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Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

ANNUAL AUDIT REPORT FOR YEAR 2019

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List of abbreviations

AG	Auditor General	MF	Ministry of Finance
PAK	Privatisation Agency of Kosovo	MLGA	Ministry of Local Government and Administration
TAK	Tax Administration of Kosovo	PFMA	Public Finance Management and Accountability
WB	World Bank	MPA	Ministry of Public Administration
EU	European Union	MED	Ministry of Economic Development
GDP	Gross Domestic Product	CHU/IA	Central Harmonisation Unit for Internal Audit
BRK	Budget of the Republic of Kosovo	IAU	Internal Audit Unit
CBK	Central Bank of Kosovo	POE	Publicly Owned Enterprise
CK	Customs of Kosovo	BO	Budget Organisation
SAD	Single Administrative Document	PRB	Procurement Review Body
DDG	Donors Designated Grants	AFS	Annual Financial Statements
IMF	International Monetary Fund	HUCSK	Hospital and University Clinic Services of Kosovo
IFI	International Financial Institutions	AFR/BRK	Annual Financial Report of the Budget of the Republic of Kosovo
AC	Audit Committee	AAR	Annual Audit Report
PIFC	Public Internal Financial Control	KFMIS	Kosovo Financial Management and Information System
COPF	Committee for Oversight of Public Finance	ISSAI	International Standards of Supreme Audit Institutions
LPFMA	Law nr.03/L-048 on Public Finance Management and Accountability	IPSAS	International Public Sector Accounting Standards
LPP	Law on Public Procurement	GFS	Government Finance Statistics (IMF)
LCS	Law on Civil Service	NAO	National Audit Office
TSA	Treasury Single Account		
KOSTT	Transmission, System, and Market Operator of Kosovo		
PPRC	Public Procurement Regulatory Commission		
FMC	Financial Management and Control		
MESP	Ministry of Environment and Spatial Planning		

Word of the Auditor General



Honoured members of the Assembly,

Our work is based on the strategic plan 2018-2021. Our goal through this plan is, along with our mandatory audits, to continuously increase the number of audits carried out in publicly owned enterprises, performance audits and audit of other donor funded projects, and strengthen our capacities. During 2019 reporting year, we carried out the audits of 95 budget organisations with a general budget of around 2.5 billion euro, of 14 publicly owned enterprises mainly in area of telecommunication, water supply and waste management, 13 performance audits and 9 donor-funded projects.

This audit of public funds this year was quite challenging because of the Covid-19 pandemic. Balancing the needs to protect the auditors' health and enforcing the mandate by ensuring quality of our work created delays for some individual audit reports. Yet, despite the difficult working conditions, I am pleased to submit the Annual Audit Report on 2019 Annual Financial Statements of the Budget of the Republic of Kosovo in time hereby successfully closing the audit year. Other than the Government's financial performance, the present report provides additional information on other areas related to the business of publicly owned enterprises, public funds spending performance (economic, effective and efficient use), and procurement process implementation and financial reporting.

Given that the requests from public for accountability keep growing, the National Audit Office has been dealing with them thoughtfully and comprehensively in order to provide both the Assembly and the Public with the right information on how public funds are administered by Government and other users.

The evaluation of financial reporting quality, design and effectiveness of internal control systems, and the compliance of the financial transaction with the applicable legislation have been the primary focus of our work. Through auditing we found that there has been a slight progress as far as financial reporting is concerned, while there are still significant weaknesses and shortcomings in budget execution activities. We noticed that many capital projects start with insufficient funds while they are rarely completed in time. On the other hand, the supervision fails to prevent frequent deviations from the terms stipulated in contracts. Yet, we keep working closely with the audited entities and the Assembly in order to address these challenges as best we can and to promote the good governance practices.

What the Government needs particularly strengthen the financial discipline for, which is absolutely a key challenge, is on the amounts of outstanding liabilities and accounts receivable which have reached high levels, and on asset recording and management which is an issue that has been repeating over years now by marking a poor progress.

To end with, I would like to express my acknowledgments to the Assembly of the Republic of Kosovo and Standing Committees for their support and sincere cooperation in accomplishing our mission, the audited entities for their cooperation during the audits even under the difficult pandemic circumstances. I would also like to express my deepest gratitude to the National Audit Office staff who put their health at risk and by their commitment and professionalism enabled unveiling of all reports before the Assembly and the Public, as our mandate is.

Auditor General,
Besnik Osmani

Prishtina, August 2020

Introduction

The Annual Audit Report (AAR) presents a summary of our audit findings, conclusions, and recommendations given for the fiscal year 2019 and gives the Audit Opinion (in accordance with ISSAI 200) on the Annual Financial Report of the Government of Kosovo for 2019. The report presents a summary of key matters on financial management and control and provides the Assembly with the opportunity to initiate and apply financial accountability on how the Government uses public funds. This report focuses on the examination of the Government's Annual Financial Report and also includes the findings and conclusions drawn from individual audit reports produced on budget organisations and other public authorities separately.

It is thus a broader version which, in addition to financial audits, includes considerable information on other audits carried out during the 2019/2020 audit season such as, performance audits, management audits, system audits, project audits etc.

Despite many challenges due to the pandemic, we have managed to timely report the audit of the Government's AFS this year as well, thus providing both the Assembly and the Government with the possibility to close the budget cycle in accordance with statutory deadlines. This has enabled the timely review of reports and the addressing of audit results by all stakeholders. We are pleased to note that there has been a growing interest in the audit results from all stakeholders. However, due to the election process, standing committees as well as other bodies deliberating the audit outcomes have not reviewed most of our 2018 reports, including the Annual Audit Report.

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 AFS/BRK: (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: (9) Implementation of previous year's recommendations; (10) Individual audits opinions; (11) Internal Audit System; (12) Procurement; (13) Applicability of laws and legal challenges; (14) Performance audits; and (15) Publicly Owned Enterprises.

In addition to the two main parts, there are 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 Annual Work Plan, the National Audit Office has produced 132 reports in 2019, out of which: 95 regularity audits of budget organisations; 14 audits of publicly owned enterprises; 9 audits of World Bank's and other donors' projects; and 13 performance audits, including the Report on Government Financial Statements. The results of all these audits have been comprehensively summarised in this Report.

In opinion of the Auditor General, the Government's Financial Statements for 2019 give a true and a fair view in all material aspects.

(Unmodified Opinion with Emphasis of Matter). For more details, see section 1.2.

However, the audits carried out in 2019 have identified a number of shortcomings and weaknesses in most of the budget organisations, which relate to poor management of budget funds and failure to achieve value for money. A systematic and more focused approach to solving and addressing the identified problems would be more than necessary, in order to pave the way for better management and services for citizens.

The main conclusions in the report highlight the need for senior executives' and budget holders' increased attention on strengthening the measures and improving the following identified areas:

(a) Budget planning and execution - Budget preparation continues to be one of the Government's main challenges for years. Our examinations have identified significant discrepancies between the planned budget allocations and actual amounts of these allocations. The actual amount of receipts at the end of the year was by 258 million lower than the receipts planned by final budget; i.e. budget outturn against planning was 89.6%. It was the same situation in the previous year budget planning as well. When it comes to planning of expenditures, they were projected under the final budget with a budget deficit of around €37 million, but this projection was not implemented and the total amount of receipts spent by the yearend was 96.8%. Thus, budget funds were not spent by around €70 million.

During 2019, the Government did not conduct a budget review. As a result, there were no budget corrections, namely no large differences between the initial and final budget when it comes to receipts. However, there was a significant difference identified in expenditures where the final budget had increased by €65 million compared to the initial one. Due to inadequate initial projects in many elements, and the lack of budget review, planning of budgetary receipts and payments compared to outturn have resulted in a relatively high percentage of discrepancies.

The audit concludes that the state budget preparation process has been accompanied by shortcomings. As such, it should be subject to more effective control procedures as we have identified insufficient communication between departments in the Ministry of Finance, particularly between the Macroeconomic Policy Department, Budget Department, and Treasury.

(b) Reporting quality - Annual Financial Statements have been prepared within the statutory deadlines. Treasury has submitted them on March 23rd, 2020 to the Government for approval,

whilst the same were officially submitted to NAO on March 25th, 2020. Following the analytical reviews, NAO has identified shortcomings and inconsistency of records in the Statements which were discussed with officers in the Ministry of Finance. Following the deliberations, certain parts of the Statements, that of disclosures in particular, were completed with additional information. Having made the corrections suggested by us, Treasury submitted the second draft on 22.07.2020, previously approved by the Government.

As stated above, due to lack of cooperation between Ministry's departments/structures and failure to timely clarify items presented in Table 1 of the Budget, Financial Statements resulted in an overstatement relating to municipal Own Source Revenues carried forward from previous years, which again had been planned as budget receipts, although having been collected and deposited in the Treasury account during the previous year and earlier years. While preparing the AFS, Treasury was obliged to use the information from Table 1 of the Law as reference, which contained errors from the 2019 budget approval phase. On the other hand, Financial Statements have been more qualitative, comprehensive and with more complete disclosures each year. The AFS preparation process and the quality of information presented therein is discussed in more details in the following chapters of this report.

(c) Misclassification of expenditures - Weakness identified during the annual budget preparation process are being repeated systematically in some areas, whilst improvement are at a slow pace. In addition to discrepancies in planning of revenues and expenditures, the planning of expenditures under inadequate economic categories is the most noticeable phenomenon, where the category of Capital Investments is the most attacked one. In order to keep the budget structure in accordance with fiscal rules, the Capital Investments categories includes other projects related to goods and services, subsidies, payments based on court and execution decisions, and other types of expenditures which are not capitals. This leads to overstatement of capital expenditures and understatement of expenditures in other categories. As a result, we have identified large amounts of misclassification of expenditures in different economic categories, totalling in the amount of €15,045,487, though they are considerably lower than previous year's (€22,011,636). The vast majority of these misclassifications occur for three reasons: first, errors while planning through budget process; second, payments made by BOs from inadequate categories out of various reasons; third, execution of mandatory payments (court and execution decisions, direct payments made by Treasury as authorised by LPFMA, Article 39.2, from inadequate categories mainly due to lack funds in respective categories of BOs). Following many recommendations given in the previous years, this situation has started to be improved, but it is not resolved yet. This is also being repeated because during budget reviews by the Assembly, budget alterations are made through different amendments where consideration is not given to appropriations under adequate categories. As a result, misclassifications get legitimated in the budget law and, as such, are wrongly proceeded by budget organisations over the year.

(d) Irregular payments for salaries - In eight (8) ministries, we have identified irregular payments totalling to €1,021,321 made to 215 employees on salaries. This amount was paid to staff engaged based on the Brussels Agreement, who did not show up at work at all. The nature of these payments is material, due to lack of a clear legal basis and the Agreement does not stipulate such payment method.

(e) Budget deficit - Due to lack of budget revenues to cover public spending, the Government planned the budget with a deficit this year as well. Based on the Government's financial report,

the maximum amount of budget deficit allowed in the Law on Budget 2019 was €145 million (2%), the same was approved in the Law on Budget 2019. But, our examinations have revealed that the approved amount of deficit was €153 million (2.15%) whilst the actual deficit by the yearend was €33.3 million or 0.47% (including donations). The deficit's initial calculation was exceeded by 0.15% because total revenues were calculated for an additional €8 million, but they were OSR collected during previous years and, as such, should have not been taken into account while making estimations. Regardless of this error in the budget initial calculations, we may conclude that the Government has kept the deficit threshold under full control and it is within the legal requirements. This is because the deficit by the yearend was just €33.3 million or 0.47% and remains within the ceilings allowed by the law. The initially planned deficit was exceeded by 0.15% as a result of the error and is not considered material because it was not executed in the yearend.

(f) Public debt - Due to insufficient sources of financing, Kosovo Budget, in addition to regular revenues, is also financed from domestic and external borrowings, which at the end of 2019 amounted to €1,201 million, without calculating €42.7 million of state guarantees. Of the total debts, €409.1 million are external debts and €791.5 are domestic ones. At the end of 2019, the level of public debt was 17.46% of Gross Domestic Product (€7,123 million). The overall debt increased during 2019 by €108 million (including guarantees). The main problem behind these debts is inefficient spending of funds borrowed as external debt. The amount of ratified loans not withdrawn during 2019 increased to over €475 million from €393 million that was in 2018. This was due to delays in initiating executing project these loans were ratified for, and also due to other borrowings, while considerable amounts have been within this period (€740,000) for commitment fees and other fees, of which €410,000 are fees paid for projects lagging behind in implementation, whilst expenditures on interest rates for using these loans were €22.7 million.

The amount of borrowings during 2019 was €158.2 million, of which €115.3 million are domestic borrowing and €42.9 million external borrowing (including sub-borrowings). More information on public debts is given in the following chapters of this report.

(g) Cash balance - the total amount of cash balance in State Treasury Account as of 31st of December, 2019 was €458.2 million, of which €97.4 million were funds allocated for specific purposes and €360.8 million are funds deposited, but not distributed. The cash balance in the bank increased for more than €70 million or around 18% compared to previous year. Around 57%, or €55.2 million, of designated funds are own source revenues (OSR) carried forwards as funds not spent by municipalities and other BOs. Compared to last year, this amount has increased by €7 million, which reveals the trend of BOs spending their funds from the Government Grant before spending the own source revenues. The amount of carried-forward OSR has also been accumulated from previous years, meaning that these are not just funds not spent in 2019.

State reserves in cash are about 5% of GDP and are within the limits of fiscal rules and in accordance with IMF policies. Based on figures reported in the financial statements, the overall estimate is that there is not serious threat to the financial stability of the state. However, the main challenge affecting the budget balance could be the outstanding liabilities and debtors claims (accounts payable and accounts receivable) which can directly or indirectly affect government accounts, depending on the measures the Government shall take to manage those accounts.

(h) Outstanding and contingent liabilities - Outstanding liabilities of budget organizations to suppliers and other economic operators at the end of 2019 were over €110 million (€87 million of

central level and €23 million of municipalities), whilst liabilities of central institutions (including expropriations by Government decisions at around €232 million as well as subsidies and transfers of MAFRD at €18 million) amount to around €250 million. The aggregate amount of all these liabilities totals at €360 million. Compared to previous year, the amount of outstanding liabilities has increased by around €102 million or 39%.

In addition to these financial liabilities, there are also some contingent liabilities resulting from lawsuits filed against budget organisations and are pending for final court decisions. The amount of these liabilities is estimated to be €196 million, of which €118.7 million at central level and €77.3 million at local level, which can be listed the last by liquidity level. Thus, considering all the liabilities, we may conclude that economic operators' and citizens' claims towards the Government amount to over €556 million. This may also be considerably increased by the payments of instalments of external and domestic loans considering the fact that the overall loan servicing this year amounted to over €73 million.

(i) Accounts receivable - The citizens' and businesses' amount of debts to the Government is almost the same as the last year's - over €637 million of uncollected debts, of which €452 million from the central level and €185 million from the local level. The vast majority of uncollected debts relate to TAK and Customs, which have an aggregate amount of €404 million of uncollected debts or around 64% of the total amount, followed by ICMM with €28 million and so on.

The impact of these two accounts (payable and receivable) are of critical importance to the budget planning when it comes to both revenues and budget spending which have an ultimate impact on macro-fiscal stability. Due to their age, accounts receivable are really risking to turn into bed debts and never be collected. The Government should prepare a special strategy on how to collect debts and pay liabilities in order to prevent these budget turmoil from occurring in the following years. The effect of pandemic can just worsen the situation in this regard. The fact that the balance of accounts receivable is the same as last year's indicates that BOs have strengthened financial discipline and are being more persistent in debt collection.

(j) Assets and stocks - Asset registration in government accounting still remains an unfinished process and is probably one of the key management problems. The main reason behind this are the ownership issues which are not resolved due to lack of ownership documentation. Total of net assets by the yearend was €8 milliard and 849 million. As a result of new registrations during the year, the balance of capital assets (with the value over €1.000) has increased by €300 million compared to the previous year. Assets with the value under €1,000 amount to around €41 million, almost the same balance as the previous year's.

In addition to this, inventory of assets and stocks at the end of the year to confirm the existence of assets and to evaluate their functionality and use remains one of the main problems. This has been identified in a number of budget organizations. Stocktaking commissions are established in delays. As a result, either stocktaking reports are produced in delays or nor reconciliations are made between records and accounting balances at all. The lack of stocktaking at the yearend prevents a complete overview on the existence of assets and leads to mismanagement, misuse or even theft of assets.

(k) Liquidity of Budget Organisations - Due to poor financial discipline, in addition to numerous outstanding liabilities, BOs are often subject to court proceedings or execution of direct payments

from Treasury. For the abovementioned reasons, Treasury has executed payments of over €27 million to economic operators and other claimants based on court and execution decisions, as authorised by Article 39.2 of LPFMA. Of these, €1.5 million were executed by Treasury as direct payments into the operators' accounts on the grounds of budget entities' failure to pay their liabilities within 60 days, whilst around €26 million are paid on behalf of court and execution decisions from lawsuits filed against budget organisations. Compared to 2018, the trend of direct payments executed by Treasury on these two grounds has slightly improved (€2 million less).

(I) Publicly Owned Enterprises - The audit results disclosed that the financial reporting of 14 audited enterprises contain shortcomings and are inaccurate. Therefore, negative opinion has been given to 13 POEs, whilst only one has been given a positive opinion. In addition to poor reporting, their financial situation is difficult and the financing structure is quite unfavourable. The Financial Statements of 2019 show that six POEs have operated at a loss totalling to around €28 million, whilst eight enterprises have presented a positive financial result, with a symbolic profit of less than €1,3 million.

Individual reports contain figures of concern to the financial stability of these enterprises. In aggregate, they have over €160 million credit liabilities, of which €90 million are short-term liabilities and over €70 million long-term liabilities. Compared to the previous year, these liabilities have increased by €16 million. The payment of these liabilities is quite uncertain given the fact that most of them operate at a loss. Even the ongoing concern principle could be seriously put to question for some of them. Such financial trends in these enterprises are negative, and the Government, as a shareholder, may face serious challenges in deciding as to how to react should their liquidity capacity become quite uncertain. Meanwhile debts and credits should be returned within statutory deadlines, while services to citizens should be delivered.

(II) Implementation of recommendations - Recommendations given in the previous year have been partly addressed. Of the total of 921 recommendations given, 370 or 40% were implemented, 113 or 12% were in the process of implementation, 312 or 34% were not implemented, and 126 or 14% were closed unimplemented.

We have also separately given 51 recommendations on the Government's Financial Report for 2018. Of these recommendations, 13 were implemented, 19 were partly implemented, and 19 were not implemented yet. In November 2019, the Government of Kosovo approved the Action Plan on Implementation of Recommendations obliging all budget organisations to apply it. However, according to COPF, the plan was not sent to the Assembly of Kosovo to oversee the progress in implementation of recommendations.

Part I: Annual Financial Statements

1 Audit of Annual Financial Statements 2019

The Auditor General fulfils his responsibility by annually carrying out the audit of the Government's Annual Financial Report on budget execution and underlying reports. 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 2019 Government Annual Financial Statements is determined by:

- Constitution of the Republic of Kosovo (Articles 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 (Articles 47 and 48); and
- Annual Audit Plan, no. 01-10-1778, dated 27.12.2019.

Audit was carried out based on:

- Regularity Audit Manual;
- Quality Management Guideline;
- Regulation MoF. No. 01/2017 on Annual Financial Reporting by Budget Organizations; 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 at the preparatory stage. At the planning stage of the audit, the materiality level of 1% of the total amount of budget receipts is determined; namely the extent to which errors in presentation of the AFS data are tolerated and are not considered to have a significant impact on the credibility of statements.

The system of accounting 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 (KFMIS). In spite of this, budget organizations are also required to maintain separate accounting records, and under the Regulation MF No 01/2017 they are required to prepare their financial statements based on these records and report to the Ministry of Finance.

The Annual Audit Report is submitted to the Government and the Assembly of Kosovo, whilst the results of individual audits are reported separately to the audited entities and Municipal Assemblies.

Based on our analytical reviews, none of the 95 individual budget organizations had discrepancies with the requirements of Regulation No. 01/2017 on Annual Financial Reporting (format, structure, reporting deadlines).

All BOs submitted the Financial Statements within the legal deadline as of 31 January 2020. However, by the time the Government Consolidated Statements were produced (31 March 2020), 73 BOs had made adjustments to their financial statements, and 22 did not require any adjustments, yet, during the audit, we found unadjusted errors in five (5) budget organisations.

On 04.08.2020, University of Prishtina, in delay, made the final adjustments to Annual Financial Statements which were then submitted to Treasury, while Treasury accepted them as such under the pretext that the changes in statements do not have an impact on the Government Consolidated Statements. The National Audit Office was informed regarding these changes.

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

- Differences between the notes presented in KFMIS and Annual Financial System;
- Lack of disclosures on advance payments in individual financial statements;
- Missing of presentations on donations revenues outturn;
- Incorrect amount of non-tax revenues presented;
- Non-tax revenues were presented as designated revenues and unfair presentation of liabilities;
- Misclassification of expenditures, or expenditures not recorded under respective economic category, which leads to understatement or overstatement of accounts; and
- Incomplete presentation of assets in the Annual Financial Statements.

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

1.1 Audit Scope and Methodology

The Ministry of Finance, on behalf of the Government, is responsible for the preparation and fair presentation of the Annual Financial Statements in accordance with International Public Sector Accounting Standards - Financial Reporting under the cash basis of accounting. It is also responsible for applying internal controls to enable the preparation of financial statements that are free of material misstatement caused by errors and frauds.

Treasury's Director General has, within the statutory deadline and the format required by the Law on Public Finance Management and Accountability (LPFMA) and in accordance with IPSAS, submitted the Annual Financial Statements for 2019 to the Government for approval. On 23 March 2020, these were approved by the Government and a copy of the Annual Financial Report of the Budget of the Republic of Kosovo for 2019 was submitted to the Auditor General on 25 March 2020.

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, and statement of disclosures:

- Statement of cash receipts and payments;
- Consolidated statement of comparison of budget with execution;
- Consolidated statement of cash and fund balances; and
- Completeness and quality of information in statement of disclosures.

The audit objective was to provide reasonable assurance:

- Whether the financial statements give a true and fair view of the financial situation 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 controls applied during the preparation of financial statements; and
- Whether the Government has taken appropriate measures to implement the audit recommendations for the previous year and earlier years.

The 2019 AFR/BRK 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 AFR have been produced. This understanding relates to the development of an audit strategy, which focuses on addressing specific risks for an unmodified opinion, while providing an acceptable level of assurance for the statements obtained as a whole.

The approach taken also reflects the evaluation of the results from individual audits of BOs, consolidated in the AFS. It is worth mentioning that some of the items in the consolidated statements, such as assets, liabilities, accounts receivable, etc. are taken from individual statements and then consolidated. Our procedures included an analytical review of the statements, assessment of the statements preparation process, verification of the value of the accounts in the general ledger and compliance with the values presented in the financial statements, assessment of the effect of unadjusted misstatements, if the balance sheets are materially correct and where errors have been identified, adjustments have been made to the financial statements, confirmation that all audit assertions have been adequately addressed, review of internal 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 characterized 2018, but certainly provide an acceptable level of assurance.

1.2 Audit Opinion

The NAO audited the AFR/BRK for the year ended on 31 December 2019, 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 Annual Financial Report of the Budget of the Republic of Kosovo for the year ended on 31 December 2019 give a true and fair view in all material aspects in accordance with International Public Sector Accounting Standards (according to cash based accounting) and Law No. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented).

As emphasis of matter we would like to draw your attention on the fact that in Consolidated Statement of comparison of budget with execution, the revenues were overstated by €23 million, and an amount of spending by more than €15 million was classified under inadequate economic categories. For more details, see the following chapters.

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 the basis for the opinion.

Emphasis of Matter

The Government sent to the Assembly the Law on Annual Budget Appropriations for 2019 providing receipts in a total of €2,472,872,000 and payments amounting €2,452,237,000, with a difference of €20,000,000 in the bank balance. The bank balance stock of unallocated funds was projected at €340,000,000 or 4.8% of GDP.

Having analysed the consolidated statement of budget comparison with execution, we found a difference of €23,000,000 between the amount presented in the AFR and that found by audit. In Table 1 of the initial budget for 2019, we identified that the total receipts under Section C also included carried-forward own source revenues of €23,000,000 as source of financing, which has led to overstatement of receipts and has had a negative impact on the fluctuations in the bank balance of unallocated funds.

Own source revenues carried forward from 2018 should have not been included as source of financing for expenditures, because they are funds carried forward for a specific purpose and have been already received in the Treasury Single Account during 2018. LPFMA and the Law on Budget define the way unspent funds of own source revenues are carried forward. They are initially allocated, thus increasing the budget of the budgetary organisation they belong to, and then spent. Therefore, they should not be planned as expenditures in the budget tables, and they were not included as expenditures in the budget of municipalities.

Budgeting and allocation is made at respective funds in KFMIS (Source Fund 22) and the spending incurred relates to that source of financing. Thus, these do not affect the bank balance and budget deficit of the current year.

Changes to the planned bank balance of unallocated funds were presented in the amount of €21,000,000 in the AFR. However, as a result of overstatement of receipts (OSR carried forward), the unallocated balance results to be minus €2,000,000.

This consequently leads to reduction of the stock of unallocated funds' bank balance, which in the AFR and Table 1 of the Budget was presented in the amount of €340,000,000, following deduction of own source revenues, the stock result to be reduced to €317,000,000.

- While examining expenditures, we found that expenditures had been planned and classified under inadequate economic categories from the 2019 annual budget approval stage, which then were, over the year, spent and recorded under incorrect economic codes. Therefore and because of errors made by BOs, we identified misclassification of expenditures in 49 BOs amounting to €15,045,487. Of which, €10,863,381 or 72% in 33 local level organisations, €3,090,016 or 21% in 21 central level organisations, and €1,092,090 or 7% in 4 independent agencies.

The following table shows the misclassification by economic categories. The categories most affected by such misclassification are: Capital Investments by €10,679,045 or 71%; Goods and Services by €3,589,307 or 24%; and Subsidies and Transfers by €777,135 or 5%.

