Damage of the budget, failure to achieve value for money and limitation of competition.	Ensure the strengthening of internal controls for assessing and planning company's needs, complying with LPP requirements and avoiding allocations for identical purchases.
Splitting procurement procedures (Bus Station Prishtina, Trainkos, RWC Pastrimi, Kosovo Telecom and Horticulture)	Improper planning by the requesting units and lack of proper functioning of internal controls.	Dividing requests that are the same or interrelated damages competition, risking the quality of services and products received.	Detailed planning of procurement activities that will in the future avoid the needs for splitting requests as well as develop adequate procedures affecting the added value for money.

<p>Improper planning and execution of procurement procedures</p> <p>(RWC Pastrimi and RWC Uniteti)</p>	<p>Requesting units did not request goods or services in a timely manner.</p> <p>High number of contracts signed outside the procurement plan.</p>	<p>Failure to achieve the company's annual objectives as initially planned</p>	<p>Requesting units should submit timely requests to allow the procurement office to plan and initiate timely procurement activities and procedures.</p>
<p>Failure to respect the principles of segregation of duties</p> <p>(RWC Pastrimi)</p>	<p>The lack of competent officials for the evaluation of procedures led to the fact that officials who drafted the technical specifications were also appointed members of the evaluation commissions.</p>	<p>Principles of segregation of duties increase the risk of conflict of interest arising from the conduct of procurement procedures.</p>	<p>Establishment of commissions to conduct procurement procedures based on the principles of segregation of duties in order to avoid potential conflict of interest.</p>
<p>Contract award to irresponsible economic operator</p> <p>(RWC Pastrimi)</p>	<p>Contractual award of the Economic Operator although in its financial offer there were arithmetical errors that exceeded two percent (2%) of the total bid value.</p>	<p>Failure to compare unit prices with total bid prices has resulted in EO contract award at a higher price than competition.</p>	<p>Competent Procurement Officer exercises more rigorous supervision over evaluation commissions in order to avoid such cases.</p>
<p>Shortcomings in the procurement procedures process</p> <p>(RWC Pastrimi)</p>	<p>Shortcomings in the procurement procedures process were due to insufficient functioning of internal controls.</p>	<p>Setting inadequate criteria in the tender dossier may affect contract being awarded to irresponsible EO.</p>	<p>In the case of applying the most economically advantageous criterion, the sub criteria should be determined objectively and measurably.</p>
<p>Delay in contract execution</p> <p>(RWC Pastrimi)</p>	<p>Failure to apply penalties in case of delays in contract execution was that the procurement office did not have information from the contract manager regarding delays in execution.</p>	<p>Improper contract management affects poor performance in efficient service delivery to consumers.</p>	<p>Contract Managers, when economic operators do not comply with the time limits for the delivery of goods, should apply penalties for failure to meet the terms of contracts.</p>

Procurement of used goods (RWC Prishtina)	The company developed the procedure for "Supply of used cars" although according to PPRC interpretations such a thing is not recommended.	Procurement of used goods can affect the quality, performance and functionality of vehicles and may affect purchases that are completely ineffective for the contracting authority.	Prior to initiating procurement procedures it will not execute any procurement activity that in a way reduces or eliminates competition between operators or that discriminates to the prejudice of or the benefit of one or more economic operators.
Lack of contract management plan (Kosovo Telecom)	Failure to apply effective controls by the contracting authority.	Failure to fully comply with procurement legal requirements may result in poor management of contract implementation.	Internal review should be undertaken to determine why procurement requirements have not been addressed in all cases and exercise more control to ensure that identified shortcomings are addressed.

15.4 Analysis of Financial Situation in Publicly Owned Enterprises

In this analysis, is presented the main financial situation indicators for seven central and four local publicly owned enterprises. The subject of this analysis was: revenues, expenditures, and financial result, short and long-term liabilities.