Table 1 - Misclassification by economic categories

Incorrect category	Correct category	Affected by BO	Incorrectly planned	Under court decisions	Total
Capital investments	Wages and Salaries	341,680	19,759	716,703	1,078,142
	Goods and Services	582,100	7,583,066	789,705	8,954,871
	Subsidies and Transfers	600	645,432	0	646,032
Total Capital Investments					10,679,045
Goods and Services	Wages and Salaries	355,844	54,823	1,949,308	2,359,975
	Subsidies and Transfers	69,060	428,271	31,055	528,386
	Capital Investments	238,762	120,309	341,875	700,946
Total Goods and Services					3,589,307
Subsidies and Transfers	Wages and Salaries	2,256	0	40,669	42,925
	Goods and Services	238,244	491,119	4,847	734,210
Total Subsidies and Transfers					777,135
Total misclassification		1,828,546	9,342,779	3,874,162	15,045,487

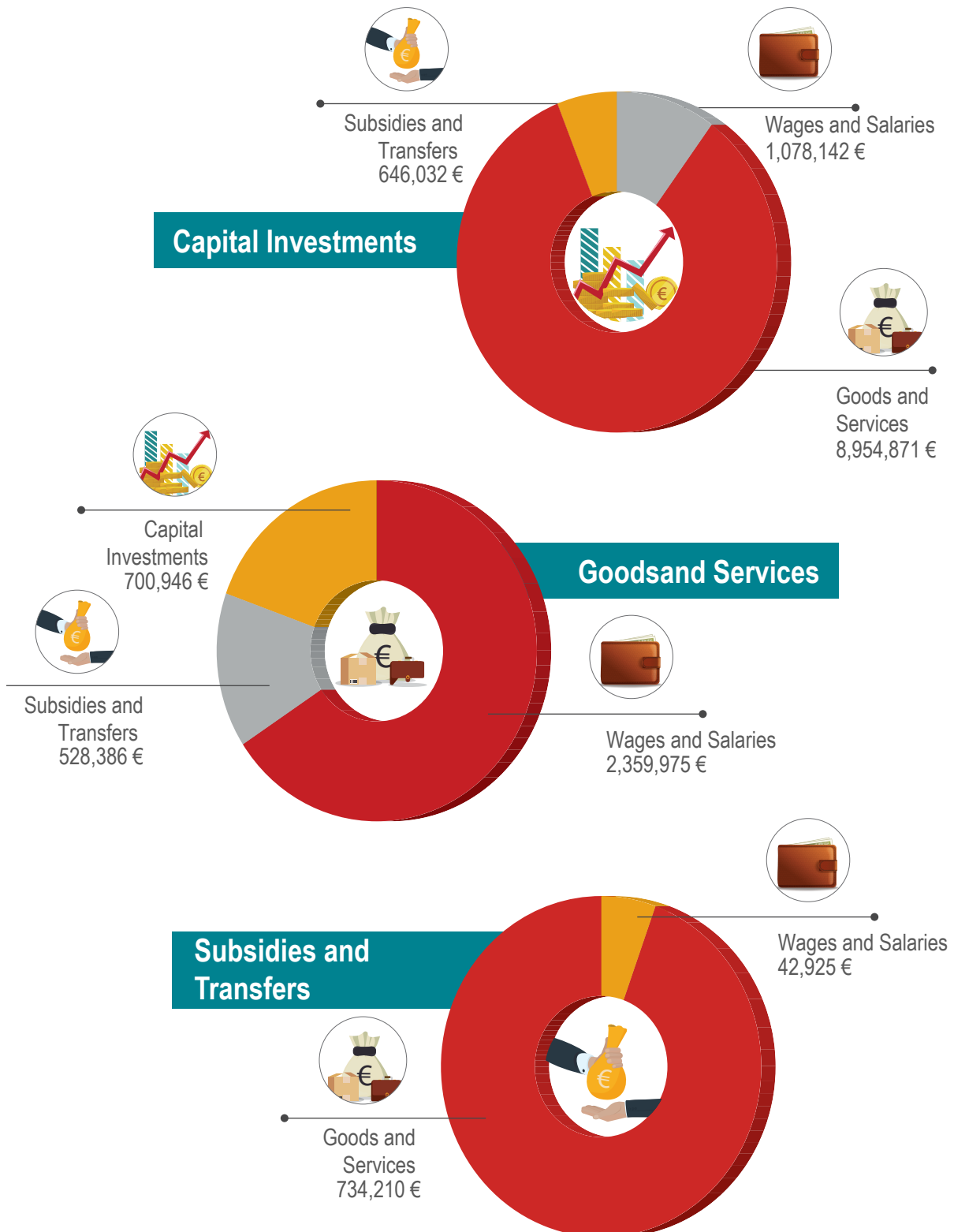
From the total of €15,045,487, payments in amount of €10,679,045 were made from Capital Investments for goods and services, subsidies and transfers, and wages and salaries.

Payments in the amount of €3,589,307 were made from Goods and Services for wages and salaries, capital investments, and subsidies and transfers.

Payments in the amount of €777,135 were made from Subsidies and Transfers for goods and services and wages and salaries.

Impact on misclassification of expenditures – The following table shows that misclassification of expenditures is as a result of budget planning under inadequate categories.

Misclassification by economic categories



As a result of incorrect planning, €9,342,779 or 62% of funds for Capital Investments were spent for goods and services, subsidies and transfers, wages and salaries.

A second contributor to misclassification are payments executed by Treasury through court and execution decisions, amounting to €3,874,163 or 26% of the total.

Budget organisations, regardless of proper budget planning, made payments of €1,828,546, or 12%, to/from incorrect categories.

The following table shows 10 budget organisations which have spent €7,088,626 from Capital Investments for goods and services, which projects were planned in the Law on Budget, and describes in detail the type of such expenditures.

Table 2 - Misclassifications by budget planning

Budget organisation	Incorrect category	Correct category	Financial amount	Expenditures on goods and services classified as capital expenditures
MEST	Capital investments	Goods and Services	1,118,209	Expenditures for purchase of inventory for training, schools and kindergarten facilities.
MPA	Capital investments	Goods and Services	438,984	Payments for platforms to support public administration
Ministry of Infrastructure	Capital investments	Goods and Services	283,619	Payments for road maintenance such as: Supply with salt; removal of road barriers; cleaning services etc.
HUCSK	Capital investments	Goods and Services	702,046	Expenditures for servicing of medical equipment and servicing of elevators, purchase of IT equipment and other equipment with individual values under €1,000, physical security of facilities and food supply.
KEPA	Capital investments	Goods and Services	298,383	Expenditures for maintenance of Memorial complexes.
Prishtina	Capital investments	Goods and Services	2,502,523	Expenditures on contracts: Disinfection and deratization of Prishtina Town Hall premises; Organisation of cultural and sports activities in Prishtina Municipality; Maintenance of green areas; Expansion and modernization of public lighting network; City decoration for season holidays; School maintenance and handling of stray dogs.
Peja	Capital investments	Goods and Services	515,036	Expenditures on towing of illegally parked or crashed vehicles to the parking fleet.

Suhareka	Capital investments	Goods and Services	489,208	Maintenance of green areas in the Municipality; Services for the implementation of the vitalization of the infrastructure for the functioning of the project "Home beds", " Winter road maintenance" "Funeral services" etc.
Gračanica	Capital investments	Goods and Services	379,149	Payments on cleaning, washing of roads and pavements, winter road maintenance, waste cleaning, disinfection and deratisation of municipal facilities, purchase of sports equipment and clothing.
Mitrovica	Capital investments	Goods and Services	361,469	Payments for management of solid waste cleaning, washing of roads and pavements and winter road maintenance, city urgent works, and maintenance of public parks.

According to the regular budget process, the Government submitted the draft law on budget 2019 to the Committee for Oversight of Public Finances, which afterwards submitted it for approval to the Assembly with many amendments as proposed by standing committees, parliamentary groups and MPs. The majority of these amendments were then approved by the Assembly of the Republic of Kosovo in the final law. As a result, many of these expenditures planned by budget appropriations were not fairly classified.

Recommendations on Financial Statements

Recommendation to the Assembly of Kosovo

Committee for Budget and Finance and the Committee for Oversight of Public Finances should strengthen the monitoring controls over the Government and Assembly so that the Assembly of Kosovo ensures that all expenditures are planned under adequate economic categories prior to approving the Law on annual budget appropriations for the following year.

Recommendations to the Ministry of Finance

- Ministry of Finance should continue applying the measures taken to improve budgetary controls in order to reduce amounts misclassified in the budget to the minimum; The Macroeconomic Department should disclose in Table 1 the plan of central level non-tax revenues by BOs, which shall serve as a plan of revenues for each BO in financial statements;
- While planning budget revenues, it should ensure that sufficient and clear analyses on documentation of respective sources of revenues are in place. The Macroeconomic Department, Budget Department and Treasury should work closely to eliminate these errors, before the Budget Plan is submitted to the Government. In particular, they should cooperate regarding the data presented in Table 1 and analyse the consequent impacts on financial statements;
- Treasury should request from Municipalities to submit the plan of cash flow and carried forward OSR in order to have a balanced budget funding, by respecting at the same time the right of Municipalities to designate these funds in specified time and projects; and
- Once the Budget Law enters into force, all movements and changes in KFMIS accounting ledgers must be tracked, whilst it is only Treasury as budget executer (law enforcer) that should make the changes on accounting books including execution of all decisions for changes in budget allocations in compliance with the decisions made pursuant to legislation.

2 State Budget Analysis

The Government's Consolidated Financial Statements present information on the initial and final projections of the 2019, budget, including funds and sources of funds, as well as spending of funds by economic categories. The budget for 2019 has been prepared and approved in accordance with Law no. 06/L-133 on the Budget of the Republic of Kosovo. During 2019, The Government 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 organizations. The Government has taken a number of decisions that somewhere increased and elsewhere decreased the funding and budget allocations of various organizations. Budget execution by BOs this year was followed by various shortcomings. The Government's decrease in funding and allocations has led to significant amounts of outstanding liabilities and a number of capital projects not being implemented and were carried forward to the following year.

In terms of planning, both revenues and expenditures have marked a nominal growing trend compared to previous years. Budgeted revenues were executed by 89.6%, while expenditures by 85.5% at the final budget level. Comparing the total of cash receipts to the total of cash payments, the budget was executed by 96.8%, which shows better efficiency in spending than the previous year. The phenomenon of increased expenditures at the end of the year continued this year as well, where over €170 million were spent from Capital Investments category during December only. This is a particular indicator of poor planning and control over capital project budgets.

During the year, different adjustments were made to initial budget appropriations. These adjustments are guaranteed by LPFMA and described in the following table.

Table 3 – Budget movements during 2019

(in '000' euro)

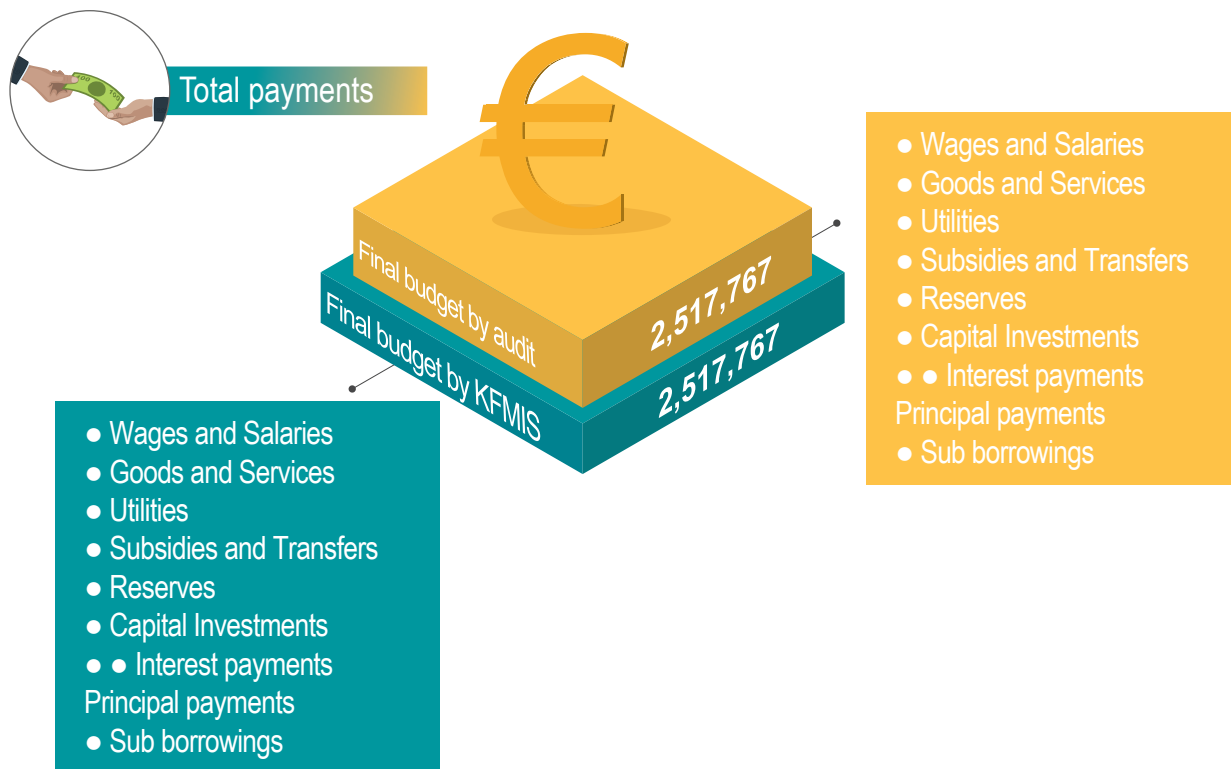
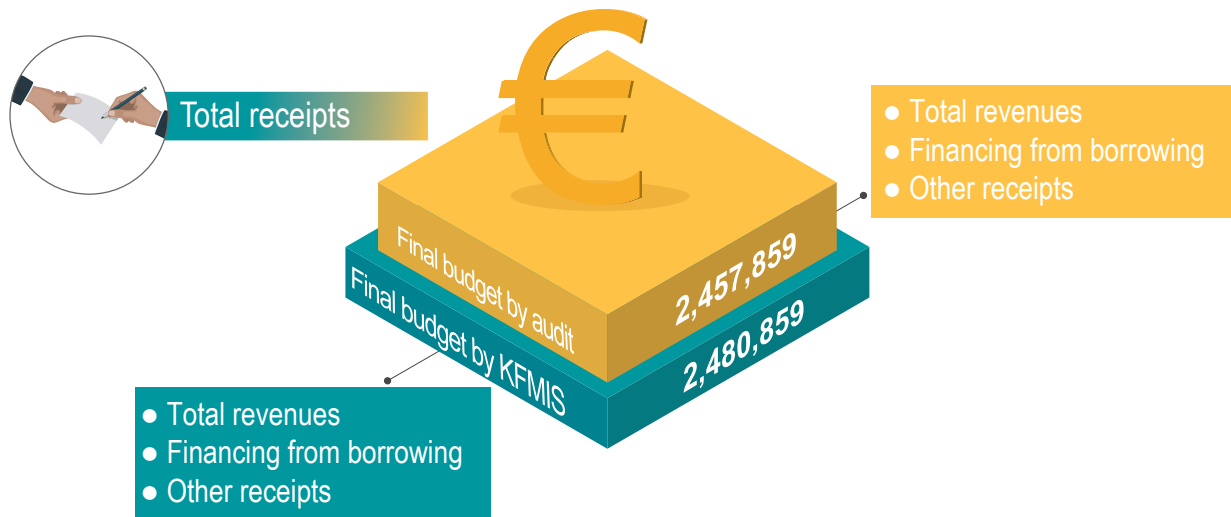
Description	Initial appropriation by Law on Budget	Changes by LPFMA	Changes on own source revenues	Changes on donors designated grants	Final budget appropriations KFMIS	Changes to initial budget
Wages and Salaries	619,997	7,977	2,080	1,280	631,334	2%
Goods and Services	307,127	(2,984)	3,421	6,484	314,049	2%
Utilities	29,483	(1,559)	952	12	28,888	(2%)
Subsidies and Transfers	600,024	37,543	8,452	1,325	647,345	8%
Capital Spending	788,800	(32,174)	32,771	4,749	794,063	1%
Reserves	4,800	(4,800)	0	0	0	100%
Other	102,005	0	0	0	102,005	0%
Total	2,452,237	4,002	47,678	13,850	2,517,767	2.7%

The following table shows information on the initial and final budget as well as the outcomes from the audit analytical review, regarding the total of budget revenues and expenditures.

Table 4 - Receipts and payments by initial and final budget (in '000' euro)

No	Budget items	Initial budget by Law 06/L-133	Initial budget by audit	Differ. Column 2 minus 3	Final budget by KFMIS	Final budget by audit	Differ. Column 5 minus 6
	1	2	3	4	5	6	7
1.	Total revenues	1,949,277	1,949,277	0	1,957,664	1,957,664	0
2.	Financing from borrowing	336,195	336,195	0	336,195	336,195	0
3.	Other receipts	187,000	164,000	23,000	187,000	164,000	23,000
	Total receipts	2,472,872	2,449,872	23,000	2,480,859	2,457,859	23,000
1.	Wages and Salaries	619,997	619,997	0	631,334	631,334	0
2.	Goods and Services	307,127	307,127	0	314,049	314,049	0
3.	Utilities	29,483	29,483	0	28,888	28,888	0
4.	Subsidies and Transfers	600,024	600,024	0	647,345	647,345	0
5.	Reserves	4,800	4,800	0	83	83	0
6.	Capital Investments	788,800	788,800	0	794,063	794,063	0
7.	Interest payments	28,000	28,000	0	28,000	28,000	0
8.	Principal payments	50,000	50,000	0	50,164	50,164	0
9.	Sub borrowings	24,005	24,005	0	24,005	24,005	0
	Total payments	2,452,236	2,452,236	0	2,517,767	2,517,767	0
	Budget deficit/surplus	20,636	(2,364)		(36,908)	(59,908)	23,000

Having analysed the Second Statement - consolidated statement of budget comparison with execution, we found a difference of €23,000,000 between the amount presented in the AFS and that found by audit. The difference is identified in the cash flow, in the Initial Budget column, at the item **Other Receipts** in the amount of €187,000,000, which relates to carried forward municipal OSR, which in Table 1 of 2019 Budget Law were planned as receipts but were actually received in 2018 and deposited into the Treasury Account in CBK.



According to 2019 Budget Law (Table 1), the budgeted amount under **Other Receipts** is €187,000,000 which consists of sources presented in the following table. By audit this amount should be €164,000,000.

Analytically, the budget item Other Receipts is composed of types of revenues as below.

Table 5 - Planning of revenues from Other Receipts

(in euro)

Item – Other Receipts	By Law No. 06/L-133	By audit	Difference	By final budget KFMIS	By audit	Difference
Dedicated revenues	2,000,000	2,000,000	0	2,000,000	2,000,000	0
Return of loans from POE (KEK)	11,000,000	11,000,000	0	11,000,000	11,000,000	0
One-off PAK revenues	151,000,000	151,000,000	0	151,000,000	151,000,000	0
Municipal OSR carried forward	23,000,000	0	23,000,000	23,000,000	0	23,000,000
Total	187,000,000	164,000,000	23,000,000	187,000,000	164,000,000	23,000,000

We discussed with MoF management on the carried forward municipal own source revenues of 23 million and their explanation is that “This position in budget planning (columns B and C) is reflected in accordance with Table 1 of the Budget Law no. 06/L-133, while according to the requirements of accounting standards for the public sector (IPSAS) are not treated as receipts in TSA (but are part of the bank balance sheet of the previous year), but since they are planned as receipts - source of funding (i.e. only as revenue) according to the Budget Law (Table 1), the position of receipts from the carried forward municipal revenues is presented in this statement as approved by the Budget Law”.

Thus, by initial planning and in the final budget, it appears that the general budget revenues were overstated for the same amount. Therefore, if OSR would have been deducted from the budget tables, the deficit by initial budget would be €2,364,000, while by final budget it would be €59,908,000 (see Table 3 above). However, regardless of this difference with the table structure, the difference in the bank balance and net balance presented in the statement of cash receipts and payment is correctly and fairly presented.

2.1 Analysis of General Budget Revenues and Expenditures

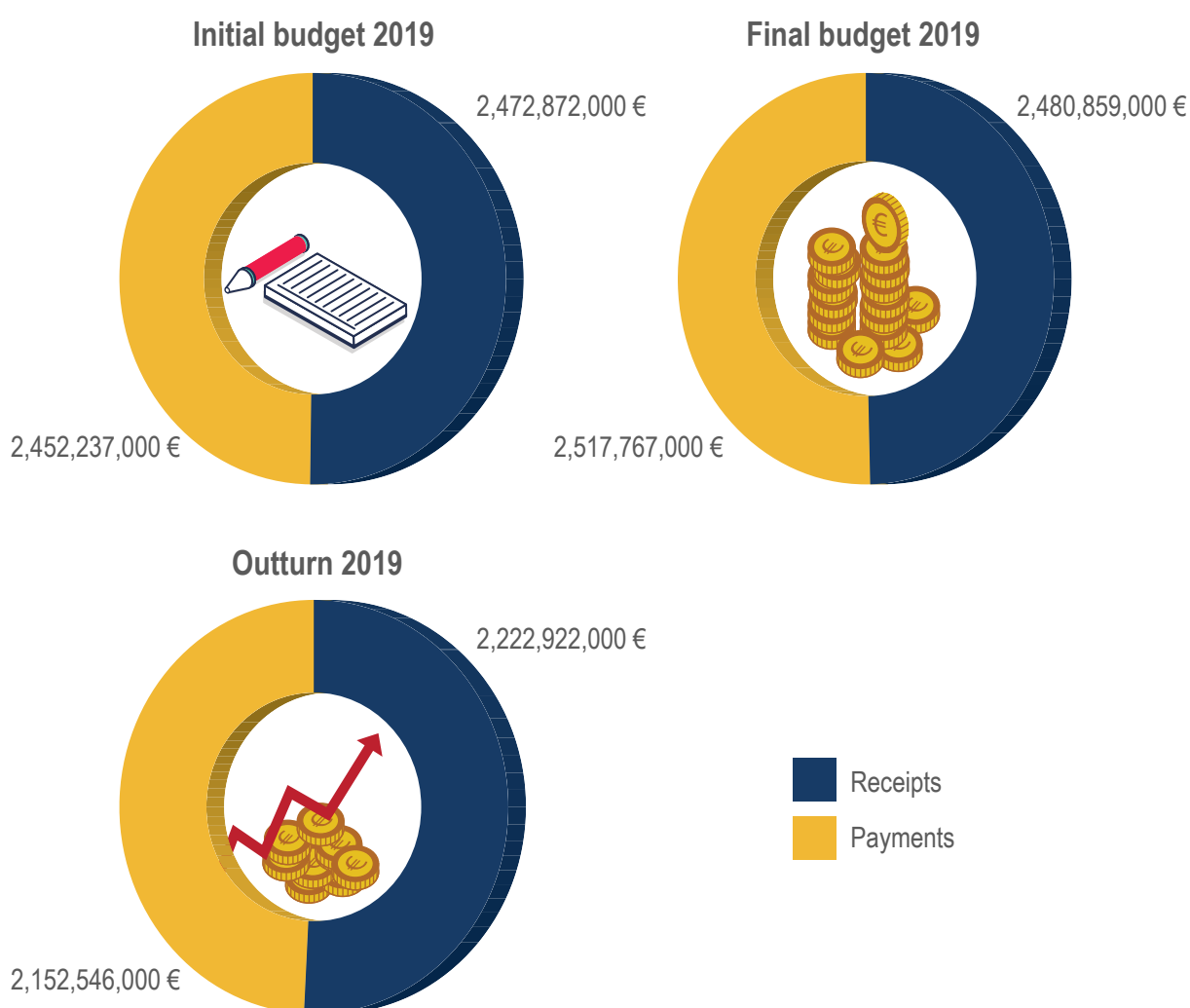
State revenues and expenditures should be balanced. As revenues under the final budget resulted to be lower than expenditures, the difference of €36,908,000 presents the budget deficit. However, given that the budgetary plan was not implemented according to initial parameters, the bank balance by the end of the year increased by over 70 million. The Budget of the Republic of Kosovo for 2019 has not been subject to budgetary review procedures, but during the year, under Government decisions different adjustments were made to the initial budget appropriations, which resulted in budget increases and cuts in certain areas. These adjustments are based on the legal authorisations granted by the LPFMA.

The following statement shows the trend of revenues by initial and 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 6 - Statement of cash receipts and payment (in euro)

Description	Initial budget 2019	Final budget 2019	Outturn 2019	Outturn 2018	Outturn 2017
Receipts	2,472,872,000	2,480,859,000	2,222,922,000	2,009,673,000	1,923,360,000
Payments	2,452,237,000	2,517,767,000	2,152,546,000	1,979,559,000	1,836,805,000

Statement of cash receipts and payment (in euro)



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

- (a) The initial budget of revenues/receipts compared to final budget, was slightly revised (€7,987,000), while the initial budget for payments was increased compared to the final one by €65,530,000, and it was planned to be financed from the deficit of €36,908,000. Final

1 As the figures in the statements are presented in thousand, they are presented in the table rounded in full.

budget receipts at the end of the year resulted in lower execution rate at €257,938,000 or 89.6%, while payments were €365,222,000 or 85.5%. Hence, variances between the final budget projections and execution are quite high. Significant differences between the amounts planned and executed are mainly as a result of non-implementation of capital projects financed by borrowings and low level of indirect taxes collection compared to planning;

- (b) Revenues foreseen in the final budget were executed by 89.6% compared to last year which were by 92%. Receipts during 2019, compared to those a year ago, were executed by 213 million more or 10.6%, while payments by 173 million or 8.7%;
- (c) The difference between total of receipts and total of payments is €70,376,000. 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 31 December 2018 had a final balance by €458,251,000;
- (d) The annual budget, except for the financing from regular revenues, was also planned to be financed from borrowings. The amount of annual borrowings was planned at €336,195,000 or about 13.6% of total of receipts by final budget. However, borrowings at the end of the year were €158,264,000 or 47% of total of cash receipts;
- (e) In addition to tax, non-tax, and borrowing revenues, a considerable amount in the budget revenue items is comprised by the one-off financing from the Privatization Agency of Kosovo (PAK). The budget amount financed by the PAK was €150,002,000 or over 6.7%; and
- (f) In small percentages, the public treasure has also been financed from some other irregular sources, such as: (a) Grants as budgetary support €11,500,000; (b) Donor designated grants €7,987,000; (b) Repayment of loans by Publicly Owned Enterprises €10,876,000; (b) Revenues from interest €2,691,000.