Table 31 – Financial result and liabilities of POEs on 31.12. 2018

No	Audited entity	Revenues	Expenditures	Financial result	Short-term liabilities	Long-term liabilities
1	KLMC JSC	2,307,502	2,146,912	137,015	445,860	1,140,340
2	Bus Station JSC Prishtina	1,100,799	1,277,171	(176,372)	69,669	0
3	Hortikultura JSC	1,242,485	1,097,537	130,453	3,495	32,258
4	Kosovo Railways - Trainkos JSC	2,719,462	3,936,688	(476,290)	1,896,603	3,186,968
5	RWC Hidroregjioni Jugor JSC, Prizren	5,242,958	5,208,195	34,763	4,569,955	11,459,781
6	Post of Kosovo JSC	11,032,384	13,366,225	(2,333,841)	3,921,473	0
7	Kosovo Telecom JSC	66,238,943	82,164,000	(15,925,000)	56,177,000	0
8	RWC Prishtina JSC	16,459,736	16,737,177	(751,015)	2,214,209	52,311,203
9	RWC Pastrimi JSC	6,834,440	6,582,496	226,749	1,925,514	312,041
10	RWC Uniteti JSC	1,686,597	1,826,367	(139,770)	2,621,759	562
11	RWC Drini i Bardhe JSC	367,080	274,204	900	95,897	2,608,151

Publicly Owned Enterprises have not presented accurate accounting reports, both in the accounting records and in the AFS. In the 2018 financial statements, six publicly owned enterprises presented a negative financial result that represent a total loss of €19,802,288, while the other five enterprises presented a positive financial result with a total profit of €529,880. The vast majority of the losses of over 18 million is comprised by Kosovo Telecom and Post of Kosovo.

The table above shows a fragile financial stability of these enterprises. Together, they have over 73 million short-term financing liabilities, and over 71 million long-term liabilities. The ability to repay these liabilities is quite uncertain, as the amount of loss is quite high, while those that have shown positive results, their profits are too low to be able to finance regular operational activities, but also to repay short-term loans within the deadlines set. Even last year we estimated that according to such financial trends, the principle of continuity of activity in some of them could be seriously questioned.

As the financing structure of these enterprises is quite unfavourable because of the fact that over 73 million are short-term liabilities that should be repaid within one year, there is a real risk that these enterprises will not be able to meet these obligations. In this case, the Government will be under pressure to cover some of these enterprises' operating deficits to avoid bankruptcy proceedings due to the public interest. Unless prompt measures are taken to design corrective programmes, the Government's financial burden will just get even worse.

When it comes to the performance of the Publicly Owned Enterprises Managing Boards, they have failed to put in place reform policies and clear strategies for overcoming this bad situation in their operating environments. Therefore, in such conditions, more active involvement of the Government in problem solving is an imperative.

We recommend the Government, Ministry of Economic Development and Municipalities:

- In co-operation with the Chairpersons of the Steering Boards, they should analyse the financial results of publicly owned enterprises, in particular enterprises operating with losses, to undertake adequate measure for reorganisation of POEs, to analyse the situation of liabilities, particularly the short-term ones, that determine the sources of liquidity of liabilities, and through annual and strategic plans, they should do reprogramming debts; and
- The respective municipalities, as the main shareholders of the enterprises at the local level, should exercise continuous and rigorous supervision over the management of the enterprises. Also, the performance of the Steering Boards should be subject to review, and where it is considered that the Boards are not capable of handling the tasks, measures should be taken to increase accountability and effectiveness at work.

Annex I: Explanation of the Different Types of Opinion Applied by NAO

(extract from ISSAI 200)

Form of opinion

147. The auditor should express **an unmodified opinion** if it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the opinion in the auditor's report in accordance with the section on "Determining the type of modification to the auditor's opinion".

148. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor should discuss the matter with the management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the audit opinion.

Modifications to the opinion in the auditor's report

151. The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or if the auditor was unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Auditors may issue three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.

Determining the type of modification to the auditor's opinion

152. The decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification – that is, whether the financial statements are materially misstated or, in the event that it was impossible to obtain sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

153. The auditor should express a **qualified opinion** if: (1) having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain

sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

154. The auditor should express an **adverse opinion if**, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

155. The auditor should **disclaim an opinion if**, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, the auditor concludes that the effects on the financial statements of any undetected misstatements could be both material and pervasive. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the audit scope that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705 provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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

157. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not materially misstated in the financial statements, the auditor should include an Emphasis of Matter paragraph in the auditor's report. Emphasis of Matter paragraphs should only refer to information presented or disclosed in the financial statements.

158. An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading "Emphasis of Matter" or another appropriate heading;
- include a clear reference to the matter being emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor's opinion is not modified in respect of the matter emphasised.

159. If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, and provided this is not prohibited by law or regulation, this should be done in a paragraph with the heading "Other Matter," or another appropriate heading. This paragraph should appear immediately after the opinion and any Emphasis of Matter paragraph.

Annex II: Progress in Implementing Recommendations Given in AAR 2017

Responsible institution	Recommendations given in AAR 2017	Recommendations implemented	Recommendations partially implemented	Recommendations unimplemented
The Assembly of Kosovo	<i>Chapter 9</i>			
	<ul style="list-style-type: none"> • Ensure that upon receipt of this report, the Action Plan for implementing the recommendations has been prepared by the Government and the same has been reviewed by the COPF. The Assembly of Kosovo should also ensure that the plan incorporates all recommendations given and accurately set out the actions, time limits and persons responsible for implementing the recommendations and monitoring them; and • At least twice a year, the Assembly should review the progress made on the recommendations given, strengthen accountability measures and propose measures to eliminate all obstacles that may affect the non-implementation of recommendations. 	The action plan has been prepared and submitted to the Assembly (COPF), which has invited Government representatives for a meeting to review the plan.		There are no reports on the review of progress of recommendations within the year.
	<i>Chapter 15</i>			
<ul style="list-style-type: none"> • Increase accountability towards the Kosovo Judicial Council to ensure that the Basic Courts have increased efficiency in handling and managing civil cases in accordance with applicable procedures and rules; • Review the existing legal framework for improving air quality and propose legal initiatives for the functionalising the monitoring network and air pollution prevention measures; and 		The Government of Kosovo has adopted the Air Quality Action Plan, and the Hydro meteorological Institute has put in place the software	The Kosovo Judicial Council has not provided a response or evidence on measures taken to increase efficiency in the management and handling of civil cases. The National Audit Office should carry out follow-up audits to evaluate the implementation of the recommendations.	

	<ul style="list-style-type: none"> • Through the Parliamentary Committee on Health, the Assembly should initiate discussions on the challenges of applying HIS and propose measures for its implementation in all Health Institutions. 	<p>The Parliamentary Committee on Health has held two meetings where it discussed the implementation of HIS and made recommendations on improving the system. The Assembly of Kosovo has also held a plenary session to discuss the findings of the SISH audit and proposed implementation measures.</p>	<p>and mobile application for real-time air quality data reporting. However, recommendations for improving air quality remain to be assessed by a follow-up audit.</p>	
<p>Government of Kosovo</p>	<p>The Government should review the annual reports on public debt of the Ministry of Finance on a regular basis, and should comprehensively discuss the need on borrowing debts, the results and obstacles in the process, as well as strengthen measures regarding efficient and effective utilization of borrowing funds.</p>	<p><i>Chapter 3</i></p>		<p>Based on the same circumstances this year, there is no concrete action showing any progress in managing public debt.</p>

<p>Ministry of Finance</p>	<ul style="list-style-type: none"> •Based on the Treasury quarterly reports, the Ministry of Finance should address all the challenges identified by line Ministries in implementing projects financed from borrowing. At any time and in all cases where it is considered necessary, the Government should be advised the appropriate measures to overcome the difficulties; and •The MoF should provide clear guidelines to budget organizations on including capital investment plans to be financed from borrowing. Approval of projects should only be done if they have completed all the preparations and provide sufficient and documented assurance that the projects will be carried out in a timely manner. 		<ul style="list-style-type: none"> •In the quarter of this year, the MoF has reported on the status or progress of projects financed from borrowing. However, no progress has been reported in financing these projects 	<ul style="list-style-type: none"> •No progress has been noted on any additional guidelines from MoF that includes capital investment plans.
<i>Chapter 4</i>				
<p>Government of Kosovo</p>	<ul style="list-style-type: none"> •All budget organizations maintain complete and accurate asset records, both financially and quantitatively; and •All budget organizations should establish commissions for the registration and evaluation of assets in accordance with MoF Regulation no. 02/2013 on Asset Management. 		<ul style="list-style-type: none"> •Some especially local level budget organizations do not maintain or have shortcomings in asset registers. •Also, in some local level budget organizations in (7 municipalities), commissions for registration and evaluation of assets have not been established. 	