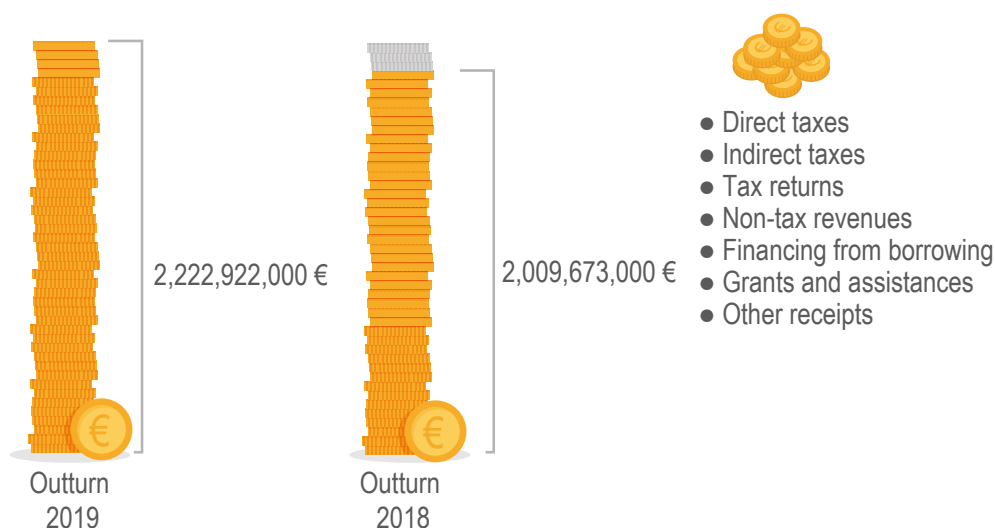
2.1.1 Analysis of Revenues by Economic Categories

The table below provides more complete information on final budget and budgetary trends over the last three years.

Table 7 - Statement of Budget and Receipts by source

(in euro)

Receipts	Initial budget 2019	Final budget 2019	Outturn 2019	Outturn 2018	Outturn 2017
Direct taxes	2019	Outturn 2018	Outturn 2017	267,504,000	238,034,000
Indirect taxes	1,492,040,000	1,492,040,000	1,415,291,000	1,344,130,000	1,315,236,000
Tax returns	(50,000,000)	(50,000,000)	(45,507,000)	(47,880,000)	(57,583,000)
Non-tax revenues	208,227,000	208,227,000	214,614,000	192,865,000	185,881,000
Financing from borrowing	336,195,000	,336,195,000	158,264,000	122,018,000	211,934,000
Grants and assistances	10,500,000	18,487,000	19,487,000	8,319,000	8,312,000
Other receipts	187,400,000	187,400,000	168,514,000	122,717,000	21,547,000
Total:	2,472,872,000	2,480,859,000	2,222,922,000	2,009,673,000	1,923,360,000



Direct taxes

This tax category consists of the following sources: Corporate Income Tax, Personal Income Tax, Property Tax, and other direct taxes.

The main item in this tax category is Personal Income Tax with €165,616,000 (57%), Corporate Income Tax €94,593,000 (32%), Property Tax €27,277,000 (9%) and other taxes €4,773,000 (2%). Personal Income Tax and Corporate Income Tax were collected by the Tax Administration of Kosovo (TAK), while Property Tax by the Municipalities (excluding three northern municipalities). Compared to the previous year, direct taxes in the total amount have marked an increase by 9%, namely 23%, compared to 2017.

Indirect taxes

Value Added Tax and Excise Taxes are the main categories of indirect taxes, which are also the main sources for filling the public treasure. Indirect taxes participate with 63.7% in the total receipts structure. The initial budget foreseen for this category of revenues was executed at 95%, though there was an increase of the nominal value by 71 million compared to previous year. The collected Value Added Tax was €845,647,000 (59.8%), with an increase of nominal value by €46,627,000 or 5.8% compared to 2018. Over 70% of VAT was collected at the border, while the rest is internally collected VAT. Revenues from Excises were €435,496,000 or 30.8%, with an increase by 4%, Customs duties were €130,326,000 or 9.2% of the total, with an increase of around 7 million, and the remaining of indirect taxes were €3,822,000 or 0.2%.

Tax returns

Taxes are returned following periodic reconciliation of Tax Administration of Kosovo with taxpayers. The amount of tax returns in 2019 was €45,506,655 or 2.7% of the overall total of taxes collected, of which €43,719,838 were returns from TAK and €1,786,817 from Custom duties.

The vast majority of direct and indirect tax returns relate to: domestic VAT return by over €39 million, and corporate tax return by over €3.7 million

Returns occur due to credit balance in payment of taxes and custom duties. When the tax paid is higher than the calculated one, it produces credit surplus which based on legislation on taxes it can/ should be reimbursed. Tax returns were planned in final budget to be €50 million, while the actual return was 4.5 million less than planned.

In our examination we noticed that the main challenge in returning taxes to businesses is the delays of TAK in examining the reimbursement claims, which is to the detriment of the businesses due to lack of money turnover. The key factors creating such delays are taxpayers' inaccurate documents, delays in submitting documents requested by TAK, errors in statements, and also negligence by TAK,

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.

The planned gross revenues in KC for 2019 were €1,234,000,000, tax returns were €4,900,000, while net collected revenues were €1,229,100,000. The net collected revenues were €1,177,799,000, or 95.8% of the plan. Only from excise, VAT at the border and Customs on import alone were collected about €1.17 billion or 62.2% of all tax and non-tax revenues.

The fiscal policies for exemption from import taxes on raw material used by manufacturers, as an incentive for economic development, and those deriving from the Stabilisation and Association Agreement, had a great impact on 2019 planned revenues. The revenues fall was also impacted by the Law No. 06/L-155 on the Prohibition of Games of Chance which entered into force on 15.04.2019.

Despite ongoing improvements, the revenue management process in Customs was, in certain cases, accompanied by shortcomings on the customs base calculation and uniform prices non-application when revaluating goods for custom purposes.

The Tax Administration of Kosovo had planned to collect revenues in 2019 in amount of €516,400,000, while €504,282,000 were executed, with a difference from the plan by €12,118,000 or 97.6%. The revenues executed in 2019 compared to 2018 are increased by €47,482,928 or 10.4%, while compared to 2017 by €89,868,000 or 21.7%.

In tax revenues of €504,282,000, VAT takes the largest portion by €239,299,591 or 47%, followed by Personal Income Tax by €165,616,000 or 33%, Corporate Tax by €94,593,409 or 19%, and other taxes (fines) by €4,773,000 or less than 1%.

Despite the satisfactory level of implementation of plan for revenues collection, the process of collection and management of revenues in TAK has in some cases been followed by shortcomings such as incomplete fiscalisation process and unachieved controls plan. In 2019, TAK significantly improved the number of fiscalised businesses compared to previous years. From 23,271 businesses fiscalised by the end of 2018, the number of fiscalised businesses by the end of 2019 reached to 32,881. Yet, TAK has still a lot to do on fiscalisation of all businesses that meet the criteria for it because the number of remained ones to be fiscalised is still high (21,517). In order to improve

efficiency, TAK increased the number of controls; of 2,246 controls planned for 2019, it executed 1,915 or 85% of the plan. Regions like Prishtina 1, Prishtina 2, Prishtina 3 and Directorate for Large Taxpayers marked lower execution rate. Further, of the total 1,915 performed controls, 1,120 of them were carried out upon proposal of the head office for risk analysis.

Non-tax revenues

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

These revenues are collected by both central government (ministries and independent agencies) and local entities. With initial budget, which did not change by the end of the year, the non-tax revenues for 2019 were planned at €208,227,000, of which €103,227,000 from central level, €57,000,000 from local government, €33,000,000 from royalties, €11,000,000 from concessional taxes and €4,000,000 from revenues from interest. The total non-tax revenues collected in 2019 exceeded by 3% which by the end of the year was €214,614,000. Of these, €121,405,000 is collected from central government entities, €50,050,000 from local government, €28,385,000 from royalties, €11,083,000 from Concessional Taxes, and €2,691,000 from loan interest for Public Owned Enterprises.

While the plan of non-tax revenues in central level was exceeded by €18,405,000 or 17.9%, there was a setback in plan execution at the local level by €6,950,000 or 12%. That is because 31 municipalities executed 90% of the plan. The trend of the last three years shows that non-tax revenues were increased by 11% compared to 2018, namely 15% compared to 2017.

Taxes and other charges of the Local Government Budget Organisations

The non-tax revenues - other charges at local level relate to municipal taxes for: construction permits, vehicles registration, changing of land destination, other certificates, inheritance registration, municipal environmental permit and use of public property. The budget plan for non-tax revenues at local level was €57,000,000, of which €50,050,000 or 88% were executed. The percentage of budget execution in 31 municipalities was below 90%. The municipalities with the poorest performance in revenue plan execution Leposaviq 7%, Zvečan 8%, Zubin Potok 9%, Kamenica 40%, Novobërda 53%, Kaçanik 55%, Dragash 57%, Podujeva 59%, Deçan 60%, Shtërpca 63%, Suhareka 63%, Peja 66%, and Gjilan 69%.

The irregularities identified in individual audit reports in this area are the following:

Municipal zones not in compliance with the regulation;

- Delays in issuance of construction permits;
- Property tax invoicing not in compliance with the administrative instruction;
- Delays in reviewing taxpayers complaints;
- Poor management of lease contracts on immovable properties, parcels and business premises;
- Failure to verify taxable properties, and weakness in property tax data management;

- Failure to collect revenues under contracts;
- Public land used under expired contracts;
- Non-application of annual taxes to municipal property users; and
- Rental of municipal property by not following the procedures.

External and Domestic Borrowing

As a source for financing budgetary deficit, the Government planned, by Law No. 06/L-133 on Budget Appropriation for 2019, that a portion of payments would be financed by borrowings. The domestic borrowing was planned at €135,000,000, while €115,322,000 or 85.4% of the plan was executed because following the funding needs assessment the calendar changed by giving up of some issuing of Securities. The external borrowing was planned at €201,000,195, while €42,941,000 or 21.4% of plan was executed.

Setbacks were mainly on the investment clause, because many projects were foreseen to be executed. The total amount planned from the investment clause was €123,000,000, while execution was €14,486,667. Funds budgeted to finance projects by IFIs amounted €53,195,000 while execution was €20,079,063 or 37.7%, and budgeted sub-borrowings to POEs amounted €24,000,000 while execution was €7,901,000 or 33%. That was because the implementing units did not take into consideration all the factors and failed to make the required preparation when they planned projects for borrowing. Arrangements for borrowings occurred before the conditions for use of these funds were created.

The initial projections of the Government were that €336,195,000 would be borrowed, but the balance of borrowings at the end of the year was significantly lower, €158,264,000 only, or 47% of the planned amount. Compared to last year, the borrowings increased by 36 million of 30%.

The borrowings will be further detailed in the following sections of the report.

Donor designated grants and budgetary support grants

Donor designated grants are funds to be used in accordance with the terms of the agreement between the Government and donors. These funds are designated for specific purposes and planned with the annual budget as part of total budget revenues for financing different projects. Whereas grants for budgetary support are provided to the Government to implement the Public Finance Management Reform Strategy (2016-2020) and for Modernisation of Public Administration project.

The amount of grants according to the final budget was €18,487,000, while €19,487,000 were received, of which €7,987,000 as donor designed grants and €11,500,000 as grant for budgetary support.

Other receipts

The amount of other receipts foreseen by the final budget was €187,000,000, while €168,514,000 or 90% were executed. This amount is composed of: Deposit Fund €2,081,000, Return of loans from Publicly Owned Enterprises (KEC) €10,876,000, Dedicated Revenues €5,555,000, One-off revenues from PAK €150,002,000. As explained above, in this group of revenues was wrongly planned the

fund of OSR carried forward from previous years, which were not executed during the year because they were already collected.

2.1.2 Execution of Budget Revenues – Structure of Revenues

Direct and indirect taxes are the main source for the public treasure and comprise around 75% of total budget revenues. These tax revenues are collected through the Kosovo Customs (KC) and the Tax Administration of Kosovo (TAK). In 2019, these two agencies performed quite well in terms of the implementation of the revenue execution plan.

In 2019, net revenues planned from direct and indirect taxes were €1,730,550,000 (deducting tax returns) while the amount of €1,662,043,000 was executed, with an execution plan by 96%, although the nominal value of executed revenues was increased by 69 million or 3% compared to last year. The projection was that these revenues would be increased by 10%, therefore the revenue execution was lower than the plan by 4%. This good performance has been influenced by: increase of public spending and consumption, increase of imports in order to support increased economic activities in country, but also as a result of better customs monitoring, the effect of new measures to improve the business-doing environment, import facilitations for the manufacturing sector, plans to reduce the tax gap and the informal economy, measures to enhance the efficiency of collecting revenues by the collection agencies through simplifying the tax and customs system, etc.

Non-tax revenues are collected by Central Government and Municipalities. The total amount of non-tax revenues collected during 2019 was €214,631,000, compared to the budget plan of €208,227,000€. Central government entities collected €121,405,000, local government collected €50,050,000, concessional taxes €11,083,000, royalties €29,385,000, and interest revenues (Publicly Owned Enterprise) €2,691,000. The increase of non-tax revenues in 2019 compared to previous year was about 11%, while the total budget expenditures financed from this source is about 10%.

Budget expenditures were covered by tax and non-tax revenues at 87%, while the rest were covered by borrowings and donor grants.

2.1.3 Expenditures Analysis by Economic Categories

Overall expenditures for 2019 planned by the final budget were €2,517,767,000, while the execution rate was €2,152,546,000 or 85.5% of the planned amount. Percentage of expenditures compared to the previous year was lower by 4.5%, but in the nominal value the expenditures of 2019 are by €172,987,000 higher than in 2018.

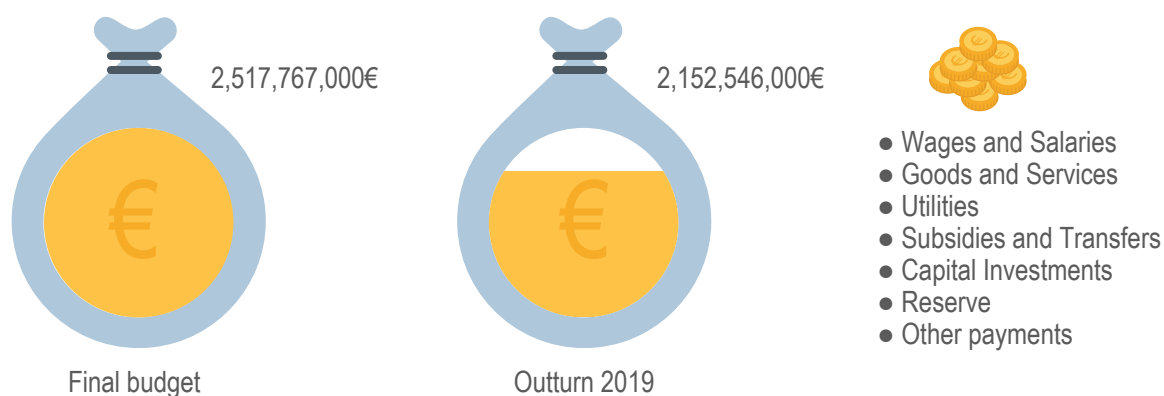
According to the Law No. 06/L-133 on the Budget of the Republic of Kosovo, expenditures by initial budget were planned in amount of €2,452,237,000, while by final budget they were increased to €2,517,767,000 or by €65,530,000.

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

Table 8 - Statement of budget and payments/expenditures by categories

(in euro)

Expenditures	Initial budget	Final budget	Outturn 2019	Outturn 2018	Outturn 2017
Wages and Salaries	619,997,000	631,334,000	616,921,000	592,588,000	550,749,000
Goods and Services	307,127,000	314,049,000	273,312,000	229,057,000	204,161,000
Utilities	29,483,000	28,888,000	24,866,000	23,440,000	24,158,000
Subsidies and Transfers	600,024,000	647,345,000	627,959,000	558,778,000	508,316,000
Capital Investments	788,800,000	794,063,000	533,773,000	533,064,000	471,098,000
Reserve	4,800,000	83,000	0	0	0
Other payments	102,005,000	102,005,000	75,715,000	42,631,000	78,322,000
Total:	2,452,237,000	2,517,767,000	2,152,546,000	1,979,559,000	1,836,804,000



The figures in the table show that budgeted amounts for expenditures against real expenditures have a quite significant difference. Expenditures incurred compared to the final budget plan are 85.5%. The current budget expenditures do not include payments made from third parties in the amount of €146,290.

Poor planning of expenditures is noted particularly under Capital Expenditures, which compared to the planned budget are executed at only 67%, almost at the same nominal value spent on previous year. The Government had a very ambitious plan to increase spending in this category, because of the 673 million planned in 2018, the amount of investments was increased to 794 million this year, or by around 120 million more.

The analysis of budget expenditures 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 97.7%. In the structure of general budget expenditures, salaries participate with 28.7% and represent the second category with the highest percentage of expenditures. Expenditures fund for gross salaries has increased by approximately 25 million or 4% compared to 2018. This increase is due to the increase in the number of public sector employees during 2019 by 3,565 new employees.

When testing salaries, namely the employees work attendance, we found that 251 employees systemised in eight (8) ministries were paid throughout the year in a total amount of €1,021,321 without attending workplace at all. Such payments are considered as irregular. This staff was deployed to these ministries based on the 2016 Brussels Agreement between Kosovo and Serbia, but they were included in payroll before normal working conditions were created.

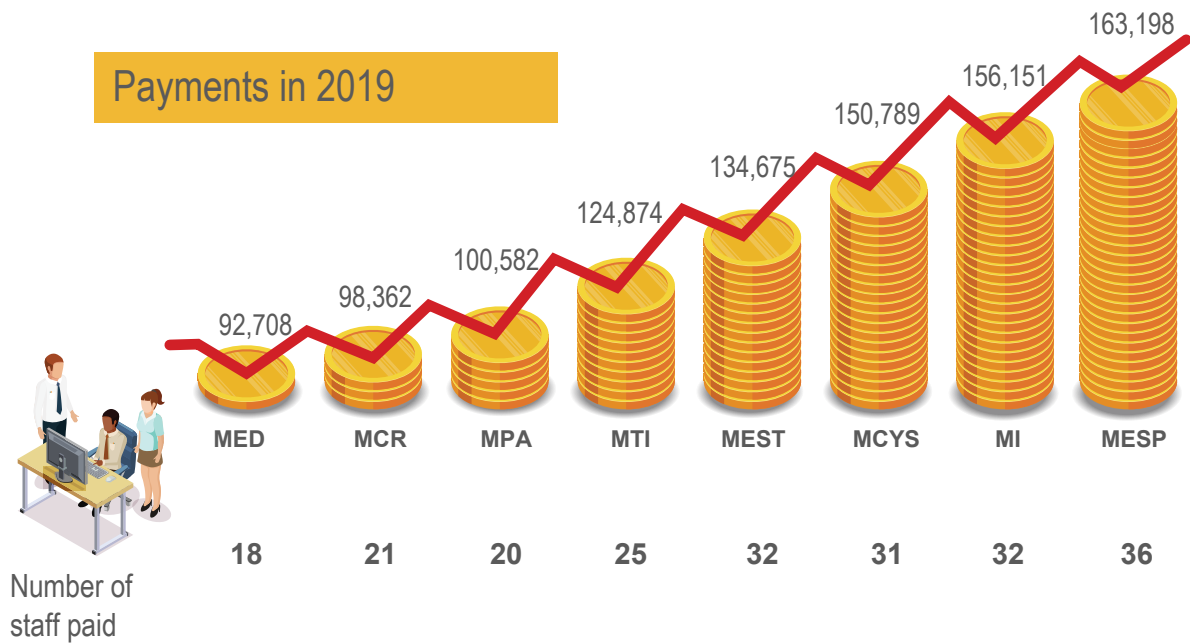
This issue has been ongoing for years, and we made the recommendation as how to solve it, yet it was only partly addressed. Only three (3) ministries took the necessary actions. The problem was addressed by the MoH, MLSW and MLGA, but in the other eight (8) the issue remained unsolved and repeated year by year.

The table below shows details on such payments:

Table 9 - Payments made for salaries based on Brussels Agreement

(in euro)

No	Budget Organisation	Number of staff paid	Payments in 2019
1.	MEST	32	134,675
2.	MCR	21	98,362
3.	MED	18	92,708
4.	MTI	25	124,874
5.	MESP	36	163,198
6.	MCYS	31	150,789
7.	MI	32	156,151
8.	MPA	20	100,582
	Total	215	1,021,321



Regarding the number of employees, according to the Budget Law no. 06/L-133, the number of staff allowed at central and local level was 85,983, while the current number of employees at the end of the year was 83,789. The average gross salary in the public sector for 2019 was €614, almost the same as in 2018. In 2019 the budget organisations paid €820,000 for salaries through court decisions due to employment disputes.

Shortcomings or irregularities identified in individual audit reports under the Wages and Salaries are the following:

- Payment of jubilee salaries and salaries after retirement executed by court decisions, paid from the Goods and Services;
- Payments from Wages and Salaries for internal commissions such as for bid opening and evaluation, asset registration and evaluation, budget planning, admission of new students, complaints and submissions, staff recruitment, scholarship award, drafting strategies and supporting regulations, in conflict with legal requirements.
- Shortcomings on logbooks for nightshift, attendance at work and payment of meals;
- Negligence in implementation of regulation on systematisation of job positions;
- Announcement of job advertisements not in compliance with job positions catalogue;
- Exercising office not in compliance with the awarded salary grades;
- Internal promotion of staff with no preliminary recruitment plan;
- Salaries not in compliance with Appointment Acts; and
- Personnel files not complete according to legal requirements;

Goods and Services

In 2019, over 273 million or 87% of the total budget was spent on supply with goods and services. Increasing of expenditure in this category, compared to last year, was about 44 million or over 19%. This increase is due to increased demands for the increase of funds for capital projects maintenance. 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, focusing primarily on increase of expenditures for capitals.

The prevailing items under Goods and Services which comprise €161,103,000 or 59% of total expenditures are the following:

Other contractual services	52,471,000	Court decisions	6,591,000
Medical supplies	38,931,000	Supply with clothes	6,019,000
Supply with food and beverages / luncheons	12,806,000	Maintenance of premises	5,864,000
Rent for premises	10,409,000	Woods for heating	4,934,000
Intellectual/advisory services	9,783,000	Luncheons	3,773,000
Fuel for vehicles	8,522,000		

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

- Advances not closed according to legal requirements;
- Procurement activities developed having not notified CPA and conclusion of contract with not commitment of funds;
- Negotiated procedures used without publication, and restriction of competition;
- Shortcomings in setting criteria when conducting procurement activities;
- Weaknesses in public contracts management;
- Annex contracts applied under no legal basis;
- Framework contracts value exceeded;
- Delays on delivery of goods and supplies; and
- Payments from borrowing fund made non in compliance with the agreements.

Subsidies and Transfers

Subsidies and Transfers participate in the total overall expenditures with about 29%. There has been a rapid increase in these expenditures in the last three years. Compared to 2018, the increase is 69 million or 12%, while compared to 2017, subsidies increased by 120 million or 23.5%.

The expenditures listed below comprise €571,637,000 or over 90% subsidies and transfers. These funds were spent to finance pension schemes and some other activities. The most dominant categories under these expenditures were the following:

Basic pensions	145,440,000	Persons with disabilities	32,031,000
Basic contribution pensions	119,935,000	Pensions - Category I	31,385,000
Pensions for war veterans	76,756,000	Subsidies for non-public entities	28,100,000
Subsidies for public entities	63,502,000	Restructuring of physical potential	17,756,000
Payments for war invalids	41,124,000	Payments for agricultural crops	15,608,000

Shortcomings or irregularities identified in individual audit reports under the Subsidies and Transfers are the following:

- Annual plan not prepared and submitted to the Government for financial support of Non-Governmental Organisations (NGOs);
- Financial support to NGOs without public calls;
- Deadlines and instructions on agriculture sector subsidies applications review timeline not specified in programs;
- Subsidies criteria not respected by evaluation commissions;
- Granting subsidies to same beneficiaries;
- Individuals who generate personal incomes benefit pension or social assistance;
- Distribution of subsidies to Ministry's staff; and
- Beneficiaries not reporting to justify subsidies.

Capital Investments

Although initial budget projections were quite ambitious as for capital investments there were appropriated 794 million or almost 32% of the final budget, only 534 million or 67% was spent during the year. Over 260 million remained unspent reflecting poor performance of budget organisations which resulted in failure of many capital projects. Compared to last year, the capital investments budget was executed exactly at the same nominal value although the current year's budget was planned 120 million higher than the previous year's one.

The ten areas listed below amount around 364,303,000 or 70% of total expenditures in capital investments spent during 2019:

Auto roads	85,212,000	Investment maintenance	20,421,000
Local roads	84,642,000	Other equipment	18,529,000
Regional roads	57,119,000	Sewage	16,015,000
Educational premises	29,116,000	Land	14,114,000
Business administrative premises	27,845,000	Sidewalks	11,290,000

Capital Investments budget funds are destined for financing infrastructure projects, motorway construction, local roads, education, health, cultural and sports facilities, and other public services. Capital projects are managed through the Public Investment Programme (PIP). Projects should be planned through PIP in detail, and approved by heads of BOs based on documents submitted through PIP regarding the rationale and ensuring they fall under their responsibility and competence.

It is worth mentioning that because projects were not prepared in time, considerable amounts of funds remained unspent: 115 million from investment clause, and budget from OSR which was budgeted totalling €145,547,203, while it was executed in amount of €89,903,470 or 62%.

When preparing the annual budget, there is noticed a permanent tendency of the Government to increase the budget expenditures in this category from year to year 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 budget execution rate in this category remains the lowest for years.

The most significant shortcomings identified from individual audit reports of budget organisations under this category of expenditures are the following:

- 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 and courts are made from the category of capital investments, mainly due to the lack of budget in the adequate expenditure category. During this year, by court decisions and direct payments from Treasury, there were paid over 17 million euro from this category, where not all of them are of capital type.
- 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. In many cases, for political purposes symbolic amounts are allocated to projects just to include them in implementation procedures and then they remain unfinished for years.
- Procurement procedures were often initiated without prepared executive projects, and consequently during execution they require revision of bill of quantities and pre-estimates, which result in additional works and costs;
- Poor monitoring of projects at execution stage where in certain cases unfinished works are confirmed and unused material during works as invoiced;
- Insufficient monitoring of procurement contracts; and
- Certification of payments for works not completed and supplies not received.

Other payments

The budget allocation as per final budget under this category were planned at €102,000,000, however, the following types of payments were made during the year: Debt Servicing in €66,118,000, Sub-Borrowing Return in €8,515,000, and Returns from Deposit Funds in €1,082,000, totalling €75,715,000. Over 51 million of that was the payment of principal and of sub-borrowings, whereas around 23 million for payment of external debt interest, internal debt interest, and taxes and other fees. The budget was executed by 74% of the plan.