<p>Ministry of Finance</p>	<ul style="list-style-type: none"> • The Ministry of Finance should provide unobstructed access to the recording and updating to the KFMIS accounting register; • Calculation of assets depreciation is conducted in accordance with norms set by regulations; and • Policies should be defined and clear guidelines should be provided through training on how to handle assets at zero accounting value. 	<ul style="list-style-type: none"> • In the individual reporting, no access obstacles were observed in KFMIS. 		<ul style="list-style-type: none"> • Asset depreciation was not applied in some BOs. On the other hand due to the fact that there are still BOs that do not apply their E-assets or register under €1000 is also reflected on the application of non-depreciation of assets. • BOs still have uncertainties regarding the registration of assets with zero value.
<p><i>Chapter 5</i></p>				
<p>Government of Kosovo</p>	<p>The Government should address the problem of managing these accounts with Customs and Tax Administration, as the uncollected debts from these two agencies make up about 65% of the total debts of citizens and other legal entities.</p>			<p>Challenges in managing uncollected debt remain. Even this year, the uncollected debts from these two agencies remain the same at about 66%.</p>
<p><i>Chapter 8</i></p>				
	<ul style="list-style-type: none"> • Establish effective processes to ensure that the 2018 AFR/BRK drafting process addresses all issues related to compliance and financial reporting requirements. Issues raised in the Basis for Opinion should be addressed as priority issues in 		<ul style="list-style-type: none"> • In the BRK Annual Financial Report (AFR) for 2018 MoF /Treasury have taken action and Annex no. 12. Reporting of 	

<p>Government of Kosovo / Treasury General Director</p>	<p>the area of improvement. Expenditure budgeting should be done in appropriate economic categories. Further, the consolidation process should include full asset registration and reporting as well as additional information on contingent liabilities;</p> <ul style="list-style-type: none"> • Ensure good planning of central government BOs that generate non-tax revenues (taxes, charges and other) in order to avoid the current practice of planning based on historical data and determining only total amounts; • Ministry of Finance, in co-ordination with municipalities, should develop a more efficient process of monitoring and evaluation of the revenue collection plan, identify the reasons for failure to execute the plan and this is reflected in budget planning; • Ensure a more qualitative and accurate reporting of contingent liabilities and establish a better communication of the State Advocacy with the Institutions it represents, so that the accused parties have timely information on disputes and lawsuits; and • The Treasury / Monitoring Division should strengthen controls in the payment execution process under Article 39.2 providing a full and evidence-based analysis. A more critical review of reports on outstanding liabilities is needed and where the delays and the value of the liabilities are material, it should address the issue to the senior 	<ul style="list-style-type: none"> • The macro department in co-ordination with the BOs responsible for the administration and collection of revenues from the central level BOs have taken actions and prepared foreseen projections for the collection of the revenues from the central level BOs. • Testing audit samples regarding direct payments under Article 39.2 has not shown any findings this year. 	<p>contingent liabilities according to BOs. However, the findings of individual reports show that in 2018, expenditures in inadequate codes and incomplete and inaccurate reporting of assets were identified.</p> <ul style="list-style-type: none"> • The revenues planned from BO revenues at the local level were 84% of the plan. Unsatisfactory performance in the implementation of the plan continues. • Annex no. 12 of the BRK AFS presented contingent liabilities, the information in this report has been consolidated from the individual financial statements of BOs, while regarding the communication between the State Advocacy and the institutions it represents still remain to be 	
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	officials in the organization's chain of accountability.		implemented.	
	<i>Chapter 9</i>			
Government of Kosovo	<ul style="list-style-type: none"> The Government should establish an effective process of monitoring action plans for the implementation of recommendations, and should discuss with the BOs all effective measures that can improve the process, in particular strengthening accountability measures to managers responsible for failing to implement recommendations. 		<ul style="list-style-type: none"> The Government has prepared an action plan for implementing the recommendations, but there is no indication that additional action has been taken to monitor or review the progress achieved in their implementation. 	
Municipal Assemblies	<ul style="list-style-type: none"> Mayors should regularly discuss the reports of managers responsible for the implementation of action plans, and report to the Municipal Assembly at least twice a year on progress and challenges in this area. 		<ul style="list-style-type: none"> In most cases, action plans have been debated within Municipal Assemblies. However, there are no reporting in the Municipal Assemblies on the progress and challenges regarding their implementation. 	
	<i>Chapter 11</i>			
Government of Kosovo/ Ministry of Finance	<ul style="list-style-type: none"> Upon request made by BOs, budgetary options should be reviewed and the funds needed to establish an Internal Audit Unit (IAU) in organizations in which these units have not yet been established, allocated; Public sector entities that have established IAUs should also establish Audit Committees (ACs) to support and strengthen the internal audit function, while ACs should be more effective in their work 		<ul style="list-style-type: none"> Out of the 14 BOs that did not have AC in 2017, there is some progress made as in 2018, this number 	<ul style="list-style-type: none"> No action was taken, as IAUs were not yet established in the Organizations that should have established this Unit, even under the requirements of the old and new AI.