Expenditures from the Reserve fund/Contingent expenditures

According to the Law No. 06/L-133 on Budget Appropriations for the year 2019, the budget for the Reserve category was €4,800,000. During the year, through Government Decisions the budget was increased by €1,330,242. These funds were transferred from the Contingencies of the Ministry of Finance program to the Reserve category, whereby the final budget amounted to €6,130,242, whereas €6,047,022. Compared to 2018, spending in this category was lower by €1,587,904 or 35.6% of the plan.

There are 11 budget organisations in total that benefited additional budget from the Reserve fund through Government decisions:

- 6 Central Level BOs.....€4,603,925 or 76%
- 1 Independent agency.....€171,864 or 3%
- 4 Municipalities.....€1,271,233 or 21%

Table 10 – Expenditures from the Reserve fund

Budget organisation	Category of expenditures	Funds allocated	Budget appropriation by activities
Ministry of Finances	Subsidies and Transfers	2,075,425	• For associations emerging from the KLA War
			• Assistance to the Republic of Albania regarding the earthquake;
			• Film production projects;
			• Support to Kosova Judo Federation;
Office of the Prime Minister	Goods and Services	894,910	• To Inter-Ministerial Committee for Memorial Complex; • To the Office of the National Coordinator for Culture, Youth and Sport and on establishment of the Memorial Centre “Bllaca 1999”.
	Subsidies and Transfers	363,000	To Office for Community Affairs within the Office of the Prime Minister
Administration of the Assembly	Goods and Services	27,300	To State Aid Commission, supply of office equipment, rent.
Ministry of Public Administration	Goods and Services	95,000	For drafting of bylaws for implementation of the Public Administration Reform.
Ministry of Culture, Youth and Sports	Subsidies and Transfers	1,000,000	Marking of the 11th Anniversary of the Independence of Kosova, and on allocation of funds for the Kosovo National Football Team.
	Goods and Services	57,994	For payment of employees under special service contracts in the presidential residence “Ibrahim Rugova”.
	Capital Investments	20,296	Regulation and Operation of the “Museum House in Lumbardh Neighbourhood-Mitrovicë”.
Ministry of Justice	Subsidies and Transfers	70,000	Legal protection and financial support to potential accused persons.
Kosovo Prosecutorial Council	Wages and Salaries	171,864	For compensation allowances and financial incentives for 2019 - Special Prosecutors.
Municipality of Rahovec	Subsidies and Transfers	1,000,000	Damage caused by hailstorms and rains.
Municipality of Istog	Capital Investments	137,033	New project “Replacing the asbestos pipes”.
Municipality of Mitrovica	Capital Investments	114,200	Establishment of the monument dedicated to the martyr Harun Beka, and purchase of digital health equipment.
Municipality of Skenderaj	Subsidies and Transfers	20,000	Financial support for addressing housing needs of citizen.
Total		6,047,022	

Article 29 of the Law No. 03/L-48 on Public Financial Management and Accountability stipulates that if an event occurs that requires urgent or unforeseen expenditures, a budget organization may apply to the Minister of Finance for additional funds. Such an application must, amongst others, state the circumstances giving rise to the request, explain why those circumstances could not have been foreseen, and identify the proposed uses of the requested funds.

In the compliance assessment of the additional budget allocation from the Reserve fund to the OPM and MoF, we identified the following irregularities:

- For the two tested payments of the OPM, which occurred due to Government decisions, the required procedures for transferring funds from Contingency fund to Goods and Services were not followed when the application to MoF for additional funds was made.
- Furthermore, the occurred expenditures did not fall within the type of urgent and unforeseen category of expenditures; they should have been planned through regular budget of OPM. These expenditures relate to "Construction and adjustment of railway infrastructure at Bllaca museum" amounting €47,558, and the other payment for "Prize awarding to education and MEDs staff" for organisation and participation on national youth program competition amounting €57,870.
- In three tested payments of the MoF, which occurred due to Government decisions, the required procedures for transferring funds from Contingency fund (Reserve) to Subsidies and Transfers were not followed when the application to MoF for additional funds was made.
- The occurred expenditures did not fall within the type of urgent and unforeseen category of expenditures. They should have been planned through regular budget of the MoF and the respective budgetary organizations. The expenditures were related to allocation of funds amounting €180,000 to support the production of film "Lojë Jete", €143,000 for allocation of funds to Kosova Judo Federation, and €50,000 for a case to cover the overseas medical treatment expenses; and
- For organization of activities related to celebration of 11th Anniversary of the Independence Day of Kosovo, MCYS was allocated the amount of €500,000. This activity could be considered as planned and not of urgent type, and as such it should have been planned through the regular annual, and not paid from the reserve.

Spending of funds from the Reserve fund, which is determined for urgent cases, for projects which should be planned in the regular budget, as well as in the absence of the required procedure for application to the MoF risks that the MoF faces lack of budget for dealing with unforeseen (urgent) situations.

Recommendations on Statements of comparison of Budget and Expenditures

Recommendation to the Government of Kosovo

The Government of Kosovo should ensure that all the conditions to normally attend work are created for the staff hired based on the Brussels Agreement. Until then, the work rate should be zero (0) in Treasury payroll list. Otherwise, such payments should terminate and they can continue from Subsidies under a proper legal basis, as none should be compensated with salaries while not performing any service to the interest of the employer.

Recommendations to the Ministry of Finance

- The MoF should eventually clarify all the budget items when preparing the initial budget, so that the transfer of data from Table 1 to Financial Statement is clear, consistent and error free; and
- The Minister of Finance and Budget Department should ensure that BOs state in detail the circumstances that gave rise to requests when they apply for additional funds for urgent or unforeseen needs, explain in detail why those circumstances could not have been foreseen and identified when regular budget was prepared, and following the review by the MoF the request are sent to Government for approval and allocation of these funds from the Reserve.

2.2 Statement of Assets in Cash and Balance of Funds

Cash balance at the end of the year includes unspent amounts from: cash in main account, Development Trust Fund, transit money, quota in IFI, embassies' accounts, cash (treasure) and open advances.

The funds in cash are divided into specific designated funds and unallocated funds. The specific designated funds are comprised of Donor Designated Grants, own source revenues carried forward, Development Trust Fund, Dedicated revenues, other funds (mainly different types of deposits), and Unspent funds from borrowing in 2019 carried forward in 2020.

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 31 December 2019 was €458,251,000.

Details are presented in the following table.

Table 11 - Statement of cash and balance of funds

(in euro)

Bank accounts of the state budget	2019	2018	2017
Central Bank of Kosovo	444,301,000	374,663,000	339,906,000
Trust Development Fund	4,754,000	4,514,000	5,047,000
Transit money	4,632,000	4,031,000	10,179,000
Cash in the accounts of Diplomatic Missions	1,136,000	1,074,000	1,045,000
Cash (treasure)	1,687,000	1,851,000	1,583,000
Quota in International Financial Institutions	1,741,000	1,741,000	0
Total cash at the end of the year	458,251,000	387,874,000	357,760,000
Balance of funds	2019	2018	2017
A. Total designated funds	97,395,000	82,870,000	63,642,000
Donor Designated Grant	8,866,000	7,803,000	6,452,000
OSR carried forward – central level	5,741,000	3,932,000	2,772,000
OSR carried forward – local level	49,477,000	44,308,000	30,108,000
Trust development fund	8,004,000	8,689,000	8,755,000
Dedicated revenues	803,000	1,706,000	803,000
Other revenues	17,504,000	16,432,000	14,722,000
Unspent funds from borrowings	7,000,000	0	0
B. Undistributed funds	360,856,000	305,004,000	294,147,000
Total funds (A+B)	458,251,000	387,874,000	357,760,000

The balance of cash accounts held with the CBK has significantly increased compared to the previous two years. Cash at the end of 2019 has increased by €70,377,000 or 18% compared to the 2018 balance sheet and €100,491,000 or 28% compared to the 2017. This increase is a result of unspent funds from borrowings, OSR carried forward, and PAK one-off revenues.

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.

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 31.12.2019. The amount of this money held by all budget organisations is €1,687,000, with the majority of it being recorded in the MoH (720K), MFA (329K) etc. The transit money is money that has been received through commercial banks as revenue for 2019. On 31.12.2019 that money was not transferred to the CBK Treasury account, but it was registered in KFMIS as 2019 revenues.

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 deployed 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 2019 was €1,136,000, approximately similar to the amount of the previous year.

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 €336,195,000. 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 €33,246,000 or about 0.47% of GDP.

Regarding the disclosure of data in the Budget Deficit Table for 2018, we have identified discrepancies in presentation of Revenues or Expenditures and calculation of the deficit, which are cumulatively presented in the table below.

Table 12 - Differences in calculation of deficit (in euro)

No.	Budget item	By initial budget AFR	Deficit calculated under audit	Actual at the end of year by AFR	Actual under audit
1.	Total revenues	1,949,277,000	1,949,277,000	1,888,157,000	1,888,157,000
2.	Total expenditures	2,378,232,000	2,378,232,000	2,093,420,000	2,093,420,000
3.	Exempted from fiscal rule	(284,000,000)	(276,000,000)	(172,017,000)	(172,017,000)
4.	Deficit calculated	144,955,000	152,955,000	(33,246,000)	(33,246,000)
5.	Deficit calculated in %	2.00%	2.15%	0.47%	0.47%

As can be seen from the data above, the deficit calculated with the initial budget according to the Ministry of Finance was €144,955,000, while according to our calculations, this amount should be €152,955,000 or with a difference of €8,000,000 more than calculated by the MoF.

Following our analytical reviews, we verified the accuracy of deficit calculation, and detailed information is presented in the following table.

Table 13 - Calculation of planned deficit and actual deficit for 2019

(in euro)

No.	Budget revenues/expenditures	Initial budget	Outturn
A	Total receipts/revenues (1 to 4)	1,949,277,000	1,888,157,000
1.	Tax revenues	1,780,550,000	1,707,550,000
2.	Tax returns	(50,000,000)	(45,507,000)
3.	Non-tax revenues	208,227,000	214,614,000
4.	Budget support grants	10,500,000	11,500,000
B	Total payments/expenditures (5 to 10)	2,350,232,000	2,069,970,000
5.	Salary expenses	619,997,000	615,933,000
6.	Goods and Services expenses	307,127,000	270,685,000
7.	Utilities	29,483,000	24,864,000
8.	Subsidies/Transfers expenses	600,024,000	627,271,000
9.	Capital Investments expenses	788,800,000	531,216,000
10.	Reserve	4,800,000	0
C	Primary Deficit (A minus B)	(400,954,000)	(181,812,000)
11.	Interest costs	28,000,000	23,450,000
D	Overall Deficit	(428,954,000)	(205,263,000)
12.	Payments from carried forward OSR	0	30,656,000
13.	Expenditures from PAK designated receipts	2,000,000	2,000,000
14.	Investments Clause	123,000,000	7,487,000
15.	PAK one-off revenues	151,000,000	131,874,000
E	Overall Deficit by fiscal rule	(152,955,000)	(33,337,000)
F	Overall Deficit by percentage	-2.15%	- 0.47%

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 stipulated 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 set forth in the Law on Public Debt, every fifth fiscal year, the Assembly shall review and if needed it may adjust:

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

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 2019 was projected in amount of €7,123,000,000, while GDP at the end of the year amounted to €7,006,000,000².

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 from fiscal rules include Own Source Revenue carried forward, 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 2019. The Budget Law for 2019 adopted by the Assembly of the Republic of Kosovo is approved with a budget deficit by 2.15% of GDP, while the current deficit at the end of 2018 was 0.47%.

We analysed figures presented in Table 1 - Fiscal Forecast 2019-2021, of the Law No. 06/L-133 on 2019 Budget Appropriations, and Annex No. 1 to the Annual Financial Report of BRK, Budget Deficit Table for 2019.

In Table 1 - Fiscal Forecast 2019-2021 and Annex No. 1 to the AFR of BRK, in table of budget deficit for 2019, the expenditures exempted from the fiscal rule were presented totalling €284,000,000. Under the expenditures exempted from the fiscal rule were calculated expenditure from PAK one-off revenues amounting €151,000,000, expenditures funded from investment clause amounting €123,000,000, expenditures from OSR carried forward amounting €8,000,000 and dedicated PAK revenues amounting €2,000,000.

In our judgment, expenditures exempted from the fiscal rule should have totalled €276,000,000. Thus, there should have not been included central and local OCR carried forward from previous year totalling €8,000,000 which led to exceeded planned deficit by 0.15 point of percentage.

Conclusion

We conclude that although the deficit ceiling of initial budget was by 0.15 point of percentage higher than the allowed ceiling, the current deficit at the end of the year was 0.47% only, and it can be stated that the Government when preparing the Draft Law on Budget Appropriations for 2019, made sure to keep the planned deficit within the ceiling allowed by LPFMA.

² According to Law No. 06/L-133 on 2019 Kosovo Budget Table 1 Fiscal forecast 2019-2021 additional note, the forecasted GDP was €7,123,000,000, whereas current GDP, according to KSA was €7,006,000,000.

3 Analysis of Explanatory Notes

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

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

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

In general, the AFS contain multiple disclosures, which provide detailed information on the content of the figures in the Three Main Statements. Nevertheless, our conclusion is that it is not sufficient just to present analytically the figures in these Three Statements. Compared to the 2018 AFR, the explanatory notes in the 2019 AFR are more complete, although in some elements there is still a need to expand the relevant explanations, in particular in the parts where the changes are difficult for users to understand.

3.1 Consolidation of Data from Individual Statements with Government Statements

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

- In the statement of disclosures in the AFS, assets were presented in the amount of €8,753,551,918, while according to individual audits, capital assets over €1,000 resulted to be €8,849,743,572, with an understatement by €96,191,653. This difference remains after the conversion balances, because some organizations have more assets than they have recorded in KFMIS and presented in the individual financial statements, and others have presented incomplete data on the status of assets as a result of inaccurate recording in KFMIS;
- In addition, assets presented under €1,000 in the disclosure statement are in the amount of €40,735,519, while according to individual audits, total assets are €40,849,831, with a difference of €114,312.
- Stocks in the statement of disclosures in the AFR of BRK were in the amount of €23,319,403, while according to individual audits, this amount is €23,314,894, with an insignificant overstatement by €4,509.

- Outstanding liabilities on the country level, in the statement of disclosures are presented in the amount of €360,550,906, while according to individual audit reports, the total value of outstanding liabilities was €310,565,520. Therefore, there is an overstatement of liabilities by €49,985,386;
- The balance of contingent liabilities in the AFR is presented in the total of €192,337,757, while the value of these liabilities according to the audit was €196,657,085, or with an understatement by €4,319,328; and
- Accounts receivable were presented in the AFR in the total of €634,643,815, while according to individual audit reports; the total value of these accounts was €637,148,819, understated by €2,505,004.

3.2 Basis for Preparation, Accounting Policies 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, amended by Law No. 03/L-221, Law No. 04/L-116, Law No. 04/L-194, Law No. 05/L-063 and Law No. 05/L-007, as well as based on IPSAS - *Financial reporting under the cash basis of accounting principles*.

The basis of accounting and reporting of the Government is the LPFMA and IPSAS according to the cash principles. On this basis, the information presented in these financial statements presents cash receipts and payments, and cash flow movements.

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

Payments (expenses) are recognised when they are withdrawn from the Treasury Single Account, whereas expenses of petty cash and advances for official travel are recognised at the time of closing the petty cash account and justification for official travel expenses.

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

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

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

Assets presented in Annex 7 are based on KFMIS records, and include assets in the amount of over €1,000 euros in accordance with Financial Regulation 02/2013. The list of non-financial assets is presented at net accounting value, following the application of depreciation rates under this regulation.

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

(8) Assets under €1,000; (9) Stocks; (10) Receivables; (11 and 12) Liabilities; (15) Number of employees outside the payroll list; (17) Number of employees with Special Service Agreements. All these annexes are consolidated from the individual statements of budget organizations.

Transactions between budget organizations, called “Interdepartmental Transactions” are not consolidated in these financial statements, in order to maintain the consistency of the information reported in the individual financial statements of budget organizations. Expenditures are categorised according to the economic and functional classification of the Budget Law based on the IMF Government Financial Statistics (GFS), which are the 2014 version of the GFS under the cash basis.

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

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

Payments returned to BRK from previous years in the current year are identified as revenues of this year.

The official reporting currency in Kosovo is Euro (€), while for the disclosure of government debt may also have used the currency Special Drawing Rights (SDR) in annex 18, and USD in IFN membership fee payments in annex 20.

The AFS are authorised on the date when the Minister of Finance and the General Director of the Treasury sign the declaration and after approval by the Government.

3.3 Public Debts and State Guarantees

According to the Law on Public Debts 03/L-175, Total Debt is defined as “The totality of State Debt and Municipal Debt”. State Debt incurred on behalf of the Central Governmental Institutions that the Republic of Kosovo is obliged to pay, but shall not include any liability of certain other governmental entities, including but not limited to Municipalities, public enterprises, or the Central Bank of Kosovo”. Through this law, the Government is enabled “to borrow, to provide loan guarantees, to pay the costs of borrowing and to pay the principal and interest of the state debt”. The law delegates to the Minister of Finance the sole authority to incur state debt for certain purposes (Article 3 of the Law), and defines the right of the Kosovo Treasury to manage and administer state debt. Moreover, according to the Law, the outstanding amount of the total debt, in no case shall exceed the quota of 40% of GDP, and state guarantees shall be treated as state debt when calculating this limit. To increase management transparency and determine the management responsibilities, the Ministry of Finance has drafted sub-legal acts and procedures.

Total state or public debts consist of domestic debts (issue of Financial Instruments) and International Debts (External Creditors). “Domestic Debt is defined as State Debt which is subject to the laws of the Republic of Kosovo, while International Debt as a State Debt is subject to agreements with

foreign governments, government agencies, international financial organizations or other foreign organizations and companies under international agreements, treaties, conventions or other similar agreements which are subject to the laws of a legal jurisdiction other than that of the Republic of Kosovo”.

The main objective of the Government of Kosovo for management of state debt is to ensure the financing of the budget deficit at the lowest possible cost, always taking into account the acceptable level of exposure to financial risks.

Process Description

- The Government of the Republic of Kosovo drafts national priorities, which relate to various sectors, including economic development. In this context, the Office for Strategic Planning within the OPM, through the National Development Strategy document has identified new and important strategic policy issues for analysis. Further, it co-operates with the Ministry of Finance for the revision of the Medium-Term Expenditure Framework (MTEF), as well as the preparation of more detailed guidelines for the preparation of MTEF sectoral strategies;
- In the Ministry of Finance, the Debt Management Division (DMB) operates within the Treasury. This division is co-ordinated with the Department for Macroeconomic Policy and International Financial Co-operation, the Budget Department within the Ministry of Finance and the Central Bank of the Republic of Kosovo, as the Government’s fiscal agent. DMB is responsible for the functions of state borrowing risk management, negotiating financial terms, managing the borrowing strategy, reporting, recording and serving government debt. Consequently, this department drafts the macroeconomic portion (level of state debt, development and perspective for coming years) of the Medium-Term Expenditure Framework (which includes the investment clause) included in the Budget Book and Public Debt Programme;
- After the approval of capital projects (from the Investment clause) in the Budget Law, the Ministry of Finance initiates the process of agreements with creditors. Following the act of signing agreements through the Government, the projects are sent for ratification to the Assembly of the Republic of Kosovo;
- After the ratification of the agreements, the funds are disbursed by the creditors; and
- The disbursement process is preceded by allocation of funds by the Treasury according to requests of budget organisations as the project implementing organizations.

The following is an analysis of the trend of public debt during the last three years.

Table 14 - State Domestic and External Debt for 2017-2019

(in euro)

Description	2019	2018	2017
International debt	409,100,000	416,150,000	422,150,000
Domestic debt	791,942,000	676,620,000	574,270,000
Total debt	1,201,050,000	1,092,770,000	996,420,000
State guarantees	42,680,000	44,000,000	44,000,000
Total debt + Guarantees	1,243,720,000	1,136,770,000	1,040,420,000
Total debt (% of GDP)	17,46%,000	16,90%	16.63%
GDP from KAS	7,123,100,000	6,725,910,000	6,257,000,000

At the end of 2019, the Total Debt amounted to €1,201,050,000, which compared to the previous year marked an increase of €108 million or about 10%. This amount does not include state guarantees by €42,680,000. Public debt compared to Gross Domestic Product for 2019 was 17%, which is within the limit of 40% as defined in the Law on Public Debt.

According to the table above, International Debt at the end of 2019 represents about 34% of total State Debt or 6% of GDP. The biggest portion or about 66% of the International Debt is owed to the IBRD and the IMF.

Domestic debt is incurred through the sale of securities by the Government in the form of Treasury bonds (up to 1 year) and bonds (2 to 10 years). In 2019, Domestic Debt was €791,942,000 representing about 66% of total State Debt or about 11% of GDP. Compared to 2018, the increase in domestic debt (issuance of securities) was €115,320,000, or about 17%. During 2019, five loans/financial agreements signed during 2018 were ratified, of which four between the Government of Kosovo and the creditor UniCredit, and one between the Government of Kosovo and the creditor RBI-Austria:

1. Wastewater removal system project for the Municipality of Podujevë €5,349,000;
2. Project for construction of water supply system for the Municipality of Graçanicë €5,115,108;
3. Project for construction of water supply system for the Municipality of Istog €5,094,247;
4. Project for construction of sewerage system for the Municipality of Shtime €2,385,000; and
5. Project for the construction of the potable water supply system for the Municipality of Ferizaj €5,125,000.

During 2019, in order to finance projects, three new financial agreements were contracted with the World Bank (IDA) and the European Bank for Reconstruction and Development (EBRD), but have not been ratified by the Assembly of the Republic of Kosovo:

1. Loan financing agreement with IDA for financing the project for strengthening the financial sector in the amount of €22,300,000;
2. Loan financing agreement with IDA for financing the project for immovability cadastre and geospatial infrastructure in the amount of €14,600,000; and
3. Loan financing agreement with the EBRD for the financing the project for the treatment of wastewater in the Municipality of Ferizaj, Gjilan and Mitrovica in the amount of €10,000,000.

The following table presents the list of major external creditors who have financed the loans.

Table 15 - External debt according to creditors and committed undisbursed debt (in €)

Creditor	Ratified debt	Withdrawn debt	Un-withdrawn debt	Unreturned debt	Returned
	(A)	(B)	(C=A-B)	(D=B-E)	(E)
IBRD	381,210,000	381,210,000	0	135,640,000	245,570,000
IMF	287,380,000	287,380,000	0	132,600,000	154,530,000
EBRD	167,680,000	61,310,000	106,370,000	60,530,000	780,000
BEI	139,900,000	4,300,000	135,600,000	4,110,000	190,000
KfW	122,000,000	7,000,000	115,000,000	7,000,000	0
NATIXIS France	71,000,000	68,430,000	2,570,000	42,790,000	25,640,000
OFID, IDB, SDF	66,000,000	0	66,000,000	0	0
UniCredit	47,500,000	13,050,000	34,450,000	11,890,000	1,160,000
RBKO-Austria	24,980,000	13,430,000	11,550,000	13,260,000	180,000
International debt	5,130,000	1,030,000	4,100,000	1,030,000	0
International debt	1,312,780,000	837,140,000	475,640,000	409,090,000	428,050,000

External debt is received through international agreements from external financial institutions. The ranking of creditors in the table above is done according to the size of the value of the ratified debt.

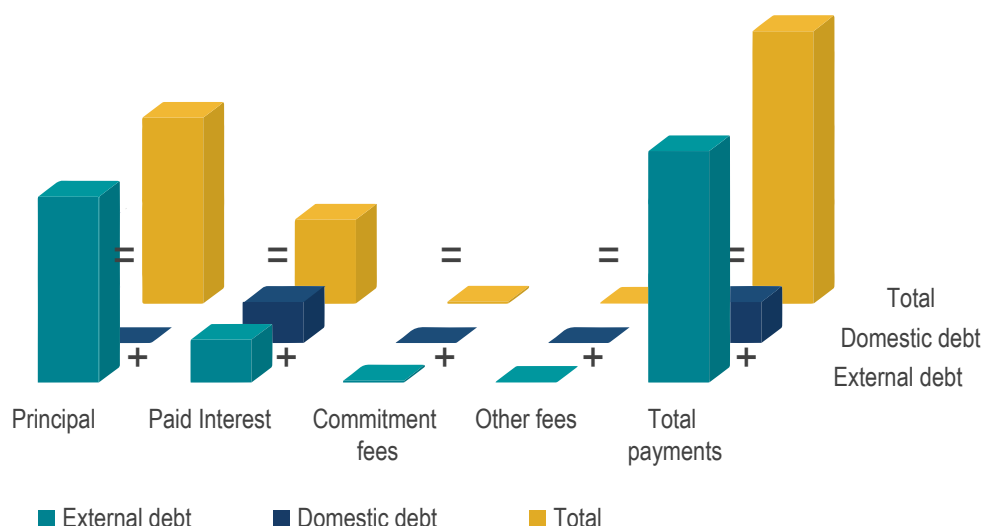
From the external debt ratified from 2009 to 2019 in the amount of €1,312,780,000, the Government has withdrawn €837,140,000. Whereas, the repayment of the debt was €428,050,000, where the main part of its repayment was made for the IBRD (Consolidated Credit C from the former Yugoslavia) and the IMF with about 93%. The amount not withdrawn from the ratified loan agreements is €475,640,000, or 36% of the ratified debt, while last year it was €393 million or 33%.

Total debt services

Total debt services relate to equity payments, interest and other fees, which are set out in agreements between the Government and creditors, for domestic and international debts.

Table 16 - Total debt services for 2019 (in €)

Debt repayment	Principal	Paid Interest	Commitment fees	Other fees	Total payments
External debt	50,280,000	11,560,000	540,000	200,000	62,580,000
Domestic debt	0	11,150,000	0	0	11,150,000
Total:	50,280,000	22,710,000	540,000	200,000	73,730,000

Total debt services for 2019 (in €)

In 2019, external and domestic debt services were €73,730,000. The above table presents data on the repayment of domestic and external debts, including the repayment of equity, interest expenses, commitment fees and other fees as part of the debt.

Commitment fees as in the table in the amount of €540,000 relate to ratified loans from 2009 to 2019. In international financial commitments, the commitment fee is a fee that the lender requests from the borrower as compensation for the allocation/commitment of borrowing assets. The commitment fee is calculated on the undisbursed loan amount. Compared to last year, there is an increase of the commitment fee by €250,000 and other fees by €200,000. The value of this fee is quite significant because they have no counter value for any service performed or project financing.