	<p>and contribute to increased financial accountability; and</p> <ul style="list-style-type: none"> • Management of organizations that have not drafted a risk register should meet this FMC requirement to put under control the exposed threats and implement regular monitoring processes. 		<p>dropped to 11. We also noticed that in early 2019, ACs were established in 6 municipalities.</p> <ul style="list-style-type: none"> • Budget Organizations (24 of them) for 2018 have not yet prepared the risk register. While regarding the concrete actions taken in relation to risk management, there is a concerning situation observed as not many organizations have taken risk management seriously, failing to conduct the update and monitor risks as required by FMC procedures. 	
<p>Government of Kosovo / Ministry of Finance</p>	<ul style="list-style-type: none"> • The e-procurement platform is fully implemented by all budget organizations and in all procurement procedures even for small values; and • CPA has improved procurement practices in centralised contracts. 	<p><i>Chapter 12</i></p>		
			<ul style="list-style-type: none"> • There has been a significant increase in the use of e-procurement platform, but it has not been used for small values as well. • What has been done so far that may influence the improvement of practices during the development of centralised procedures are some amendments /supplements to the 	

			Public Procurement Regulation and Operational Guidelines drafted by the PPRC.	
	<i>Chapter 14</i>			
Government of Kosovo / MCYS	<ul style="list-style-type: none"> • Initiate procedures for the harmonisation of the organic legislation of the Institutions of Culture with the general legislation on the organization of administration and the public finances management. The management and spending of the budget of cultural heritage institutions should also be done by the relevant departments in the Ministry. 			<ul style="list-style-type: none"> • The situation is the same this year as well regarding the initiation of procedures for the harmonisation of laws.
Government of Kosovo / MFA	<ul style="list-style-type: none"> • Initiate a review of secondary legislation related to Foreign Service in order to precisely clarify the procedure for the termination of the mandate of diplomatic representatives, including the time periods required and relevant issues for the withdrawal and re-systemisation of diplomatic staff. In cases where there is a need to extend the mandate of certain diplomatic representatives, this should be done on decision or letter by the Minister, in accordance with the Law on Foreign Service 		<ul style="list-style-type: none"> • The issue of termination of mandate has not yet been regulated by legislation. However, in cases where the deadline was exceeded, decisions were taken by the Minister to extend the mandate (with the exception of an isolated case which is presented in the MFA audit report). 	
Government of Kosovo / Ministry of Diaspora	<ul style="list-style-type: none"> • Within a reasonable time limit, actions should be taken to recruit directors of the KCCD in accordance with legal requirements so that the same are put on the payroll and paid from the adequate expenditure category. 			<ul style="list-style-type: none"> • The recruitment of Directors of KCCD has not been done according to legal requirements. This remained pending on the new Law on Diaspora, which is currently in the procedure of approval in the Assembly.

<p>Government of Kosovo</p>	<ul style="list-style-type: none"> • The Government should consider the issue of Publicly Owned Enterprises, KLMC and RWC “Drini i Bardhe” operating without the licenses and, in co-operation with MESP and the Steering Boards of these two Enterprises, these two enterprises should, within a reasonable time, be provided with valid work licenses; and • In co-operation with MED, the problem of setting fees for waste collection and disposal should be solved for the needs of KLMC. 		<ul style="list-style-type: none"> • KLMC has not obtained the work license yet, while RWC Drini i Bardhë has obtained the licence. 	<ul style="list-style-type: none"> • The problem of setting fees for waste collection for the needs of KLMC has not been resolved yet.
<i>Chapter 15</i>				
<p>Government of Kosovo</p>	<ul style="list-style-type: none"> • In co-operation with the Ministry of Finance should analyse the centralised procurement process and ensure that procurement through the CPA meets the needs of budget organizations in a timely and quality manner, and achieves value for money; and 		<ul style="list-style-type: none"> • PPRC, in co-operation with the Ministry of Finance, based on the recommendations given in the audit Value for money in centralised procurement has undertaken a number of corrective actions by further supplementing the Public Procurement Regulation and Operational Guidelines. The level of implementation of recommendations in this area remains to be assessed through the second phase audit following the implementation of centralised procurement. 	

<p>Ministry of Finance</p>	<ul style="list-style-type: none"> • Ensure that engagement of employees with special service agreements and for specific tasks is done in full compliance with the legal framework and tasks that require special expertise to perform public sector tasks. • All shortcomings and weaknesses of the Property Tax Information System should be analysed and the necessary measures should be taken to make the system fully efficient and generate full data for all property tax payers. 		<ul style="list-style-type: none"> • Despite some improvements made during the audit process, the property tax system continues to produce incomplete data. Regularity audit results for the 2018 audit year indicate problems in non-reconciliations between the Treasury and the system as well as problems with taxpayer registration where deduction for primary residence has been allowed more than once. 	<ul style="list-style-type: none"> • Engaging employees with special service agreements and for specific task has continued to be in non-compliance with the legal framework and not for work and tasks that require special expertise to perform public sector tasks.
<p><i>Chapter 16</i></p>				
<p>Government of Kosovo / Ministry of Economic development</p>	<ul style="list-style-type: none"> • Should take immediate action to review the general situation of these publicly owned enterprises. The Steering Boards of these enterprises should have the key role in addressing the major problems facing the enterprises, and then, set out a package of measures and actions that should be implemented in order to improve the existing situation. <p>In addition to management and operational issues, the particular focus of the reviews should be on the status of short and long-term liabilities and the liquidity capability of the enterprises against their liabilities.</p>			<ul style="list-style-type: none"> • No measures have been taken to define a package of measures and actions to improve the existing situation. Nor has any action/focus been taken by the Government /MED on taking the measures for short and long-term liabilities and liquidity capability of enterprises.

Annex III: Main Financial Statements of the Government 2018

*Statement of receipts and payments in cash for the Government of Kosovo
For the year ended on 31st of December 2018*