State guarantees

State guarantees represent possible liabilities and they become factual debts only in cases when the public entity fails to pay the guaranteed contractual liabilities. In these cases, the Government should pay the liabilities for the warranty given. The table shows that the bank guarantees are in the amount of €42,680,000. Depending on the loan repayment, the State guarantee amount is also reduced.

Conclusion

Project financing management from external borrowing and their implementation from implementing BOs is characterised by a low performance of efficiency and effectiveness. Borrowing arrangements occurred before the conditions for the use of these funds were created. The links between the strategic documents, the MTEF and the annual budget are quite challenging in terms of achievable budget planning. As a result, risk assessments for more obvious issues such as delays in the implementation of complex projects have not been treated with due attention by the Government.

Based on the regular quarterly reporting of BOs to the Treasury/MoF, the difficulties encountered during the implementation of projects are of various natures; ranging from delays in ratification, fulfilment of the conditions of effectiveness set by the creditor, harmonisation of local procedures

with the creditor procedures, delays in expropriation up to the lack of qualified staff in the units of implementation and management of these projects.

As a result, the unwithdrawn value of ratified loans by the end of 2019 was at a low level and borrowing funds were not used efficiently and effectively. Of the funds available, over €475 million remain uncommitted funds. On the other hand, this was reflected in other additional costs by calculating the commitment fees and other fees amounting to €740,000 for undisbursed debts and delays in the dynamics of project implementation. Of that, €410,000 belongs to projects that are lagging behind in implementation, yet they are sub-borrowed loans. Thus, undisbursed/unwithdrawn debt from international agreements is expected to be withdrawn depending on the dynamics of project implementation by project implementing organizations.

The Ministry of Finance has reported on a regular basis to the Government on the dynamics of execution of borrowing projects and on stagnation; however, the audit results (data above), show that the situation is not good at all although there is a slight improvement particularly as far as disbursed amounts are concerned.

Recommendation to the Government

The Government should review the Ministry of Finance's periodic public debt reports and analyse the identified stagnations. The government should also analyse, on a periodic basis, the conditions and criteria for the selection of projects for financing, budgeting and monitoring the use of borrowing funds, as well as to review possible delays in the withdrawal of these funds.

Recommendations to the Ministry of Finance

- The Ministry of Finance should continue with the actions taken in addressing projects financed by borrowing and submit them to the Government twice a year for information and review of a consolidated project progress report, identifying the relevant challenges and proposing measures to overcome them;
- It should approve the revised law on public debt, which has considerably addressed the aspects tackled in this report, regarding entering into debts and an approach based on needs assessment by MoF, not by implementing organisations with creditors; and
- Before approving the budget (capital projects, but not only) it should monitor the implementation of selection criteria as well as project priorities. The approval of projects should be done only if all preparations have been made for them and there is sufficient and documented assurance that the implementation of projects will be done in a timely manner.

4 Assets and Stocks

The MoF Regulation no. 02/2013 on Management of Assets by Budget Organizations obliges all organizations to maintain asset registers and constantly update them, depending on new purchases/acquisitions or systematic review of their status of use.

Assets of budget organizations, as a whole are divided into:

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

Asset management is done through two centralised systems: KFMIS Accounting Register, as an integrated system within the MoF, where assets in the amount of over €1,000 are identified, maintained, evaluated and reported, as well as the application “E-assets”, which is an integrated asset management system within the MPA, where all public institutions must record and report on their assets in the amount of under €1,000.

Budget organizations have reported different amounts of assets in the individual AFS, which were then consolidated into the AFR. Upon the audit of individual statements, discrepancies were observed between the reported figures and the audited amounts.

The main findings regarding the reporting and control of assets are as follows:

Assets of central institutions

From individual audits, it resulted that some organizations have not included a part of the assets in their registers, and as a result, the net value presented in the AFR/BRK was understated by €3,236,102, for assets over €1000, and €857,194 for assets under €1000.

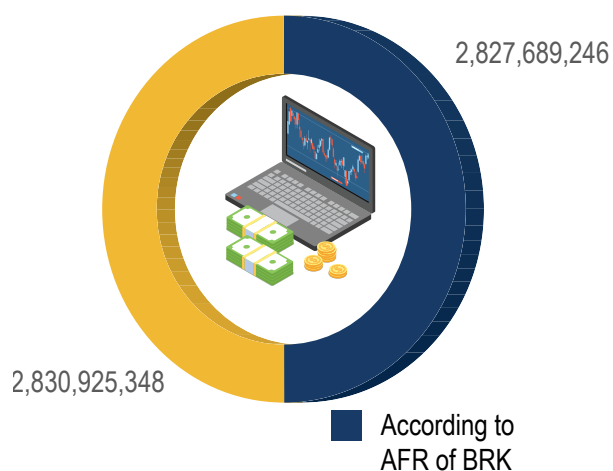
The following table presents the differences between the data presented in the AFR-BRK and individual audits.

Table 17 - Status of assets in central institutions *(in euro)*

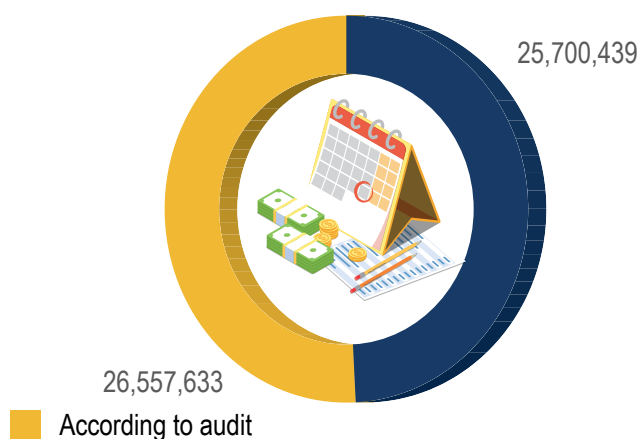
Assets on 31.12.2019	According to AFR of BRK	According to audit	Understatement
Capital assets (over 1,000€)	2,827,689,246	2,830,925,348	3,236,102
Non-capital assets (under 1,000€)	25,700,439	26,557,633	857,194

Status of assets in central institutions (in euro)

Capital assets (over 1,000€)



Non-capital assets (under 1,000€)



Identified errors or discrepancies of the balance of assets, reported more or less, have been identified in 21 central level organizations, which include: ten (10) ministries, the Office of the Prime Minister, Hospital and University Clinical Service and nine (9) Independent Agencies.

Other weaknesses in controls and asset management that are most often encountered during the audit at Central Institutions are:

- In six (6) institutions, the harmonisation of data between the annual inventory report and the general asset register was not performed;
- In five (5) institutions, the e-asset system did not work; and
- In eight (8) institutions, the annual inventory was not performed or the process was completed with delays in the inventory of assets, namely the inventory reports were submitted after the preparation of the financial statements.

Municipalities' Assets

At the municipal level, significant weaknesses have been found in terms of identification and reporting of assets. Capital assets, according to the net value presented in the AFR, were understated by €92,955,551, while non-capital assets were overstated by €742,882.

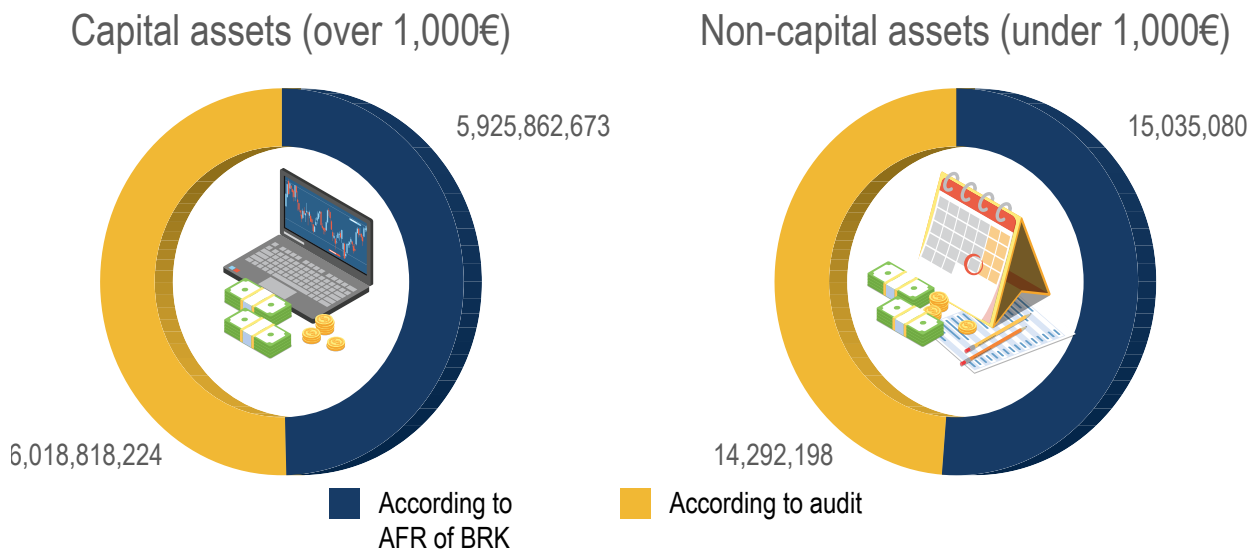
The following table presents the differences between the data presented in the AFR-BRK and individual audits.

Table 18 – Municipalities' assets

(in euro)

Assets on 31.12.2019	According to AFR of BRK	According to audit	Overstatement/Understatement
Capital assets (over 1,000€)	5,925,862,673	6,018,818,224	92,955,551
Non-capital assets (under 1,000€)	15,035,080	14,292,198	(742,882)

Municipalities' assets (in euro)



Shortcomings and errors in the maintenance and registration of assets have been identified in most municipalities. Out of 38 municipalities, 26 of them have overstated or understated the assets presented in the AFR-BRK.

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

The Municipality of Zubin Potok has not reported assets over €1,000. The Municipalities of Ferizaj, Istog and Zvečan have not reported assets under €1,000, while the Municipalities of Novobërdë, Zubin Potok, and Klllokot have reported assets under €1,000 with zero value.

- In nine (9) municipalities, data harmonisation between the general asset register and the inventory report was not performed;
- In 18 municipalities the e-assets system did not work;
- In 12 municipalities, there are no internal policies and procedures for asset management;
- In seven (7) municipalities, the inventory of assets was missing or a partial inventory was performed;
- In nine (9) municipalities, the asset depreciation module was not applied; and
- In seven (7) municipalities, asset inventory and valuation commissions were not established.

Five (5) central level organizations and six (6) municipalities have reported assets to the AFR-BRK with zero value or have not reported at all. This presents uncertainties regarding the recording and updating of asset data.

Stocks for Central Level Institutions and Municipalities 2019

Stocks or spare equipment and office materials of central institutions according to the AFR/BRK are €23,319,403, while according to individual audits €23,314,894, with an overstatement of €4,509.

Whereas, stocks in municipalities according to AFR/BRK are €1,588,046, and the same value was confirmed during the audits.

It is worth mentioning that at the end of 2019, stocks with zero value were reported in 12 budget organizations, of which two (2) central level institutions and ten (10) municipalities.

Audit conclusion

Disclosures on non-financial assets and controls over their management in 2019 have not provided sufficient assurance that budget organizations have full and efficient controls and monitoring over assets and their management. In addition, fixed asset data in the KFMIS and E-assets asset management system are in some cases inaccurate and incomplete. The same practices of asset management have been continuing in both central and local level institutions, although over the years, recommendations have been made to improve this area.

Recommendation to the Government

Prior year recommendations are partly repeated, that the Government should play a proactive role in addressing all issues related to asset management and establish accountability mechanisms:

- All organizations should meet legal obligations by accurately recording and reporting all assets under their possession; and
- Take measures for the full functioning of the e-asset system, as a problem inherited for years. Otherwise, it should repeal the part of the regulation, which obliges BOs to use this system, and keep records separately in other BO programmes.

Recommendation to the Ministry of Finance

- Treasury through training at the end of the year regarding the preparation of financial statements should strengthen the requirement that all budget organizations establish on time inventory and evaluation commissions, and reflect the results of the inventory in the financial statements at the end of the year; and
- Upon receipt of the AFS from budget organizations, it should establish formal controls in particular regarding the reporting of stocks with zero status, and, in such case, should seek clarification, because there are differences highlighted in the reports of the last three years and incomplete reporting.

5 Accounts Receivable

The balance of accounts receivable (A/R) is reported mainly manually and then the data is consolidated, both for the preparation of individual financial statements of budget organizations and for the consolidated statements. As they constitute an extremely important item of short-term assets, they require enhanced attention, both for audit purposes and throughout the overall budget process – moreover when such an approach to collecting accounting information leaves room for potential errors in their reporting or disclosure. Therefore, the errors identified during the last audits were emphasised.

For 2019, the total value declared in the Annual Financial Report 2019, for the central and local level amounts to €634,643,815, while according to the audit, the value of accounts receivable is €637,148,819. Therefore, there is a difference by €2,505,004 (including central and local level). There are even differences when comparing the notes of the individual financial statements with the consolidated ones. A/R according to individual statements were overstated by €15,816.

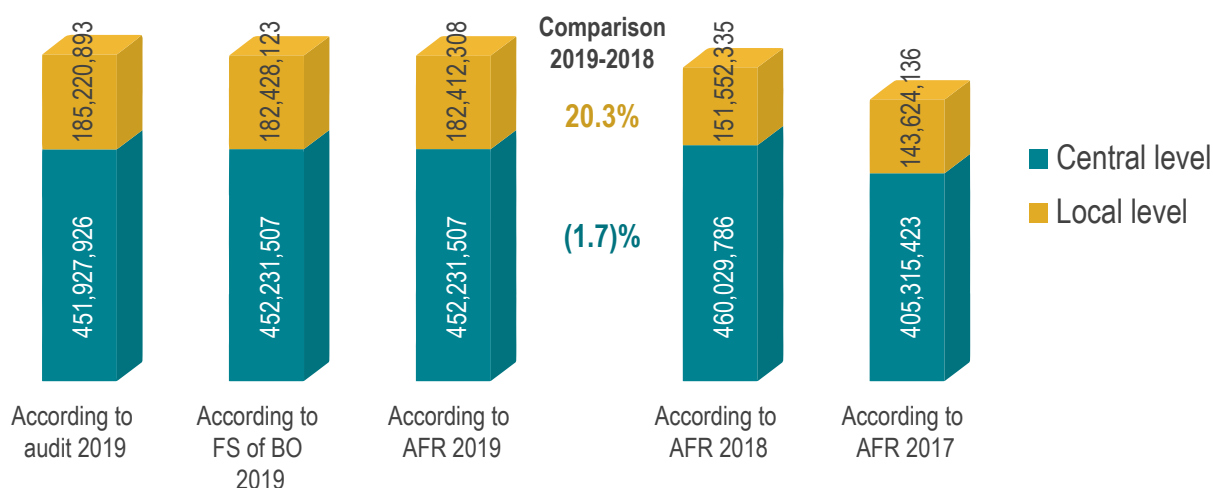
This inaccurate disclosure is due to the lack of a formal structure for reporting, oversight and consolidation of data as well as due to almost technical errors in the transfer of records from the FS to the AFR, when preparing consolidated statements.

In 2019, accounts receivable based on the AFR increased by €23,061,694 or 3.77%. In 2019, the balance of these accounts was €634,643,815, while at the end of 2018, it was €611,582,121. A/R normally mark an increase from year to year because they can never be fully collected. The table below provides evidence that is more detailed.

Table 19 - Comparison of accounts receivable for the last three years (in euro)

Accounts receivable	According to audit 2019	According to FS of BO 2019	According to AFR 2019	According to AFR 2018	According to AFR 2017	Comparison 2019-2018
Central level	451,927,926	452,231,507	452,231,507	460,029,786	405,315,423	(1.7)%
Local level	185,220,893	182,428,123	182,412,308	151,552,335	143,624,136	20.3%
Total	637,148,819	634,659,631	634,643,815	611,582,121	548,939,559	3.77%

Comparison of accounts receivable for the last three years (in euro)



Central level accounts receivable

The value listed in the 2019 AFR for the central level is €452,231,815, which was overstated during the audit by €303,581, as this figure according to the audit should be presented in the amount of €451,927,926. The errors were mainly as follows:

- A/R in the Ministry of Health were overstated by €189,481. The reason for the overstatement was that some departments have made errors when reporting; and
- A/R in the Ministry of Agriculture, Forestry and Rural Development were overstated by €114,100. The reason for the overstatement of the accounts was that the value of €114,100 of revenues generated was incorrectly included in the balance of accounts.

About 89% of central level accounts receivable are receivables from Customs and TAK, namely from the Ministry of Finance (audited figure €404,009,690). Compared to the previous year, A/R at the central level are characterised by a positive declining trend by 1.7%. A/R of 2019 are €452,231,815, while those of 2018 were €460,029,786.

Local level accounts receivable

According to the consolidated financial report (AFR), the balance of receivables in 34 municipalities amounts to €182,412,308, while according to the audit €185,220,893. Therefore, the audit highlighted an understatement by €2,808,585 at the local level. The understatement of A/R was by €3,157,387 and overstatement by €348,800, which in fact the total effect for the local level results in understatement by €2,808,585. This difference of about three million euros has come due to negligence in maintaining, reporting data, as well as due to harmonisation of data manually. This has affected the reporting and monitoring process for A/R by the relevant municipal directorates to be followed with poor quality.

While the following is the disclosed information about the municipalities where understatements have been observed:

- **Municipality of Prishtina** - €2,621,385. The reason for this understatement was that the municipality did not harmonise the final balances of the accounts receivable card for property tax with the initial balances, non-consolidation of the accounts from the construction permits and their non-disclosure for taxes (fees) for infrastructure regulation. While the reasons for non-collection were the non-operation of adequate mechanisms on the part of the municipality in revenues collection;
- **Municipality of Mitrovica** - €338,649. The reason for inaccurate reporting was that the municipality did not include the balance of accounts for the previous year;
- **Municipality of Prizren** - €117,220. The reason for the understatement was that the municipality of Prizren, during 2019, made a request to the Ministry of Finance to exempt the municipal public buildings from property tax. The MoF approved the request of the Municipality of Prizren, but the invoicing for those facilities was done during the first quarter of 2019. While according to the audit, this value should have been included in the final account balance. While the reason for non-collection was lack of adequate collection mechanisms;
- **Municipality of Kaçanik** - €45,966. The reason of the understatement was lack of complete evidence on the amount of accounts;
- **Municipality of Partesh** - €18,350. There is no concrete explanation in the audit questionnaires regarding this difference; and

- **Municipality of Deçan** - €15,979. There is no concrete explanation in the audit questionnaires regarding this difference.

While the following discloses the municipalities that have overstated the balance of these accounts:

- **Municipality of Klllokot** - €268,250. There is no concrete explanation in the audit questionnaires regarding this difference;
- **Municipality of Ferizaj** - €28,944. The reason for this difference was lack of a database as well as the lack of formal communication between departments; and
- **Municipality of Graçaniça** - €51,606. The reason for this difference is the final non-harmonisation balance.

Compared to the previous year, these accounts have marked an increasing trend by 20.36% (the balance in 2019 was €182,412,308, while in 2018 was €151,552,335).

Local level accounts receivable include property tax receivables, business taxes, waste service taxes, rents and more. This category is dominated by the property tax, which includes current charges as well as interest and penalties for non-payment of previous liabilities.

The fact that the amount of accounts receivable at the central level was lower compared to last year is a positive indicator, while at the local level the situation has deteriorated even more, since in 2019 they increased by 30 million. Significant weaknesses were also noted regarding the reporting and consolidation process, in particular at the local level.

Recommendation to the Government, Ministry of Finance and Ministry of Local Government

In co-ordination with municipalities and other revenue-generating organizations, they should analyse in detail the structure of these accounts, their age, and the likelihood of collecting these inherited debts for years and years. BOs should also make an assessment of which of these debts meet the criteria of bad debts and they should be written off from active accounts. The Government should also consider other incentive measures, not excluding legal measures for their collection.

6 Outstanding and contingent liabilities

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

Total outstanding liabilities according to the audit are €310,565,520, while in the consolidated financial report; total outstanding liabilities are presented in the amount of €360,550,906, a value which according to the audit has been overstated by €49,416,950. Compared to the previous year, liabilities have increased by 39%.

Table 20 – Outstanding liabilities in the last three years

(in euro)

Outstanding liabilities	According to audit 2019	According to FS of BOs	According to AFR 2019	According to AFR 2018	According to AFR 2017	Comparison 2019-2018
Central level	287,785,169	319,127,612	337,202,119	226,643,000	170,334,000	49 %
Local level	22,780,352	23,352,896	23,348,787	32,149,000	29,077,000	(27%)
Total	310,565,520	342,480,507	360,550,906	258,792,000	199,411,000	39 %

Central level outstanding liabilities

The total value of central level outstanding liabilities according to the AFR is reported to be by €337,202,119, but should have been presented in the amount of €287,785,169. As a result, liabilities were overstated by €49,416,950. This has occurred due to poor quality in data collection, consolidation and reporting of notes in organizations, mainly as follows:

- The main part of the error is derived from the FS of the Ministry of Environment and Spatial Planning (MESp), which has presented approximately €32,235,037 more liabilities in the AFS. This happened due to the negligence of the financial officer who presented the expropriation claims two times in the liabilities report and, consequently, these notes were transferred to the AFR; and
- The Ministry of Infrastructure (MoI) understated liabilities by €894,983, which it declared less in the AFS.

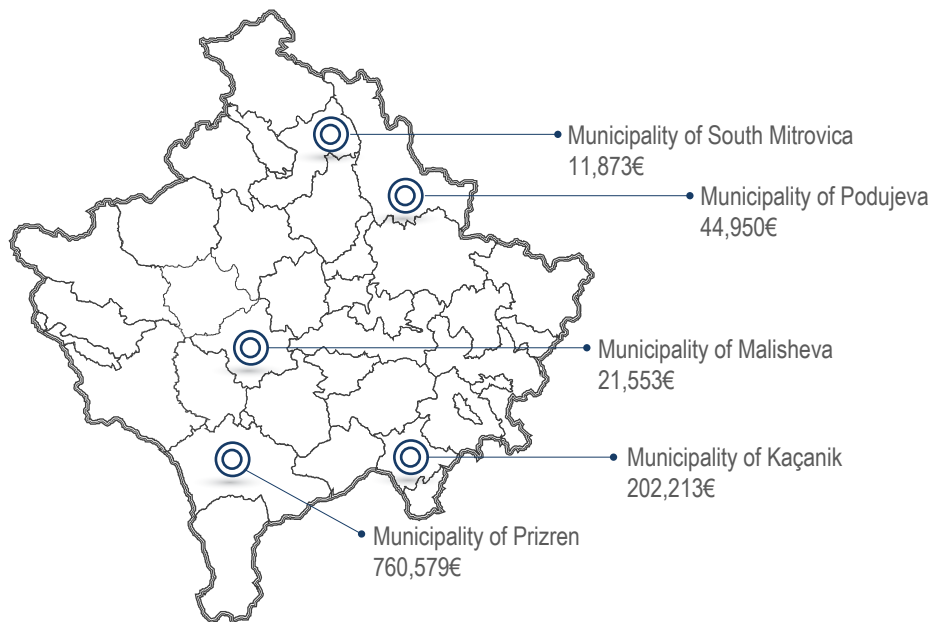
Local level outstanding liabilities

Errors in reporting are significantly highlighted at the local level. These are mainly from as follows:

- Municipality of Prizren, which has overstated liabilities by €760,579. These liabilities did not meet the criteria for their qualification as outstanding liabilities in the 2019 AFS. Invoices presented as liabilities were not invoices belonging to 2019;

- Municipality of Kaçanik, which has understated them by €202,213 as it had an enforceable court/enforcement decision. According to the CFO, this was also the reason for non-disclosure;
- Municipality of South Mitrovica, which has understatement by €11,873, liability to employees at the end of 2019;
- Municipality of Malisheva, which has overstated liabilities by €21,553. This happened due to the non-functioning of the municipality's internal controls, where the invoice reported as unpaid in the amount of €15,001 was partly paid in the amount of €13,333 and the invoice in the amount of €8,790 was partly paid in the amount of €8,220; and
- Municipality of Podujeva, which had understatement by €44,950. The error was that regular invoices were treated as a contingent liability.

Errors in reporting at the local level



Municipalities with the highest liabilities are the Municipality of Gjilan with €9,956,455 or 43.7% of the local level total debts, then Ferizaj with €4,421,297 or 19.4%, and South Mitrovica with €1,120,411 or 4.9%.

Inaccurate disclosures of liabilities present an inaccurate view of the financial position of BOs and may result in inadequate decisions during the budgeting process. Weak controls upon data harmonisation jeopardise the identification, accurate and complete reporting of liabilities, putting into question the credibility of the statements.

Recommendations to the Ministry of Finance

The Ministry of Finance, in co-ordination with organizations with outstanding liabilities upon budget allocations, should have as the first priority the allocation of funds for the payment of invoices or liabilities from previous years in order to avoid additional interest and other administrative costs.

6.1 Contingent liabilities

Contingent liabilities are also disclosed in the section of liabilities, which present different claims by the claimants, which are likely to incur liabilities in the future for the organizations, depending on the court decisions, which may be in favour of claimant parties. These relate to expropriation compensation, debt compensation, material damage, salaries and other related financial claims.

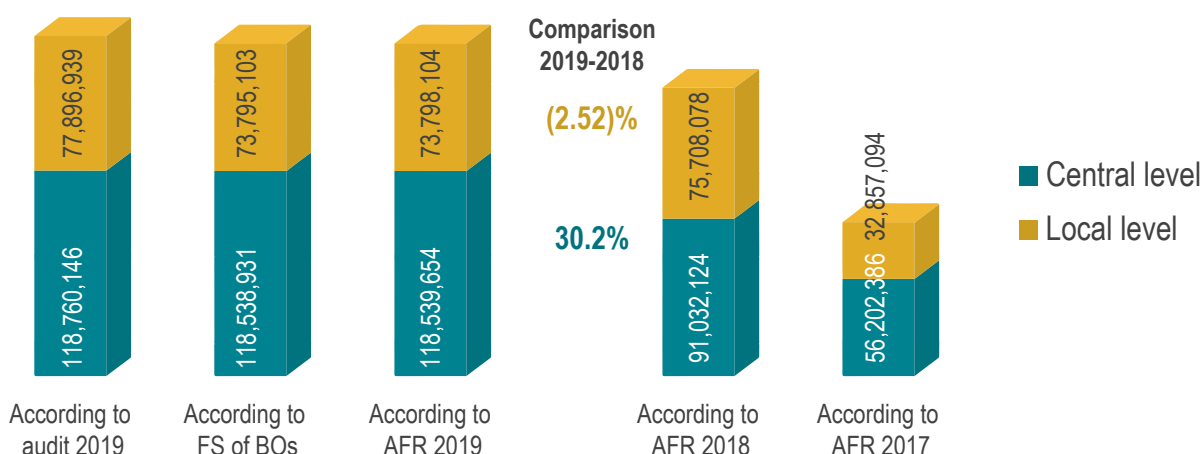
In the consolidated report, the total of contingent liabilities are €192,337,757, but are understated by €4,319,328, because according to the audit, the contingent liabilities should be presented in the amount of €196,657,085. This category, as such, is subject to potential errors in disclosure, because the notes related to these liabilities depend on the co-operation between the legal offices of BOs, the State Advocacy Office and judicial authorities. Differences also have to do with some errors made by the Ministry of Finance during the consolidation of the notes they received from budget organizations. The positive trend of these liabilities and, at the same time, the negligence and lack of due diligence in their reporting is of concern. Compared to the previous year, contingent liabilities are higher by €25,597,555 or about 15.3%.