	Note	2018		2017		2016	
		Managed by the Government of Kosovo '000 €	Third Party Payments '000 €	Managed by the Government of Kosovo '000 €	Third Party Payments '000 €	Managed by the Government of Kosovo '000 €	Third Party Payments '000 €
RECEIPTS							
Direct taxes							
Corporate Income Tax	2	86,797		75,277		80,817	
Personal Income Tax	3	152,820		136,924		123,982	
Property Tax	4	24,196		22,407		25,128	
Other Direct Taxes	5	3,692		3,426		2,194	
		267,504		238,034		232,121	
Indirect Taxes							
Value Added Tax	6	799,020		756,117		693,754	
Customs Duties	7	123,747		125,993		129,970	
Excise tax	8	418,903		432,279		403,296	
Other indirect taxes	9	2,460		847		372	
		1,344,130		1,315,236		1,227,392	
Tax returns							
Tax returns	10	-47,880		-57,583		-38,381	
		-47,880		-57,583		-38,381	
Non-tax revenues							
Taxes, charges and others from BOs, Central Government	11	110,398		103,445		97,172	
Taxes, charges and others from BOs, Local Government	12	46,350		43,348		39,933	
Concession tax	13	8,792		8,519		7,683	
Royalty	14	25,233		30,570		30,554	
Interest revenues (loans to POEs)	15	2,092		2,633		4,652	
		192,865		188,515		179,995	
Borrowing							
External state borrowing	16	11,334		108,256		44,687	
Receipts for sub-borrowing service	17	8,250		8,377		8,536	
Internal state borrowing	18	102,434		95,301		101,189	
		122,018		211,934		154,412	
Grants and donations							
Donor designated grants	19	8,319	178	8,312	386	8,735	3,255
		8,319	178	8,312	386	8,735	3,255
Other receipts							
Deposit fund	20	3,612		2,481		2,059	
Return of loans from POEs	21	10,876		6,716		2,557	
Dedicated revenues	22	10,493		9,390		9,018	
One-off PAK financing	23	86,146		326		-	
One-off KPST financing	24	11,590					
Total receipts		2,009,673	178	1,923,360	386	1,777,908	3,255
PAYMENTS							
Operations							
Wages and salaries	25	592,588		550,749		544,831	
Goods and services	26	229,057	10	204,161	5	183,050	103
Utilities	27	23,440		24,158		23,362	
		845,085	10	779,068	5	751,242	103
Transfers							
Subsidies and Transfers	28	558,778		508,316		475,103	
Capital Expenditures							
Property, plants, equipment, transfers	29	533,064	168	471,098	381	449,147	3,151
Other payments							
Debt servicing	30	40,741		77,308		85,199	
Membership fee for IFI	31	-		-		717	
Returns from deposit funds	32	1,890		1,014		1,835	
Total payments		1,979,559	178	1,836,805	386	1,763,242	3,255
Cash increase/decrease		30,115		86,555		14,666	
Cash at the beginning of the year	33	357,760		271,204		256,539	
Cash at the end of the year	33	387,874		357,760		271,204	

Consolidated statement of the comparison of budget with the execution for the Government of Kosovo
for the year ended on 31st of December 2018

Budget approved based on cash
(Classification of payments by economic classification)

		2018				2017	2016
		Initial Budget A	Final Budget B	Execution C	Budget Changes D=C-B	Execution	Execution
Note	'000 €	'000 €	'000 €	'000 €	'000 €	'000 €	'000 €
CASH INFLOW							
	Direct taxes	267,040	267,040	267,504	464	238,034	232,121
	Indirect Taxes	1,378,385	1,378,385	1,344,130	(34,255)	1,315,236	1,227,392
	Tax returns	(46,000)	(46,000)	(47,880)	(1,880)	(57,583)	(38,381)
	One-off revenue from collection of tax debt	4,000	4,000	-	(4,000)	-	-
	One-off tax revenue from SOE debts	4,000	4,000	-	(4,000)	-	-
	Non-tax revenues	202,000	202,000	192,865	(9,135)	185,881	175,343
	Grants and donations	19,000	19,000	8,497	(10,503)	8,698	11,989
	Borrowing	216,814	216,814	122,018	(94,796)	211,934	154,412
	Other receipts*	132,500	144,090	122,717	(21,373)	21,547	18,286
	Total receipts	2,177,739	2,189,329	2,009,851	(179,478)	1,923,746	1,781,162
CASH OUTFLOW							
	General public services	208,666	223,661	204,611	(19,050)	193,212	171,491
	Defence	53,667	48,949	46,477	(2,472)	34,914	44,081
	Public Order and Safety	199,001	184,705	176,342	(8,363)	156,050	154,865
	Economic affairs/relations	528,366	561,693	450,818	(110,875)	418,819	384,929
	Environment Protection	87,307	22,286	16,447	(5,839)	9,934	10,570
	Residence issue and Community	13,929	52,129	43,212	(8,916)	35,288	40,505
	Health	212,480	211,018	199,806	(11,211)	178,607	167,843
	Recreation, culture, religion	68,063	64,282	57,080	(7,202)	47,929	38,292
	Education	305,496	318,787	301,877	(16,910)	282,747	280,153
	Social Protection	415,506	442,185	440,435	(1,750)	401,370	386,017
	Others **	66,164	66,164	42,631	(23,533)	78,322	87,750
	Total payments	2,158,645	2,195,859	1,979,737	(216,122)	1,837,191	1,766,497
	Deficit/Surplus	19,094	(6,530)	30,115	36,644	86,555	14,666