Table 21 – Contingent liabilities for period 2017-2019

(in euro)

Contingent liabilities	According to audit 2019	According to FS of BOs	According to AFR 2019	According to AFR 2018	According to AFR 2017	Comparison 2019-2018
Central level	118,760,146	118,538,931	118,539,654	91,032,124	56,202,386	30.2%
Local level	77,896,939	73,795,103	73,798,104	75,708,078	32,857,094	(2.52)%
Total	196,657,085	192,334,034	192,337,757	166,740,202	89,059,480	15.35%

Contingent liabilities for period 2017-2019 (in euro)



Central level contingent liabilities

The value of central level contingent liabilities was reported in the 2019 AFR in the amount of €118,539,654, but is understated by €220,492. According to the audit, it should be €118,760,146. The reason for this is the poor quality in the collection, consolidation and reporting of records from BOs to the MoF, and the latter in some cases has erroneously transferred records. Some of the errors were as follows:

- The Ministry of Health has reported €1,178,758 of contingent liabilities in its FS, this amount is also presented in the AFR, while according to the audit the amount was €1,435,255. So, it is an understatement by €256,497, because the legal office has reported to the CFO only the liabilities of 2019; and
- The Hospital and University Clinical Service of Kosovo has reported the amount of €3,489,101 in the AFR, while according to the audit, this amount was €3,453,819, with an overstatement by €35,282. The reason for this difference is that the HUCSK has erroneously presented the amount of €35,282 in the AFR.

The Ministry of Environment and Spatial Planning is to lead for the high level of contingent liabilities with €31,879,568, followed by Ministry of Infrastructure with €22,274,580, which includes possible liabilities for land expropriation, etc.

Local level contingent liabilities

Local level contingent liabilities are significantly lower compared to those at the central level. Lawsuits against municipalities are of various natures, starting from claims for jubilee salaries to lawsuits for expropriation. Due to unstructured and informal approach to data harmonisation, the audit has revealed a number of errors. The amount reported according to the AFR of contingent liabilities was €73,798,104, while the amount of contingent liabilities according to the audit is €77,896,939. Therefore, the amount was understated by €4,098,835.

The following are the changes in reporting:

- The Municipality of Prizren has understated contingent liabilities by €4,191,424. These were not reported in the 2019 AFS. The reason for this difference is that the municipality did not report the liabilities of 2018 in the amount of €3,610,870 and those of 2017 in the amount of €986,165;
- The Municipality of Gjilan had an overstatement of €32,246. The reason for this was that the municipality presented an outstanding liability as a contingent liability;
- It is similar with the Municipality of Klllokot, where there was an overstatement of €24,406. The reason for this was that the municipality presented an outstanding liability as a contingent liability;
- The Municipality of Kamenica has overstated contingent liabilities by €21,600, due to a technical error, wherein the amount of €24,000 was given instead of €2,400; and
- The Municipality of Podujeva had an overstatement of €14,336. The reason for this was that the municipality presented a financial liability as a contingent liability.

Municipalities with the highest contingent liabilities are the Municipality of Prishtina €25,329,751, the Municipality of Prizren €10,696,110, then the Municipality of Gjilan €10,936,835, and the Municipality of Ferizaj €8,141,889. Inaccurate disclosure of contingent liabilities in the FS and AFR has resulted in contingent liabilities not reflecting the fair and complete situation. This may result in the information disclosed about these liabilities misleading the stakeholders.

Recommendations to the Ministry of Finance/Treasury and Ministry of Justice/State Advocacy

The Ministry of Finance should instruct and request from budget organizations to make an approximate estimate of contingent so that the disclosures in the AFR are as accurate as possible, and take into consideration for further analysis in addressing such liabilities. Where the entries have not been transferred erroneously in the FS, they should be adjusted for the next year and ensure that technical errors should be avoided when reporting.

7 Payments according to Article 39.2 of LPFMA

For 2019, the Treasury executed payments in the amount of €1,539,298³ according to Article 39.2. Compared to 2018, payments executed within this year have been decreased by €7,145,002, almost five times less. The main reason for the payment of invoices directly from the Treasury is as a result of non-timely payment of liabilities by BOs for works and services completed by EOs, which mainly relate to; maintenance and cleaning costs, office supplies, fuel, wood and other. Entering into obligations without prior commitment of funds, negligence and irresponsibility of responsible officials in the payment of timely invoices are some of the main reasons for the execution of these payments.

In this regard, the Treasury reviewed the procedure for unpaid invoices/late payments under Article 39.2 and, in October 2017, it approved the procedure for handling suppliers' requests for overdue and unpaid liabilities under Article 39.2 of the LPFMA. By means of this procedure, it has been described more clearly from the request to the execution and the report of the payments.

Table 22 - Payments according to Article 39.2 of LPFMA

(in euro)

Payments by categories	Total 2019	Total 2018	Total 2017
Goods and Services (Utilities)	52,066	1,673,869	1,892,000
Subsidies and Transfers	0	0	316,000
Capital Investments	1,507,626	7,010,331	6,396,000
Total	1,559,692	8,684,200	8,604,000

The following are some of the budget organizations to which payments in higher amounts have been executed, based on Article 39.2 of the LPFMA, which includes over 70% of the total of these payments:

- Municipality of Gjakovë 512,796 €; Municipality of Ferizaj 80,557€.
- Municipality of Prizren 256,269€; MCYS 45,708€;
- Municipality of Rahovec 202,268€; MoH 14,650€

This way of making payments can increase the risk of BOs to continuing such practices. In reviewing the process of these payments, we have not noticed any irregularities and that the procedure for handling suppliers' requests for overdue and outstanding liabilities under Article 39.2 of the LPFMA has been consistently implemented by the Treasury.

7.1 Payments according to court and enforcement decisions

In 2019, with court decisions and private enforcement agent decisions, payments were made in the amount of €25,834,238⁴. Compared to the data of 2018, the value of these payments has increased by €5,574,163 or about 28%, which is an indicator that budget organizations are less liquid or late in paying liabilities to economic operators and other suppliers.

3 Prema ZUJFO - član 39.2. Kada BO ne plati fakture u periodu dužem od 60 dana, operator ima pravo da zatraži izvršenje plaćanja direktno od MF-a / Trezora koji mora izvršiti plaćanje

4 Prema članu 40 ZUJFO-a, MF / Trezor može vršiti plaćanja u skladu sa sudskim odlukama.

Payments for central level organisations were €10,506,559, or 41% of the total, while payments at local level were in the amount of €15,327,678 or 59% of the total court decisions.

Table 23 - Payments by court and enforcement decisions for the last three years (in euro)

Payments by categories	Total 2019	Total 2018	Total 2017
Wages and Salaries	819,679	303,522	34,000
Goods and Services (Utilities)	7,088,607	4,058,530	2,251,000
Subsidies and Transfers	603,395	590,977	373,000
Capital Investments	17,322,557	15,307,046	8,886,000
Total:	25,834,238	20,260,075	11,544,000

Failure of budget organisations to pay liabilities on time has caused costly and complicated court procedures. Such delays have resulted in additional budget expenditures and negative implications to the credibility of public institutions. As can be seen from the table, payments in larger amounts are mainly made from the category of Capital investments, which means that many capital projects have been reduced in order to pay these liabilities. The data in the table show an increasing trend of payments based on court decisions, which have increased by 28%, compared to the previous year, and 124% compared to 2017.

Below are presented ten (10) budget organizations to which payments in larger amounts were executed, which account for half of the amount of payments made by court decisions (about €13 million).

Payments made by court decisions



Budget organizations

● Ministry of Finance	2,884,438€
● HUCSK	1,219,611€
● Municipality of Mitrovica	1,491,621€
● Ministry of Infrastructure	918,231€
● Municipality of Leposaviq	1,334,356€
● Municipality of Peja	862,900€
● Ministry of Public Administration	1,279,152€
● Municipality of Gjakova	845,441€
● Municipality of Prishtina	1,229,597€
● MCYS	423,760€

The main reasons for the payment of invoices by the Treasury, according to court decisions, was mainly related to delays in the payment of remaining invoices as disputes from previous years by BOs, non-compensation of workers for jubilee and accompanying salaries, regulated according to the collective contract, but which were not budgeted from the category of salaries, other non-payments under regular procedures for spending public money, non-payment of penalties by other institutions, and delays in payments to economic operators due to lack of funds.

The conclusion is that the situation regarding these payments not only has not improved, but it has been deteriorating. At the time of reporting, we have data that only during the period 1 January-30 June 2020, the Treasury received final decisions from courts and private enforcement agents in a total value of nearly €15 million, of which it has executed over 10 million. The amounts of these payments are not foreseen in the regular budget allocations for 2020; therefore, the vast majority of them are expected to be paid from capital investments, which further increases the problem causing subsequent misclassification of expenditures. A significant part of these lawsuits relate to the implementation of obligations arising from collective agreements in force in the education and health sectors.

Recommendation to the Government, Ministry of Finance, Ministry of Justice, Ministry of Local Government and Municipalities

For cases pending before courts related to collective agreements, all the legal possibilities should be found for Municipalities to reach extra-judicial agreement and re-schedule them based on budget capacity and plan them in their budgets in order to avoid payment of legal fees and interests. Co-operation with the Judicial Council and other structures would also be needed.

Recommendation to the Ministry of Finance

- When preparing the 2021 Annual Budget, the Ministry of Finance should request all data from each budget organization regarding the lawsuits filed along with an assessment from the legal offices for the possibility of cash outflow, and the same should, according to the respective categories, plan them by regular budget allocations, in order to avoid difficulties in securing funds for these payments and avoid their misclassification in the economic codes;
- Specifically, it should require from all BOs when calculating salaries for their staff, to calculate the liabilities arising from collective agreements and submit the same plan to the Ministry of Finance so that these costs are foreseen by regular budget and avoid court procedures and additional court costs related to these disputes; and
- Alternatively, it should consider increasing the contingency fund in the Ministry of Finance, and from the same fund, it should reimburse all payments, while according to the budget review or end of year adjustments, to adjust the budget of budgetary organizations for the same amounts.

8 Employment Data

According to Law no. 06/L-133 on Budget Appropriations of the Budget of the Republic of Kosovo for 2019, the allowed number of employees for the central level (Ministries and Independent Institutions), and the local level was 85,963, while the actual number of employees according to the AFS of BRK was 83,789. If we compare the number of actual employees in 2019 with the number of employees in 2018 (80,224), there is an increase in the number of employees by 3,565. As can be seen, the budget organizations in 2019 have not managed to staff all the workplaces allowed by the Budget Law. The difference between the allowed and actual number of employees was by 2,174.

The most significant differences and the reasons that influenced the non-staffing of the allowed positions are identified in the following organizations:

Municipality of North Mitrovica, the reason for not staffing 307 positions was that the municipality's management has not yet approved the internal regulation on the organizational structure, systematization of workplaces and its compliance with the needs and budget of the municipality.

Ministry of Health, the number of vacancies in this institution was 296. Of these, 223 were vacancies for trainees, and the reason for non-staffing was the non-advertisement of the competition by the minister despite the requirements, while for other departments, despite the positions being allowed by Law, the budget has been insufficient.

University of Prishtina, the reason for not staffing 295 positions was the failure in the advertised competitions and the non-advertisement of competitions.

Kosovo Judicial Council, the reason for not staffing 263 vacancies was due to lack of budget.

Ministry of Internal Affairs, the reasons for not staffing the 238 positions was the failure to conduct the recruitment process.

Ministry of Justice, failed to staff the approved number of positions for 114 of them due to the lengthy recruitment procedures, as well as the freezing of positions by MPA due to the Law on Salaries that was in the process of court review.

Further, we have noticed that the actual number of employees for the local level reported in the AFR of BRK is higher than the number of employees reported in the individual municipal AFS by 1,509. This difference is mainly because municipalities have not reported municipal assembly members within the number of staff in their AFS.

Failure to meet the approved number of employees according to the Budget Law for 2019, both at the central and municipal level, may result in poor performance at the organizational level and failure to implement plans and achieve objectives intended. The mismatch of reports for employees between AFR of BRK and individual reports affects the incorrect presentation of the number of employees and presents a misleading view.

8.1 Employees outside the Payroll List and with Special Service Agreements

Number of employees outside the payroll list

According to the AFS of BRK for 2019, the total number of employees outside the payroll list was 376, where the central level institutions (Ministries and Independent Institutions) had 335, while the local level 41. If we compare it with last year (431), there is a decrease of 55 persons.

The biggest number of them is encountered in the Hospital and University Clinical Service of Kosovo (221). This number refers to trainees and specialists who are not on the payroll list in UCCK and are present only in keeping duty shifts. Doctors in specialisation have a contract with the Ministry of Health for specialisation, while trainee doctors are not employed in UCCK, but they have employment contracts in other institutions dedicated to keeping duty shifts or performing certain tasks.

In the Procurement Review Body, there are 48 employees engaged as external technical and professional experts.

The Office of the Prime Minister had 16 employees outside the payroll list, where 12 of them were engaged on Government decision to mark the demarcation and four (4) to develop a Programme between the Government of Kosovo and that of the US.

Special Service Agreements

According to the AFS of BRK for 2019, the total number of employees through Special Service Agreements (SSAs) was 4,197. Compared to the number of 2,618 in 2018, there is an increase of these employees by 1,579. The most significant increase was in the Central Election Commission by 1,115, who were hired about the process of early elections for mayors in these municipalities: North Mitrovica, Zubin Potok, Zvečan, Leposaviç and early parliamentary elections 2019.

The main findings from the individual audit reports for 2019 regarding these employees were: their engagement without respecting any recruitment procedure, as required by legal rules, the period of engagement of officials longer than the deadline set by rules, the contracts concluded for those positions were for regular positions, and not for experts in the respective fields, for which this type of engagement and the extension of engagement of officials with SSA from previous years is allowed.

Staffing regular positions with temporary staff through SSA as well as in the absence of recruitment procedures jeopardises the engagement of inadequate staff in the respective positions and may result in poor performance in carrying out tasks. These shortcomings can have a negative effect on the achievement of objectives in budget organizations.

Recommendations to the Ministry of Finance

- The Minister of Finance should enhance controls and together with heads of budget organizations should ensure that budget organizations have made sound and consistent analyses upon planning, and that the reporting on actual employees is harmonised; and
- The Minister of Finance and the General Director of the Treasury should ensure that the relevant institutions comply with all legal requirements regarding employees with special service agreements, by adapting to the requirements of the new Law on Public Officials.

Part II – General

9 Implementation of Recommendations

Following the adoption of the AAR for 2018, the Government prepared an action plan for the implementation of the recommendations, but it was not submitted to the Assembly (COPF) to discuss and review the recommendations for their implementation.

At the level of individual audits, most budget organizations do not implement a systematic process for monitoring the implementation of recommendations. Although, compared to 2018, the number of recommendations has decreased, the number of fully implemented recommendations is at the level of 40%, while the rest of the recommendations are in the process of implementation or are not implemented, including the prior year recommendations. In addition, a number of recommendations have been treated as closed due to changes in the legal basis as well as changes in our reporting structure.

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

The impact of the 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 errors and irregularities have been identified. NAO, through individual audits, also evaluates the implementation of prior year recommendations and previous years, clearly reflecting the areas in which corrective measures and actions have been taken, as well as areas where no changes have been observed.

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

9.1 Implementation of Recommendations in the AAR for 2018

In the 2018 AAR, the Auditor General recommended the Assembly to request from the Government a report on the recommendations in the 2018 AAR and to prepare an action plan for implementation of recommendations as well as reports on the progress of this plan on a semi-annual basis.

In November 2019, the Government of Kosovo approved the Action Plan for implementation of recommendations, which obliged all budget organizations (BOs) to implement it. However, the plan was not submitted to the Assembly of Kosovo (COPF) to review the progress of the recommendations, but it was part and Annex to 2019 AFR.

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

Of a total of 51 recommendations⁵ in the 2018 AAR, 14 have been fully implemented, 18 were in the process of implementation and another 19 have not been addressed yet. Annex II presents detailed data on the recommendations made in 2018 AAR.

Failure to implement the recommendations has made to repeat certain weaknesses and irregularities, especially in areas such as:

- Reporting of expenditures in the AFS in inadequate categories due to misclassification (including direct payments from the Treasury) and insufficient disclosure of information in budget organisations' individual reports;
- Weaknesses in procurement procedures;
- Weaknesses in revenue and expenditure management;
- Weaknesses in personnel management and subsidy procedures;
- Lack of internal audit services in some organizations and small independent institutions; and
- Inefficient management of resources in municipalities.

9.2 Implementation of Recommendations in the 2018 Individual Reports

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

The following table presents data on the status of recommendations for 2018 and 2017, which are categorised by audited organizations.

The audited organizations are divided into Central Level Institutions⁶, Independent Institutions⁷ and Local Level Institutions (38 municipalities).

The following is a table presented with the number of recommendations made and the percentages of their implementation.

Table 24 - Implementation of 2018 recommendations to budget organizations

Audited entities	Total no. of recommendations	Fully implemented		Partly implemented		Unimplemented		Closed unimplemented	
		No.	%	No.	%	No.	%	No.	%
Central Level Institutions	274	111	41%	32	12%	101	37%	30	11%
Independent Institutions	59	42	71%	3	5%	10	17%	4	7%
Local Level Institutions	588	217	37%	78	13%	201	34%	92	16%
Total	921	370	40%	113	12%	312	34%	126	14%

⁵ Three (3) Recommendations were given to the Assembly of Kosovo, 47 to the Government/ ministries, and one (1) to the Municipal Assemblies. Of these recommendations, seven (7) are made in relation to performance auditing.

⁶ Assembly of Kosovo, the Office of the President, the Office of the Prime Minister, 21 Ministries, Tax Administration of Kosovo, Customs and HUČSK.

⁷ Independent institutions include the University of Prishtina and 28 other independent institutions.

For comparison purposes, the following table presents data on previous year recommendations.

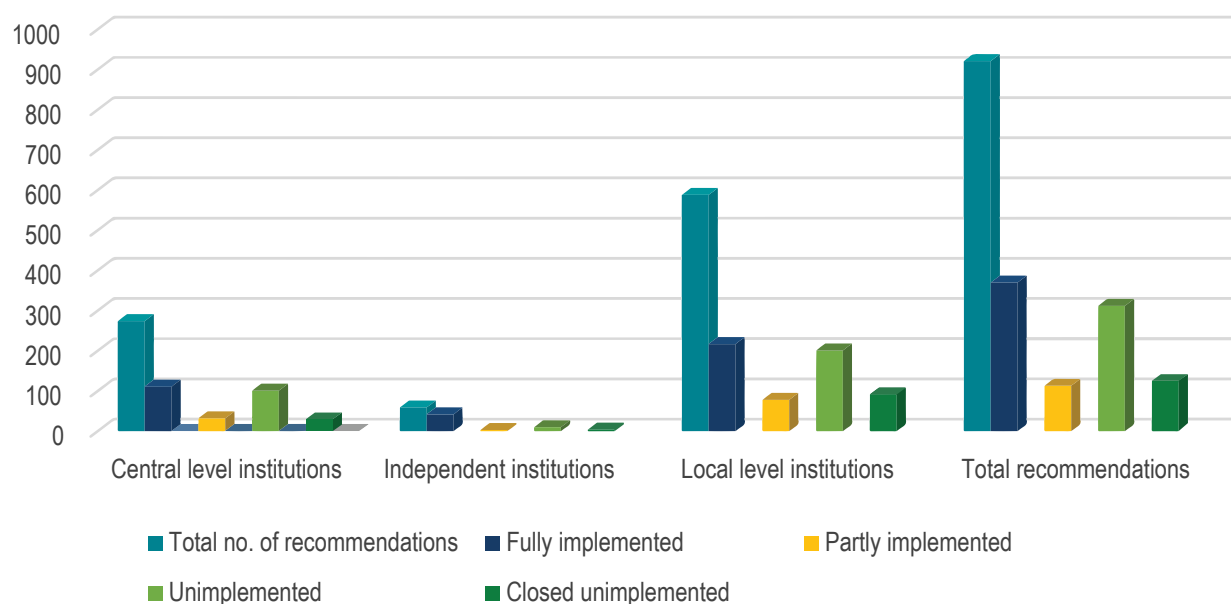


Table 25 - Implementation of 2017 recommendations to budget organisations

Audited entities	Total no. of recommendations	Fully implemented		Partly 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 recommendations	1,121	438	39%	201	18%	354	32%	128	11%

As it appears in the tables above, the total number of recommendations made for 2017/2018 has been declining, which is reflected by the level of institutions, however the level of unimplemented recommendations is still unsatisfactory at 34%.

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

In 2019, the NAO sent the “Rules of Procedure for the implementation of the audit and action plans” to the Budget Organizations as well as the format of the forms for the action plan of the recommendations and their monitoring (progress).

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

Implementation of recommendations made in the performance reports

The purpose of the recommendations in performance audits is to improve the process of implementation and effective functioning of systems, programmes and government activities.

Recommendations are addressed to audited entities in order to improve their access compared to the spending of public funds.

Most of the organizations included in individual performance audits have not prepared an action plan to implement the recommendations. Therefore, the implementation of the recommendations is based on the results of individual audits (of performance, regularity, and information technology), completed in 2019/2020, which have addressed similar issues in the same organizations. In cases where an action plan existed, it was taken into account.

According to this assessment, one (1) recommendation is implemented, four (4) are partly implemented, one (1) recommendation according to the action plan is implemented during 2020-2021 and one (1) recommendation for municipalities is not evaluated, which has no action plan either. Annex II of this report presents the status of implementation of these recommendations.

Reasons for low implementation of recommendations

The lack of formal processes for proper and systematic monitoring of action plans for the implementation of recommendations, as well as the lack of proper commitment to address them are among the main reasons for the low level of implementation of recommendations. The lack of effective oversight by the Government and oversight bodies has made budget organizations to avoid full and consistent implementation of financial management guidelines, so recommendations have been repeated from year to year.

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

Recommendations to the Assembly of the Republic of Kosovo

We repeat last year's recommendation that the Assembly should ensure that the action plan for the implementation of recommendations prepared by the Government is reviewed by the COPF. The Assembly should also accurately determine the actions, timelines and persons responsible for the implementation of recommendations and their monitoring. It should also ensure that at least once a year it reviews the progress on the recommendations made.

Recommendation for Municipal Assemblies

We repeat last year's recommendation that mayors should regularly discuss the reports of managers responsible for implementing action plans, and at least twice a year, they should report to the Municipal Assembly on progress and challenges in this area.

10 Audit Opinions on Individual Reports

For 2019, NAO has conducted 95 regularity audits (94 BOs and the PAK Trust Fund). The audit opinions regarding the AFS are presented in the table below, while the audit findings are presented in the individual audit reports of BOs.

Table 26 - Number and type of opinion made for 2019

Audited entities	Unmodified opinion	Unmodified opinion with Emphasis of Matter	Qualified opinion	Qualified opinion with Emphasis of Matter	Total
Central level organizations	19	8	0	0	27
Municipalities	21	17	0	0	38
Independent institutions	29	1	0	0	30
Total	69	26	0	0	95

As it appears from the table above, individual audits of BOs resulted all in unmodified opinions. Of them, 69 were unmodified and 26 unmodified opinions with emphasis of matter. The statement above indicates that the audits in terms of reporting, present a true and fair view of the AFS, which means that the statements contained no material errors and irregularities. Compared to previous years, there is a significant improvement as in 2018, in 10% of cases, and in 2017, in 17% of cases, the statements of BOs contained material errors.

The reasons for Emphasis of Matter in most cases were the misclassification of expenditures, which was affected by payments through court and enforcement decisions as well as misclassifications affected by incorrect planning.

10.1 Recommendations in Individual Reports for 2019

In the individual reports of the audited entities, in addition to the audit opinions, we have provided recommendations for the improvement of each area where shortcomings and errors have been identified. The following table presents the number of recommendations made in three years for the audited entities.

Table 27 - Number of recommendations made in individual reports for the last three years

Audited Entities	Year 2019	Year 2018	Year 2017
Central Level Institutions	263	275	363
Municipalities	488	585	600
Independent Institutions	52	60	166
Publicly Owned Enterprises	265	254	149
Total Recommendations	1,058	1,174	1,278

Number of recommendations made in individual reports for the last three years



The data presented in the table show a continuous decrease in the number of recommendations over the years, apart from POEs which have an increase that comes as a result of increased number of the audited enterprises. Significant decrease in the number of recommendations this year is observed with Municipalities, while a slighter decrease in the number is in the BOs of the central level and in the Independent Institutions.

11 Internal Audit System

Internal Audit (IA) is an important system function, which assures senior management that internal control mechanisms are designed and operate effectively. The Audit Committee (AC) is an advisory body to the senior management of public sector entities and supports internal auditors by ensuring their independence, assessing the reasonableness of resources and ensuring the implementation of recommendations.

One of the objectives of the Public Internal Financial Control Strategy (PIFCS) 2015-2019 is to advance internal audit through the implementation of the professional development programme, quality assurance for compliance and updating the legal framework. Therefore, the importance and sensitivity of the profession obliges internal auditors to have the appropriate professional level.

The Central Harmonisation Unit is the co-ordinator of the entire internal audit process and, among other things, monitors public sector entities for the internal control of public finances. As positive developments of this period within the PIFCS 2015-2019 is the fact that the Law on Public Internal Financial Control was in force and, from the beginning of 2019, there was also in force AI 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.