Note: (*) Including dedicated revenues, Return of loans from POEs, one-off PAK revenues, One-off KPST financing and receipts of deposits (excluding budget planning for deposits), Financing of interest pursuant to table 1 of Law on Budget No.06/L-020.

(**) Including debt payments, payments for membership in IFIs and Returns from deposit funds (excluding budget planning for deposits)

*Consolidated statement of financial assets and balance of funds for the Government of Kosovo
for the year ended on 31st of December 2018*

		2018	2017	2016
		Managed by the Government of Kosovo	Managed by the Government of Kosovo	Managed by the Government of Kosovo
	Note	'000 €	'000 €	'000 €
Financial assets - cash				
Central Bank of Kosovo	35	374,663	339,906	257,393
Quotas in IFI (2018)	36	1,741	-	-
Development Trust Fund	37	4,514	5,047	4,125
Cash in transit	38	4,031	10,179	7,371
Accounts of diplomatic missions	39	1,074	1,045	929
Cash in hand (safe deposits)	40	1,851	1,583	1,385
Total assets in cash		387,874	357,760	271,204
Specific purposes				
Designated by Donors	41	8,366	6,837	7,280
Own Source Revenues carried forward	42	48,240	32,880	27,156
Development Trust Fund	43	11,437	10,321	10,058
Dedicated revenues	44	1,706	803	841
Other	45	16,432	14,722	13,109
		86,182	65,564	58,446
Undistributed		301,693	292,196	212,759
Total Balance of Funds	33	387,874	357,760	271,204

REPUBLIKA E KOSOVËS / REPUBLICA KOSOVA / REPUBLIC OF KOSOVO ZYRA KOMBËTARE E AUDITIMIT NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE			
DATE / DATUM / DATE: 25.08.2019			
Mesia Org. Org. Jedin. Org. Unit	Shif. Klasif. Klasif. Kod Class. Code	Nr. Prot. Sr. Prot. Prot. No.	Nr. ifaqeve Sr. Stranica No. Pages
03	47	1846	1



REPUBLIKA E KOSOVËS / REPUBLICA KOSOVA / REPUBLIC OF KOSOVO Qeveria e Kosovës / Vlada Kosova / Government of Kosovo Ministria e Financave / Ministarstvo za Finansija Ministry of Finance Thesari - Trezor - Treasury			
Nivelo Org. Org. Jedin. Org. Unit	THESAR	Nr. Prot. Sr. Prot. Prot. No.	132
Nr. ifaqeve Broj stranica No. pages	✓	Data Datum Date	23, 08, 2019
Dolase PRISHTINEJA			

Republika e Kosovës
Republika Kosova – Republic of Kosovo
Qeveria – Vlada – Government
Ministria e Financave - Ministarstvo za Finansija - Ministry of Finance

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin Vjetor Financiar të Buxhetit të Republikës së Kosovës për vitin 2018 dhe për zbatimin e rekomandimeve.

Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- Kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për Raportin Vjetor Financiar të Buxhetit të Republikës së Kosovës për vitin 2018 (në tekstin e mëtejshëm "Raporti");
- Pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- Brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një Plan Veprimi për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për zbatimin e tyre.


z. Ahmet Ismaili
Drejtor i Përgjithshëm i Thesarit,
Ministria e Financave



Data: 23 Gusht 2019, Prishtinë