The better situation was the audit coverage since about 65% of the internal audit activities were focused on the current year, while in terms of actions taken by management in implementing the internal audit recommendations, we have noticed that 47% of the recommendations made were fully implemented, while the rest were in process or were unimplemented.

Shortcomings observed in the internal audit system are presented below:

Regulation 01/2019 on the Establishment and Implementation of the Internal Audit Function sets out the criteria to be met for the establishment of the IAU, and sets out the minimum number of auditors that a budget organization should have.

Based on these criteria, we have identified that out of 70 BOs, despite meeting the criteria, five (5) of them have not established the IAU. The BOs that have not established the IAU are: North Mitrovica, Leposaviq, Agency for Management of Memorial Complexes, Ministry of Regional Development, and Ministry on Innovation and Entrepreneurship. The reasons behind this are lack of budget, failures in recruitment processes, or negligence by organisation itself. Whereas, in terms of sufficient staff with auditors, of 65 BOs which have established IAUs, over half (37) of them had fewer auditors than provided for by the regulation; and

The establishment of Audit Committees (AC) in all organizations remains a challenge. Of 65 BOs, six (6) of them have not established the AC in 2019. They are South Mitrovica, Ranillug, Property Verification Agency, CEC, Ombudsperson Institution and MEST. Further, of 57 BOs where the AC operated, it was noted that in 15 of them the AC has held less than four (4) meetings, as required by the AI. In addition, 28 ACs have not submitted the annual report as required by Article 10 of the AI. This indicates that ACs are not yet effective in fully supporting the work of the IAU.

Internal audits remain compliance-oriented and less focused on performance and system audits. The internal control system, despite marking improvements from last year, is still not at a satisfactory level, so that IA can act as a preventive mechanism of errors and irregularities.

We recommend the Government that in co-operation with CHU/IA to ensure that:

- Management of BOs which is obliged to establish IAUs according to Regulation GRK no. 01/2019, should establish these units, while BOs that are not obliged to have IAU should fulfil the internal audit function through other ways provided by this regulation, and in accordance with the Law on Organization and Functioning of State Administration and Independent Agencies; and
- To complete the internal audit system, IAUs should be staffed and Audit Committees should be established to support the achievement of IAU objectives. The AC should be effective in holding meetings and contributing to increasing accountability and strengthening the IA role, and submit annual work reports, as required by the AI.

12 Procurement

In 2019, through public procurement procedures, contracts were concluded in the amount of €781,396,035 or about 150 thousand euros more than previous year. These procedures were conducted by 161 contracting authorities responsible for the conducting procedures, while for 16 independent institutions, procurement procedures were conducted by the Central Procurement Agency.

The number of contracts signed for 2019 was 12,461 which is close to that of previous year. Most of these contracts, in terms of number but also in terms of the contracted value, consist of Government Contracting Authorities, while the main source of funding was the Kosovo Budget with 83%, and then own source revenues with 17% while the rest were donations.

It is worth mentioning that in addition to budget organizations, the CPA has acted as the contracting authority. During 2019, the Directorate for Centralized Procurement of the CPA signed 31 contracts the total value of which is around €54.9 million. Whereas, at the end of 2019, nine activities remained under procedure at an estimated amount of €44.3 million.

Further, the Special Procurement Directorate of the CPA conducted 68 procurement activities and concluded 81 contracts for various contracting authorities, upon their request. The total value of these contracts is about €1.5 million.

The continuous increase of funds spent through procurement procedures shows the importance and impact that this area can have on the development of the domestic economy. The audit identified that during 2019 almost no contracting authority has fully implemented the planned procurement activities, but at the same time they entered into numerous contracts outside the procurement plan.

The identified number of contracts concluded outside the procurement plan was 735, of which about 5% were co-financing, which shows that the planning was not at the required level nor based on the real needs of budget organizations.

Frequent use of procedures for minimum value contracts was apparent also in 2019, procedures that may jeopardise the principles of economy, efficiency and non-discrimination. We have identified that 1,570 contracts with a minimum value were concluded in 2019, of which there were cases when the contracts were for similar goods. Where contracts were similar, contracting authorities were able to combine these requirements and develop open procedures to enable higher competition and transparency.

Individual regularity audit reports this year have highlighted weaknesses in procurement procedures, starting from procurement planning, development of procurement procedures, up to contract management.

12.1 Regularity Issues in the Procurement Area

Implementation of procurement procedures, especially in the tender evaluation phase continues to be one of the most problematic issues, and complaints by operators are quite frequent. As a result of the dissatisfaction of economic operators in the evaluation process, during this year, 981

complaints were filed with PRB. PRB decisions regarding complaints have resulted in decisions that more than half (54%) or 535 cases have been returned for re-evaluation, while the number of approvals of decisions of the CA is 261 cases or 27% compared to the total number of complaints. Whereas, the number of fines imposed during 2019 by the PRB was two (2).

Therefore, even in 2019 as in previous years, individual audit reports have highlighted a number of shortcomings in the conducting and implementation of procurement procedures. Shortcomings were identified at all stages of procurement and in most contracting authorities, but in the table below are presented in detail the most frequently repeated weaknesses..

Table 28 - Regularity issues in the procurement area

Issue	Impact	Actions required by budget organisations
Entering into contractual liabilities by signing contracts without sufficient budget available.	Entering into liabilities without securing the necessary funds increases the risk of delays in the implementation of the contract and increases outstanding liabilities, which may be a burden to the budget of the following year.	The practice of entering into contractual liabilities without allocating sufficient funds to ensure the completion of projects under the contract should be discontinued.
Initiation of procedures and signing of contracts without drafting the executive project.	Signing contracts in the absence of executive projects risks poor performance of contracts for non-projected and unstudied work and may result in unforeseen costs or provide poor value for money.	Upon contracting works or construction, it should be ensured in advance that competent levels have designed the project in accordance with the foreseen needs and requirements. Otherwise, such procedures should not be initiated.
Entering into contracts by non-complying with procurement procedures.	Entering into contracts in the absence of procurement procedures in addition to damaging transparency and eliminating competition can also result in poor value for money spent.	It should be ensured that procurement procedures are conducted for each purchase for which such a request is required. The development of procedures and the signing of the contract in accordance with the PPL is mandatory and must ensure transparency, competition and value for money.
Awarding a contract to economic operators who have not met the eligibility requirements given in the tender dossier.	Non-compliance with the criteria set by the contracting authority, increases the risk of signing contracts with irresponsible economic operators and is a discrimination against other competing operators, and may also result in non-performance of the contract.	Relevant BOs management should ensure that all requirements of the procurement regulations were strictly complied with during the evaluation and no irresponsible operator was awarded with a contract.

<p>Failure to appoint contract managers, lack of contract management plans and poor contract management.</p>	<p>Shortcomings in the contract management process endanger the non-implementation of contracts according to the contractual conditions, consequently non-achievement of the set objectives and requirements, endangering the achievement of the value for money spent.</p>	<p>Ensure that after the conclusion of each contract, the person responsible for its management is appointed who must monitor the fulfilment of the contract according to all foreseen requirements and standards and has prevented the possibility of delays, stagnation or non-fulfilment of contracts.</p>
<p>Exceeding quantities over 30% in framework contracts and work orders after the expiration of the contract.</p>	<p>Continuing to make orders above the allowed limit even after the expiration of the contract is against the law and risks eliminating free competition and transparency.</p>	<p>Ensure that in no case are the quantities allowed in the framework contracts exceeded and that after reaching the limit of exceeding 30% or the expiration of the contract new procedures are developed.</p>
<p>Failure to appoint members from the central level as an integral part of the bid evaluation commissions in the procurement processes developed in projects co-financed with the local level.</p>	<p>Non-participation by the central level commissions for opening and evaluation in co-financed projects may result in the selection of irresponsible operators and failure to inform about the dynamics of projects.</p>	<p>Ensure that in co-financed projects members of commissions from the central level are appointed, so that to assure the development of procurement procedures and be informed in a timely manner about the dynamics of projects or whether any action should be taken.</p>

Recommendation to budget organisations

- Ministries that allocate funds to co-finance projects with Municipalities should appoint one member for the bid opening and evaluation commissions to ensure that the procurement procedures for co-financed projects are conducted in accordance with the legislation and to be informed in a timely manner for project development; and
- They should reduce as much as possible the use of procurement procedures for minimum value contracts in order to ensure a more open competition through other procedures and ensure most favourable market prices.

13 Applicability of laws and legal challenges

The audits conducted identified cases of non-compliance with legal provisions, including shortcomings in implementation of property tax laws, granting of construction permits, use of public property, AFS reporting by Publicly Owned Enterprises, as well as processing payments for various compensations.

From the individual reports, we have highlighted some of the most important cases:

(a) MEST – Compensation of internal commission in conflict with legal requirements

According to Article 80 of the LPFMA, no additional compensation is allowed if an employee, civil servant or official of a public authority or public undertaking is required by an act of the Government to serve on any commission, board or other public body or authority. Such service shall instead be deemed to be part of the mandatory duties of the current position held by such employee, civil servant or official.

Four of the six Universities within MEST with the approvals of the Steering Councils have included additional compensation in the regulations for participation in some types of commissions that are deemed non-statutory. Such commissions were for participating in the opening and evaluation of procurement bids, registration and evaluation of assets, budget planning, admission of new students, for complaints and submissions, staff recruitment, granting of scholarship, drafting supportive strategies and regulations, etc. These commissions were appointed by rectors of these Universities and were paid. The value of such compensations for 2019 was €42,750.

This happened because the steering bodies of these universities, when drafting the relevant regulations, did not take into account the legal prohibitions for these types of compensations. Additional compensations for services that are part of the mandatory duties of the position held by the employee are not legally supported and, as such, may damage the budget of the respective Universities - the ministry.

(b) Publicly Owned Enterprises – Different legal arrangements on the dates of reporting and publication of the audited AFS

According to Article 33.1 of Law No. 03/L-087 on Publicly Owned Enterprises (POEs, Annual Financial Statements of each Publicly Owned Enterprise) are subject to an external audit provided by law in accordance with internationally accepted auditing standards. An independent, competent and qualified auditor conducts this audit. The final product of such an audit shall be an opinion on the authenticity of the Annual Financial Statements including the Management Letter. The opinion and Management Letter shall be submitted to the POE Policy and Monitoring Unit, no later than on 30th of May of the following year for the previous year. In addition, the Auditor General, the Government and the Assembly may conduct any type of audit that they deem necessary.

According to Article 17 of Law no. 06/L-032 on Accounting, Financial Reporting and Auditing (AFRA), deadlines for submission and publication of financial statements of business organisations audited in accordance with ISAs and in accordance with Article 7, paragraph 1, and Article 8, paragraph 1 of this Law are submitted and published in the AFRA, and a copy is submitted to the relevant Ministry of Trade and Industry, no later than 30th of April of the following year.

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

Therefore, as can be seen, for submitting the audit report of POEs with these legal requirements, three different deadlines are set: according to the Law on AFRA – 30th of April; according to the Law on POEs – 30th of May; and according to the LMFPF -30th of June. This is a result of various regulations and non-harmonisation of these three laws regulating the reporting issue by Public Owned Enterprises.

Because of the legal collision between these three laws, the AFRA has imposed fines on some POEs who were late in submitting their AFS within the dates mentioned above (30 April), although the delays were caused by audits conducted by the NAO in accordance with applicable law.

(c) Municipalities - Municipality of Zvečan, Leposaviç and Zubin Potok have not implemented revenue collection laws (property tax, construction permit, and allocation for use of the public property)

According to Article 2 of Law no. 06/L-005 on Immovable Property Tax, it is clearly defined that each budget organization shall collect revenues from immovable property tax. Law no. 04/L-110 on Constructions in Articles 1 and 2 has determined the purpose of issuing construction permits. While Law no. 04/L-144 on the Allocation for Use and Exchange of Immovable Property of the Municipality, regulates the manner and determines the procedures and forms for the allocation for use of the property.

During 2019, as in previous years, the municipalities of Zvečan, Leposaviç and Zubin Potok have not started collecting revenues yet from property tax, construction permits, properties allocated for use and have not issued internal regulations on taxes, fees and citizens' charges for public services received. Therefore, the level of collection of own source revenue is also very low. This happened because the municipalities have not yet established law implementation policies and have not taken concrete actions to collect revenues from the activities having a significant impact on creating the municipal budget and improving services to citizens.

Non-implementation of laws and regulations on the collection of property taxes, construction permit fees and other taxes and fees by municipalities show a negligent approach to the legal requirements in these areas. This increases the risk of non-compliance with applicable laws and reduces the level of own source revenues.

(d) Payment of officials of the Emergency Management Agency (EMA) by municipalities, without possessing information on whether firefighters have been regularly attending workplace

We have noticed that municipalities execute salaries for firefighters and there is no personnel file/contract nor information about the work done by these workers (work attendance). We have consequently recommended that as a transitional phase, until the transfer of the budget to EMA, the municipalities, when executing salaries should request from the firefighting units at least the basic

information (contracts and work attendance records of employees) to justify the salaries. Payment to officials, in the absence of contracts and monthly engagement reports may result in inability to justify salary and eventual allowances.

Recommendations to the Government, Ministry of Finance and Ministry of Economy

- The Government should initiate the amendment of the Law on POEs and make the relevant legal harmonisations of the dates of financial audit reporting, or to specify/clarify the prevalence of the regulations determined by one or the other law regulating this issue;
- The Government should make a legal interpretation of the mandate and competencies of the AFRA related to the audit of the AFS of POEs when audited by NAO. This interpretation should be binding on the AFRA, or otherwise initiate the amendment/supplementing of the AFRA law to eliminate the aforementioned contradictions; and
- The Government, in co-operation with the Ministry of Finance, should take the necessary steps for the transfer of the budget from the municipalities to EMA, namely to the MIA, in accordance with the laws in force and the Government decision.

Recommendation to Municipalities and the Ministry of Local Government

The mayors of Zvečan, Leposavić and Zubin Potok should ensure the implementation of revenue collection laws, whose aim is primarily enforcing legal requirements and increasing the quality of services for the citizens of the respective municipalities. At the same time, they should initiate, without delay, the drafting of internal regulations on taxes, fees and charges of citizens for the services provided to the public.

Recommendation to the Ministry of Education and Science

The Minister of Education should take immediate measures to stop all the unlawful payments for compensation of internal commissions in the abovementioned universities, and request from them to harmonise their statutes with the law.

14 Performance Audits

The National Audit Office, over the years is paying special attention to performance audits, which are an important factor to make a difference in the lives of citizens. These audits in particular assess whether public funds are being used efficiently and effectively and for the benefit of citizens' welfare. As soon as the results of the NAO audit are made public, the Assembly and citizens will be able to hold public resource managers accountable.

To achieve this goal, the NAO for the auditing season 2019-2020 has covered areas of social and economic interest, social welfare, health and safety, information technology and the area of public procurement. The selection of topics in performance audit is based on areas of material importance in financial and social terms and taking into account the requirements and interests of civil society organizations and donors. Through these audits, the National Audit Office aimed at promoting the efficiency, accountability, effectiveness and transparency of the public administration.

During the reporting season, 13 performance audit reports were published in various areas or about 23% more than last year.

The following is a summary of the content of performance reports published, including the audit objective, findings and messages.

Topic 1 - Tariff Setting System of Electricity, Thermal Energy and Water Supply

Public services are activities on the service of citizens to provide goods or public services that are deemed vital to the citizens' interest. These goods or public services and their efficient and effective approach to citizens enable a better welfare for all. However, for public services provided, citizens should pay a fee, while the determination of their value should be in accordance with the calculations according to the real costs and the nature of the services.

Audit message - *The audit concluded that despite the progress made by regulators in the tariff setting process, the audit has concluded that there are some shortcomings, which affect the accuracy of the approved tariffs and risk that tariffs may not be properly set. During the tariff setting process, regulators have not managed to ensure sufficient transparency and completely fair and accurate tariff setting.*

The report highlights that regulators and public service providers have not developed a process of identifying the amount of services consumed by consumers who are exempt from paying utilities in order to be compensated by the relevant authorities. Determination of operating costs, capital costs and other significant financial ratios is not fully approved based on relevant and documented analysis with sufficient and clear explanation. Therefore, tariffs for public services have not been set fully according to measurable criteria and in line with realistic and realistic expenses.

Topic 2 - Road Traffic Safety

Road traffic safety is one of the main problems with a major impact on public health and the development of societies around the world. More than 1.3 million people die every year on the roads of the world. Road traffic injuries is the leading cause of deaths globally. Deaths and serious injuries in road accidents can be prevented if the causes of accidents are managed so that they do not exceed human tolerances in accidents.

Audit message - *The audit concluded that the lack of implementation, organisation and co-ordination of activities by responsible authorities make the road traffic unsafe for traffic participants. The Kosovo Police, Ministry of Infrastructure and Municipalities, which must provide road safety and infrastructure for traffic participants have not been effective and are not doing enough to increase traffic safety.*

The coverage of road traffic in Prishtina region with traffic patrols is insufficient. The Kosovo Police Information System is characterised by incomplete and inaccurate data in terms of analysing and identifying the causes and factors of road traffic accidents. Ministry of Infrastructure and Transport has not made sufficient efforts to identify and manage dangerous places on roads (black spots). Moreover, this ministry did not manage to make Road Traffic Safety Council operational by the end of 2018. Monitoring of vehicle technical control centres by the ministry and the entity authorised for oversight was deficient. The Municipality of Prishtina has not managed to provide proper maintenance either for all roads it is responsible for, including signalling.

Topic 3 - Food Safety - Study Case: Wheat and Meat Products

Safe food is the key to a healthy life for every citizen. Food safety should be provided by state bodies through controls that show that the food on the market has passed all control steps and is ready for consumption.

Audit message - *The audit has identified that the Food and Veterinary Agency has not fully operationalised the safety system of the entire food chain yet and as a result, there is no assurance that the marketed food is sufficiently controlled and safe for consumption.*

There are still shortcomings, as the established procedures do not cover the whole food safety process. The existing procedures have not been sufficiently applied to provide assurance that the marketed foods are sufficiently controlled and safe for consumption. Shortcomings have also been found in the controls planning process and lack of risks analysis. Moreover, the food safety assessment through checklists does not include all the Hazard Analysis and Critical Control Points (HACCP), which are also a requirement of the Law on Food. In addition, municipal inspectors have not been transferred to the Food and Veterinary Agency and co-ordination of controls between central and local levels was poor. This increases the possibility for inefficient controls, as is the case of animal market and products of plant origin that are not controlled by either levels.

Topic 4 - Fuels Quality Control and Monitoring System

Kosovo is completely dependent on imported oil products from all neighbouring countries and regions, and almost all oil imports are conducted through road transport. The import of oil products has been increasing and this means that controls and monitoring of the quality of fuels before they are approved entry into the territory of Kosovo and while they are in circulation in the domestic market should be functional and stable.

Audit message - *The report highlights that the fuel control and monitoring, the import of which is managed by the Kosovo Customs and in the domestic market by the Ministry of Trade and Industry, has been accompanied by numerous shortcomings and this has hampered to ensure the quality of fuel in import an in the domestic market.*

The quality of fuels in import has not been ensured due to the fact that fuels have been imported based on the minimum number of parameters in the system, which has not always evidenced the bodies having conducted the sampling, and occasional inability to identify the Inspection Bodies, lack of accreditation of laboratory. The quality of fuels in domestic market has not been adequately provided either, because of a minimum number of parameters tested, lack of adequate monitoring of accreditation process, breaches of authorisation requirements by the laboratories and unauthorised operation of the inspection bodies. The identified shortcomings put the competency for and reliability of sampling and testing to question, and leads to the possibility of not being able to provide assurance on the quality of fuel for the citizens of Kosovo.

Topic 5 - Management of the Maintenance of Public Educational Institutions

A healthy school environment is indispensable to guarantee the development of teaching activity and represents the institutional educational performance and cultural and social development of the community. School environment determine the way participants react within this dimension, they affect their health, behaviour, directly affecting the process and quality of learning.

Audit message -*The audit found that public institutions have not provided schools with adequate maintenance which therefore could not offer elementary conditions for delivering the education process. There has been no continuous maintenance that would enable to conduct teaching in a sound environment and under basic conditions.*

Out of 18 school buildings which were assessed, only seven (7) of them were at satisfactory levels to allow to conduct teaching activities. Whereas, in other school premises there was a significant lack of supply with hygienic material and supplies; annual whitewashing and disinfection of walls was not carried out; school inventory, sanitary knots, ventilation of premises and toilets were also lacking. The report highlights that central and local institutions failed to co-ordinate, oversee and delegate duties on carrying out inspection at different levels and to create a complete legal infrastructure. Maintenance management has been challenging for most schools in terms of planning activities and taking measures to provide better maintenance services.

Topic 6 - Management of Public Construction Contracts

Public procurement aims at ensuring the most efficient, transparent and fair way of using public funds, public resources and all other funds and resources of budget organizations in Kosovo. This is achieved by defining the conditions and rules that will be applied, the procedures that will be followed, the rights that will be respected and the obligations that will be met by persons, economic operators, enterprises and budget organizations. About 30% of the country's budget is contracted in public institutions through public procurement procedures.

Audit message - *The report highlights that public construction contracts were not effectively and efficiently managed by the budget organisations.*

The audit identified significant weaknesses in the contract management processes at all phases. Audited entities have never conducted site visits to verify the suitability of location, co-operation between parties involved in Memorandum of Understanding was not at the required level, legal remedies assisting in the implementation of contracts did not have the right impact. Moreover, failure to obtain construction permits and improper application of all the required construction documents have resulted in delays in the implementation of projects from 2 to 22 months.

Topic 7 - Projects Financed from DEMOS Grants

In 2017, the Ministry of Local Government Administration and the Swiss Agency for Development and Co-operation (SDC) agreed to establish and fund a performance grant system for municipalities.

The performance grant has at its disposal an annual budget of about €2.25 million for 2018-2021. All (38) Kosovo municipalities are eligible to apply for the performance grant.

Audit message - *The audit highlights that all the audited projects where performance grant was invested on have been spent for the purposes the grant was awarded. In addition, projects could not be operationalised and released for public use within the time agreed with the donor.*

Despite this, the audit has identified the following shortcomings: delays in delivery of goods, contracts managers' failure to pay attention to projects oversight, and the improper use of Common Procurement Vocabulary during the tenders' evaluation process. In addition, the audited municipalities failed to document how to prioritize investments in relevant projects, as well as the involvement of citizens in decision-making. A situation where municipalities cannot document the prioritization of projects may result in investments not in accordance with the requirements and needs of citizens.

Topic 8 - Implementation of Recommendations of the "Development Fund" Report and Its Effects

The Trust Development Fund (The Fund) was established in 2013 under an agreement between the European Union and the Government of the Republic of Kosovo. The fund aims at promoting social and economic development in the municipalities of North Mitrovica, Zubin Potok, Leposaviç and Zvečan, from which the local population of these municipalities will benefit.

It is on the interest of the citizens for municipalities to implement the projects as soon as possible in order to provide the citizens with conditions for social and economic development, the two benefits intended with the establishment of this Fund, always respecting the procedures required by laws of Kosovo.

Audit message - *The follow-up audit conclusion is that only four (4) of the 13 recommendations made were fully implemented, five (5) were partly implemented, while four (4) recommendations were not implemented at all. Progress was limited and there is room for better management and financial control during the implementation of projects funded from this fund.*

The Managing Board of the Development Fund was not able to implement all the recommendations regarding the monitoring of projects, review of requests at the professional and technical level as well as the requirement for reporting of municipalities on the project progress. This was hampered, among other things, because of the resignation of the mayors, which was followed by the process of local elections and early parliamentary elections. The Ministry of Finance included the projects financed by the Fund in the budget tables, installed the Kosovo Financial Management Information System in the four municipalities and provided relevant training. It has also partially implemented the recommendation regarding the categorisation of expenditures into appropriate codes. Municipalities had not implemented the recommendation of public hearings. No municipality conducted an analysis of the circumstances that caused the prolongation of implementation or non-implementation of projects, consequently no measures to increase efficiency have been taken.

Furthermore, municipalities were not efficient enough in making Fund-financed projects available and, in some cases, were not even effective either. From some projects, the citizens had no benefit at all even though they were completed, as they were not yet available to them.

Topic 9 - Medium-Term Expenditures Framework 2018 - 2020 in the Sector of Education and Infrastructure

Each government operates within a comprehensive framework in which long-term and medium-term policies and priorities are defined, and which allocates resources according to policies and priorities in such a way as to ensure a better future for the citizens. Activities and budget planning is the process of preparing strategic plans for defined periods (short-term, medium-term and long-term).

Audit message - *The audit report has pointed out that Medium-Term Expenditure Framework is not sufficiently addressed to ensure budget planning in line with strategic priorities in the education and infrastructure sectors. The audit highlights that planning, implementation, and monitoring of the achievement of strategic objectives is not at the required level.*

This has diminished the importance and purpose of Medium-Term Expenditure Framework in the long-term planning of objectives and the budget. Ministry of Finance finalises the budget in this Medium-Term Expenditure Framework based upon macroeconomic forecast and previous annual budget forecasts for the coming years, but not based upon proper analyses of the requests from budget organisations. Ministry of Finance approved certain projects that were not strategic objectives of the central level. Ministry of Infrastructure and Transportation, and the Ministry of Education, Science and Technology failed to conduct a proper financial planning of projects/activities and budget execution for certain projects, by putting at risk the achievement of government strategic priority objectives. As a result, Medium-Term Expenditure Framework does not fully serve the purpose for a sustainable planning.

Topic 10 - Management of Tax Liabilities in Information Systems of Tax Administration of Kosovo

Public institutions should assure taxpayers that systems that support the collection and recording of tax revenues and debts maintain the integrity, confidentiality and availability of data. From the risks identified by the audit, they indicate that there is a need for improvements in the management of information systems, through which tax liabilities are administered.

Audit message - *The audit conclusion is that the Tax Administration of Kosovo has several shortcomings, related to application controls, logical access control systems, as well as information security and systems continuity. As a result, there is a risk that systems will be exposed to the risks of losing the integrity and confidentiality of data and the availability of systems.*

These shortcomings affect the presentation of an inaccurate and incomplete overview of tax return accounts, risks to the operation of information systems, loss of data integrity and confidentiality, and risks to information security and continuity of work of systems.

Topic 11 – Organisation and Management of Information Technology Investments in Public Institutions

To ensure good governance, information technology plays an important role, as a powerful instrument in support of transparency, accountability and efficiency of government and in order to improve the lives of citizens. Kosovo institutions, during the period 2015-2018, spent about €49 million euros on information technology.

Audit message - *The audit has highlighted that the lack of organization and co-ordination between public institutions has incurred unnecessary expenditures in the area of information technology.*

The Government of the Republic of Kosovo has not managed to approve the Electronic Government Strategy, which has been drafted by the Agency of Information Society. In its absence, the Government does not have a plan of priorities for investments in the area of IT. This situation has enabled public institutions to develop parallel projects for their needs, thus incurring unnecessary costs and double investment. Initially, there is no register of IT projects, both at the state level and at the level of budget organizations. This makes it impossible to accurately identify the existing situation.

Public institutions have entered into investments without conducting the identification of project needs, sound feasibility analyses for project development as well as without conducting preliminary analyses and market price research. Ministries with their departments and agencies do not co-operate either for more optimal use of IT infrastructure. Even in the municipalities that were subject to audit, we have encountered shortcomings, starting from strategic planning, IT policies and procedures as well as investment management in the area of IT.

Topic 12 – Governance, Management of Operations and System Security in KAS

The purpose of official statistics is the collection, processing and dissemination of data for statistical purposes on economic, social activities and general conditions in the Republic of Kosovo. The Kosovo Agency of Statistics is the bearer and distributor of official statistics and co-ordinator of official statistics of Kosovo, which operates within the Office of the Prime Minister.

Audit message - *The audit has concluded that the existing method of managing information technology did not provide sufficient secure environment for maintaining data integrity. The Kosovo Agency of Statistics has generally not established the necessary control mechanisms in which IT activities are developed, operated, managed and maintained.*

Kosovo Agency of Statistics has difficulties in managing information technology resources, lacks adequate needs assessment in the field of IT, inadequate segregation of duties and responsibilities of IT staff and has insufficient IT staff. The management of IT activities is not sufficiently based on operating policies, procedures and processes. The handling of incidents and problems is based on immediate requests and a register of them is missing. There is no adequate process for managing changes, development and testing of software applications, and there is no plan for the continuation of work processes in case of any natural disaster, human error or failure of information systems.

The audit also showed that the Kosovo Agency of Statistics does not have effective mechanisms to assess the risk of information security. It did not take sufficient steps to ensure that the information

is not exposed to unauthorised parties and there is insufficient control over the data coming in/out of/into the Kosovo Agency of Statistics. Policies dealing with information security issues are missing.

Topic 13 – Effectiveness of Interrelation of Vocational Education and Training with the Market Needs

The primary goal of Vocational Education and Training Institutions (VET) is to prepare staff for the labour market, while it is more than necessary that the VET system is in line with the needs of economic and social development of the country. VET should also be seen as an opportunity through which performance improvement and advancement at work is achieved.

Audit message - *The current system of vocational education and training is not able to respond to the needs and demands of the labour market. Despite the efforts made to link professional knowledge and skills with the needs and demands of the labour market, this system has been accompanied by numerous shortcomings, and has affected the responsible institutions to not be successful in achieving the goals.*

Despite the co-operation of the Ministry of Education and Science with other actors with the aim of reviewing the curricula of vocational education and training profiles, and especially to base on the revised curricula on the development of professional standards, this goal was not achieved. In addition, practical training in the workshops of Vocational Education and Training Institutions and professional practices in businesses have been implemented with great difficulties and stagnations. Responsible institutions have not managed to provide effective opportunities for the acquisition and development of skills and abilities and have not assured us that the necessary conditions have been created in Vocational Education and Training Institutions for the implementation of dual forms of education, which enable the happening of practical learning at school premises and professional practice in businesses.

In 13 performance audit reports, the National Audit Office made 198 recommendations for improving various aspects of public administration.

We recommend the Assembly of the Republic of Kosovo:

Performance audit report should be reviewed through the Committee for the Oversight of Public Finance, the Budget and Finance Committee and relevant committees in relevant areas, and hold the heads of public institutions accountable for implementing the audit recommendations made in the performance reports.

We recommend the Government and Municipalities to:

Analyse the recommendations that have resulted from performance audits, and prepare and monitor action plans for their implementation. Monitoring the implementation of recommendations should be done by assigning and holding accountable the relevant functions in the organization through regular reporting.

15 Publicly Owned Enterprises

This season, the National Audit Office has audited the Annual Financial Statements of 14 Publicly Owned Enterprises (POEs) for 2019. Of these, three (3) have been audited for the first time by the NAO, while 11 others have been audited in previous years.

The audit of the 2019 AFS has revealed that the financial management and control system in POEs has major shortcomings and needs substantial improvements. The fact that for 13 POEs we have made modified opinions shows the poor quality of financial systems in POEs. The financial data reported in the individual AFS had material errors. This weakens the quality of financial reporting and transparency regarding the management of public funds and assets.

Moreover, in most Publicly Owned Enterprises, a good governance mechanism has not yet been put in place, which would contribute to the implementation of effective policies that ensure that the objectives are being achieved economically and efficiently.

Lack of adequate segregation of duties, publication of regulations, certification officers, reports and information necessary for the purposes of transparency, ineffective internal audits, and inaccurate presentation of transactions and items in the financial statements, including the AFS themselves with errors and misstatements are an indicator of the need for profound reforms in Publicly Owned Enterprises.

Existing processes of the preparation of the annual financial statements were inadequate. They do not contain sufficient analyses and do not take into account the risks that may occur and jeopardise POEs in achieving the objectives set to present the true and fair status of transactions, items and financial statements.

To improve the current way of managing Publicly Owned Enterprises, we have provided a number of recommendations, which are presented in individual audit reports and addressed to the persons in charge of managing responsibilities of POEs and their shareholders.

15.1 Audit Opinions on Publicly Owned Enterprises

The table below shows an overview of opinions on 2019 AFS.

Table 29 - Opinions given on audited POEs

No.	Audited Enterprises	Audit Opinion
1	KLMC7 JSC	Qualified
2	Bus Station Prishtina JSC	Qualified
3	Horticulture JSC., Prishtinë	Qualified
4	Kosovo Railways Trainkos JSC	Qualified
5	RWC Hidroregjioni Jugor JSC., Prizren	Adverse
6	Post of Kosovo JSC	Adverse
7	Telekom of Kosovo JSC	Adverse
8	RWC Prishtina JSC	Adverse
9	RWC Pastrimi JSC	Adverse
10.	RWC Uniteti JSC., Mitrovicë	Disclaimer
11.	RWC Drini i Bardhe JSC., Pejë	Adverse
12.	RWC Bifurkacioni JSC	Adverse
13.	RWC Hidromorava JSC	Qualified
14.	New Kosovo Energy Company	Unmodified with Emphasis of Matter

Irregularities identified during the audit, which have caused the modification of the opinion or the Emphasis of Matter are related to the following reasons:

Unmodified opinion with Emphasis of Matter - was given due to the event after the reporting period, where the investor of the Kosova e Re project declared its withdrawal from the construction of the Kosova e Re Power Plant and consequently it has not yet been defined what the future of this enterprise would be (New Kosovo Energy Company).

Qualified Opinions - are given due to non-assessment of 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 according to activities, for non-recognition of assets received and used according to the requirements of the conceptual framework for financial reporting, recognition of income as deferred income, recognition of leased property as short-term and long-term assets, the liabilities paid to the company are not deducted from relevant customers, non-correction of overstatements of the item in reserve capital, property, equipment and plant for the previous period by not respecting the request for retrospective corrections and explanatory notes that were not complete and accurate.

This group includes five (5) companies: Kosovo Railways - Trainkos JSC, Horticulture JSC, KLMC JSC, Prishtina Bus Station JSC, and RWC Hidromorava JSC.

Adverse Opinions - are given because information about accounts receivable, accounts payable, non-current assets, deferred grant income, other short-term assets, other short-term liabilities, revenue, cash flow by activities (operating and investment), the statement of changes in equity and the explanatory notes were not complete and accurate. There was also an overstatement of accounts receivable, an understatement of tax liabilities, trade payables, and due to the use of an inadequate accounting basis for going issues.

This group includes seven (7) companies: RWC Drini i Bardhë JSC, RWC Prishtina JSC., RWC Hidroregjioni Jugor JSC, RWC Pastrimi JSC., Post of Kosovo JSC., Telekom of Kosovo JSC., and RWC Bifurkacioni JSC.

Disclaimer of Opinion - The NAO refused to provide an audit opinion because we were unable to obtain the necessary audit evidence to provide a basis for an audit opinion. Limitations on obtaining adequate and reliable evidence and the inability to draw clear and well-founded audit conclusions have also led to the inability to form an audit opinion.

There is a disclaimer of opinion for RWC Uniteti JSC., Mitrovicë.

Recommendations to the Steering Boards and Shareholders of Enterprises

- The Boards of Directors of the respective POEs should analyse the causes that have influenced the Modification of the Opinion and take all necessary actions so that the issues that have influenced the opinion are corrected or prevented. BoDs should also ensure that effective processes are in place to confirm that the drafting of the 2020 AFS addresses all issues raised by the audit of the 2019 AFS; and
- Shareholders should hold accountable the BoDs of the respective POEs and hold them liable for the proper and correct preparation of the AFS, as well as the implementation of recommendations in all areas.

15.2 Previous Year Recommendations

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

The table below provides detailed data on the degree of implementation of the 2018 recommendations.

Table 30 - Implementation of audit recommendations for 2018

No	Audited enterprises	No. of recommendations	Implemented	Under implementation	Unimplemented	Closed unimplemented
1.	KLMC JSC	13	8	0	4	1
2.	Bus Station Prishtinë JSC	19	9	3	6	1
3.	Horticulture JSC Prishtinë	14	9	0	3	2
4.	Kosovo Railways Trainkos JSC	17	7	3	6	1
5.	RWC Hidroregjioni Jugor JSC., Prizren	12	4	0	0	8
6.	Post of Kosovo JSC	17	10	7	0	0
7.	Telekom of Kosovo JSC	32	13	3	16	0
8.	RWC Prishtina JSC	39	10	4	23	2
9.	RWC Pastrimi JSC	37	16	2	17	2
10.	RWC Uniteti JSC., Mitrovicë	31	6	3	16	6
11.	Drini i Bardhë JSC., Pejë	21	12	5	4	0
12.	RWC Bifurkacioni JSC	4	0	1	3	0
13.	RWC Hidromorava JSC	9	6	1	2	0
14.	New Kosovo Energy Company JSC8	0	0	0	0	0
Total of recommendations		265	110	32	100	23

From the data processing in the table above, it can be seen that:

- From the recommendations made in the previous year, 42% of them have been implemented, 12% of them are under implementation, 38% of them have not been implemented, and 8% are closed as unimplemented.
- POEs audited by the NAO are more committed to implementing the recommendations made by the preliminary audit, even influencing the change/improvement of the auditor's opinion on their AFS.

15.3 Procurements in Publicly Owned Enterprises

The procurement process for POEs should 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 with shortcomings at all stages. All issues raised in this area are presented in detail in the individual audit reports, but in a summarised way, we are presenting them in the following table.

Table 31 - Main issues identified during the audit of Publicly Owned Enterprises

Pitanje	Uzrok	Uticao	Radnje koje se zahtevaju od menadzmenta
Inadequate planning of procurement procedures (RWC Pastrimi)	The requesting units have not made the request for goods or services on time.	Failure to achieve the company's annual objectives according to initial forecasts.	Requesting units must submit timely requests to allow the procurement office to plan and initiate procurement activities and procedures in a timely manner.
Technical specifications in incompliance with LPP (RWC Pastrimi)	Due to the lack of internal control, technical specifications have been drafted not in incompliance with the LPP.	Drafting technical specifications in a discriminatory and incomparable manner and without specific descriptions affects the lack of transparency, eliminating competition and questioning the quality of services/ products received for the money paid.	Ensure adequate controls so that the technical specifications in the tender dossier are determined fully based on the legal provisions of the procurement law, providing equal access to all economic operators.
Failure to appoint a contract manager (Telekom of Kosovo, Trainkos, KLMC)	Insufficient commitment of the Chief Administrative Officer on the appointment of the contract manager.	Execution of contracts in the absence of the contract manager can lead to substantial deviations from the terms of the contract and reduces the assurance that the contract is realized in accordance with the foreseen specifications.	Ensure the appointment of contract managers as required by legal requirements, providing oversight for contractors to implement contracts in accordance with the terms and conditions specified in the contract.

Purchases without procurement procedures (RWC Pastrimi, Bus Station, RWC Uniteti)	This has happened since the need to purchase equipment, goods or services appeared within a short period of time, and thus they made faster solutions.	Non-compliance with the LPP risks that public funds for purchases will not be used in a transparent manner and market competition will not be respected. Furthermore, purchases made without relying on the contract do not provide assurance on the occurrence and accuracy of the expenses.	Establishing through internal acts mechanisms that would ensure that all purchases of goods and services are in full compliance with the Public Procurement Law in order to achieve transparency and necessary competition and to ensure the efficient use of public funds.
Splitting of tenders for supplies, and same or related services (RWC Bifurkacioni, Bus Station, RWC Uniteti)	Negligence on the part of the requesting units, appearance of unforeseen needs on the ground for supplies/ services.	Lack of transparency and restriction of competition, endangering the qualitative aspect of the supplies received for the money spent.	Fair and accurate planning, avoiding any splitting of the same procurement activities, to ensure efficient procurement and to enable the observance of legal requirements for the money spent.
Failure to meet the tender security requirement by the awarding economic operator (Post of Kosovo JSC)	The cause of omissions by the Economic Operator and the Insurance Company during the preparation of the tender security document, as well as omissions by the Company Evaluation Committee for tender evaluation.	In cases of withdrawal of the economic operator from the tendering process, it results in cancellation of the procurement activity, hampering the confiscation of the tender security on the part of the company.	Tender evaluation commissions should comply with the requirements set out in the contract notice and tender dossier, as well as legal procurement requirements related to tender security.
Contract award to the irresponsive economic operator (RWC Bifurkacioni)	Negligence of the members of the evaluation commission, lack of supervision of the evaluation process by the procurement unit.	Risk for fulfilment of contracts according to the requirements specified in the tender dossier and the contract financial damage to the company.	Effective oversight of evaluation commissions, in order to avoid cases of contract awards to irresponsive economic operators
Shortcomings in the drafting of tender dossiers and delays in the performance of works. (RWC Bifurkacioni)	Failure of procurement unit to reasonably consider the inclusion of technical /professional requirements in the tenders dossiers for work, failure of the requesting unit to make a request, failure to inform the procurement unit by project managers about delays in the implementation of contracts.	Contract award to economic operators with limited professional capacities and lack of staff, problems during the implementation of contracts, failure to fulfil contracts, financial damage to the company due to delays in execution.	Tender dossiers for work include the essential requirements of technical and professional suitability of economic operators, as well as rigorous supervision by project managers of the implementation of contracts within the set deadlines.

<p>Delay in the implementation of the project and non-extension of the performance security.</p> <p>(RWC Hidromorava)</p>	<p>This happened because the donor would make the supply according to the agreement, while the contract managers were not cautious to ask the EO to extend the period of performance security as a protective measure.</p>	<p>The expiration of the valid period of securing the contract execution affects the weakening of the responsibility of the EO to the Enterprise due to the lack of protection mechanisms, cases when they do not comply with contractual liabilities.</p>	<p>Ensure that all contracted projects are completed within the stipulated deadlines and are covered by contract performance security until their final acceptance, and in case of expiration of the security validity before the end of the project, the deadline of its validity should be extended.</p>
<p>Procurement of used goods and</p> <p>(RWC Pastrimi)</p>	<p>The company has carried out the procedure of purchasing used goods in the absence of financial means.</p>	<p>Procurement of used goods can affect the quality, performance and functionality of the goods and may affect purchases that are completely ineffective for the contracting authority.</p>	<p>No aspect of the procurement activity will be executed in a manner that reduces or eliminates competition between economic operators or discriminates to the prejudice of or the benefit of one or more economic operators prior to initiating procurement procedures.</p>
<p>Damage to the company's budget as a result of non-inclusion of the activity in the annual plan and application of inadequate procurement procedure.</p> <p>(Telekom of Kosovo)</p>	<p>Lack of proper commitment by the company's management to include the activity in the annual procurement plan and initiation of procedures within the optimal timeframes, lack of timely information of the procurement department.</p>	<p>Additional costs and irrational use of the budget to the prejudice of the company for reallocation of funds within departments. At the same time, these situations have put into question the achievement of the value for money.</p>	<p>Inclusion of activities in the annual procurement plan as well as timely initiation, avoiding inadequate procedures, which lead to the award of contracts at additional cost to the prejudice of the company.</p>

15.4 Analysis of Financial situation in Publicly Owned Enterprises

Following this analysis, the main indicators of the financial situation for nine Publicly Owned Enterprises at the central level and five at the local level are presented. The subject of this analysis is revenues, expenditures, financial result, short-term and long-term liabilities.

Table 32 – Financial result and liabilities of Publicly Owned Enterprises on 31.12.2019 (in euro)

No.	Audited entity	Revenues	Expenditures	Financial result	Short-term liabilities	Long-term liabilities
1	Kosovo Landfill Management Company JSC	2,514,602€	2,295,965€	567,632€	888,235€	750,236
2	Bus Station JSC., Prishtinë	1,015,465	1,079,900	(64,519)	72,134	0
3	Horticulture JSC	1,223,508	1,215,207	8,301	27,651	0
4	Kosovo Railways -Trainkos JSC	4,302,127	4,462,991	(160,864)	1,678,548	2,343,782
5	RWC Hidroregjioni Jugor JSC.,Prizren	5,507,899	5,493,490	14,409	2,290,379	13,670,974
6	Post of Kosovo JSC	12,135,707	13,126,013	(990,306)	3,901,626	0
7	Telekom of Kosovo JSC	53,589,000	80,505,000	(26,916,000)	71,866,000	0
8	RWC Prishtina JSC	17,491,270	17,519,704	(28,434)	4,254,346	45,552,098
9	RWC Pastrimi JSC	7,953,770	7,609,699	344,071	1,601,863	0
10	RWC Uniteti JSC	1,984,034	1,858,833	125,201	2,554,406	0
11	RWC Drini i Bardhë JSC	456,327	449,450	6,877	60,946	3,354,825
12	RWC Bifurkacioni JSC	2,402,109	2,442,188	(40,079)	521,376	5,076,691
13	RWC Hidromorava JSC	2,840,541	2,638,183	202,358	94,943	5,582,299
14	New Kosovo Energy Company	115,000	94,502	20,498	2,934	0

Revenues generated by audited enterprises in 2019 are €113,531,359, while total expenditures were €140,791,125. Six (6) Publicly Owned Enterprises have presented a negative financial result that in the total represent a loss of €28,200,202, while eight (8) other enterprises have presented a positive financial result with a total profit of €1,289,347. Most of the losses were from Telecom of Kosovo JSC in the amount of €26.9 million.

The table above presents concerning figures for the financial stability of these enterprises. Taken together, they have about €90 million in short-term liabilities and over €71 million long-term liabilities. The return of these liabilities is quite uncertain, given the fact that all are within the limits of profitability, and in real terms, operate at a loss. In fact, the principle of continuity of activity in some of them may come into a serious question.

Since about €90 million are short-term liabilities, there is a real risk that these companies will not be able to meet these liabilities. In such a situation, the Government will be under pressure to cover deficits of these enterprises to avoid bankruptcy procedures due to public interest. Thus, if measures are not taken to draft strategies to overcome the current situation, the financial burden of the Government will be further burdened.

Our conclusions are that the Boards of Directors of Publicly Owned Enterprises were not sufficiently committed to establishing policies and strategies to overcome the poor situation of those enterprises. Therefore, more active involvement of the Government in problem solving is required.

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

- In co-operation with the Boards of Directors, to analyse the financial results of Publicly Owned Enterprises, with special emphasis on those who have been operating at a loss for years, taking measures for their reorganization, analysis of short-term liabilities and drafting strategic plans with concrete corrective measures; and
- Shareholders should review the performance of the Boards of Directors and, where there are delays in fulfilling their duties, measures to increase responsibility and accountability should be taken.

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 170519 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 2018

Responsible institution	Recommendations given in AAR 2018	Recommendations implemented	Recommendations partly implemented	Recommendations unimplemented
<i>Chapter 1</i>				
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			Misclassification of expenditures has been presented in 2019 individual reports as well. This is particularly noted in projects planned under inadequate budget category of expenditures.
	To ensure that all planned budget revenues, are clearly specified according to the relevant funding sources.	The annual plan on specification of revenues and budgeting has been prepared as per budget organisations.		
<i>Chapter 9</i>				
	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.		Action plan has been prepared and submitted to NAO. But, the same was not sent to the Government and COPF, according to the latter.	
<i>Chapter 13</i>				
Government, Municipalities and respective Boards of POEs	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;			Extension of the license for waste management was not granted by the Ministry of Environment and Spatial Planning (MESP).

	<p>In cooperation with the MED should solve the problem of setting fees for collection and disposal of waste for the needs of KLMC;</p> <p>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;</p> <p>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</p> <p>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.</p>	<p>Regulation on assets management has been prepared.</p> <p>Regulation on revenues has been prepared.</p> <p>Web page has become operational and needed material have been published.</p>		<p>Failure to provide the new waste disposal tariff by the Ministry of Economic Development (MED).</p> <p>This situation continues to be the same for 2019, KLMC has taken all necessary actions to resolve this situation. The request has been submitted to both Ministries, but they haven't received any adequate response yet.</p>
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<i>Chapter 1</i>				
Ministry of Finance	<p>Upon preparation of the Annual Budget Draft Law, the Ministry of Finance should take all measures, exercise additional controls and ensure that budget organizations 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;</p>		<p>Ministry of Finance has taken measures in particular cases such as, supply with books, and handled this issues fairly. But, misclassification of expenditures has been presented in 2019 individual reports as well. This is particularly noted in projects the budget of which was in the category of capitals but belong to other economic categories.</p>	
	<p>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</p>			
	<p>Upon planning of budget revenues, to ensure that there are sufficient and clear analyses for documentation of respective revenue sources.</p>		<p>Macroeconomic Division plans revenues, but coordination with BOs responsible for collection of revenues is required.</p>	<p>No specific actions were noticed in this regard.</p>

Chapter 2

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 revenue collection plan, 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 organization’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.

Treasury has held trainings on AFS and recommendations given. Yet, adjustments were required in the AFS of 73 BOs.

Misclassifications in 2019 have decreased. However, such occurrence should be totally eliminated when it comes to budget planning.

MF has prepared the AI on prioritisation and setting of criteria on capital projects. Treasury is in the process of implementing the reform in the Strategy on Public Finance Management (3 years).

Yet, there are considerable setbacks in the implementation of capital projects.

There is no progress in this area

<i>Chapter 3</i>			
<p>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</p> <p>The Budget Department should continue to support the implementation of this recommendation by drafting an Administrative Instruction on the selection criteria and prioritization of capital projects, while the Treasury should, prior to negotiating the borrowing, to continue applying the request for a commitment letter.</p>	<p>Administrative Instruction on criteria and prioritisation of capital projects has been prepared</p>	<p>The Ministry of Finance has reported to the Government on the extent of implementation of borrowing projects and related challenges. At the same time, conclusions and recommendations were given.</p> <p>However, the current situation has not changed, and the level of project implementation from public debt remains quite low.</p>	
<i>Chapter 4</i>			
<p>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</p> <p>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.</p>		<p>Treasury has held trainings on AFS and recommendations given. Yet, shortcomings regarding AFS and stocktaking have been identified.</p> <p>Reconciliation of accounts has also been included in the training agenda. Yet there are organisations with zero inventory reported.</p>	

Chapter 6				
	<p>The Ministry of Finance, in coordination with organisations that have unpaid liabilities, should review the priority of payment of unpaid liabilities. MoF should consider the possibility of not doing any budget allocations, before the arrears 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.</p> <p>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.</p>		<p>Although recommendations and evaluation / reconciliation of accounts have been discussed in the organised trainings, in regard to contingent liabilities, they still remain unfairly evaluated.</p>	<p>Outstanding liabilities are still remaining a challenge to budget organisations. On the other hand, despite such existing liabilities, allocations on current year's expenditures have been made though these liabilities were not paid.</p>
Chapter 8				
Ministry of Finance/ Ministry of Public Administration	<p>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.</p>			<p>The situation in 2019 has not changed. This occurrence has again been presented in individual audit reports of BOs</p>
Chapter 11				
Ministry of Finance	<p>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.</p>	<p>CHU/MFK organised trainings on risk analysis, identification and management to officials of all PSEs. Based on information from CHU, from self-assessment questionnaires it appears that around 90% of PSEs have the risk lists.</p>		

	<p>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</p> <p>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.</p>		<p>Compared to the previous period, the number of organisation not having established IAU has decreased. Yet, challenges remain when it comes to sufficient staffing of IAU. This is expected to change through governmental reforms.</p> <p>Meanwhile, a memo for completing IAU with the required staff has been sent to all municipalities through the Minister of Finance.</p> <p>By Government Decision No. 06/2019, all Public Sector Entities are obliged to make IAUs operational</p> <p>Additionally, according to CHU/IA, a training was organised in November attended by all member of IA committees aimed at increasing efficiency of AC performance (this issue was handled in a workshop organised by CHU, NAO and USAID). But, individual audits have identified that there are BOs that have not established their AC yet.</p>	
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<i>Chapter 9</i>				
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.	No shortcomings were presented in individual reports regarding this process.		
<i>Chapter 14</i>				
Government of Kosovo/ Municipalities	<p>The Government should provide sustainable mechanisms that would help implement programmes and housing issues properly, and ensure sustainable social and economic development;</p> <p>The Government should ensure that the designed policies 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;</p>		<p>Certain actions have been taken in this regard; employment policies and other important documents have been prepared.</p> <p>Actions taken include:</p> <p>Division of Employment Policies within MLSW has prepared the Employment policy 2019 – 2021.</p> <p>MLSW has put in place the Sectoral Strategy 2018–2022. The first objective of this strategy refers to the labour market. In addition, the Ministry has prepared the 2018 - 2020 Action Plan on increasing the youth employment. Certain actions have been taken in this regard, Security Project Contract was signed and is under implementation until 2021. E-governance Strategy has been drafted and Cyber Security Strategy has been approved.</p>	Implementation period 2020 – 2021.

	<p>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 UCCK 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</p>	<p>In the end of 2018, OPM has recruited ten new members of staff for the Government Coordination Secretariat, who are directly involved in developing concept papers.</p> <p>The increased number of staff enable the Secretariat to get more engaged with line ministries as it creates a more suitable balance between duties and mandate of the Secretariat and required human resources.</p>	<p>Recommendation on reviewing and approving list of essential medicines has been implemented.</p> <p>In regard to the audit on medical equipment, MH and HUCSK have prepared the action plan to tackle this issue.</p> <p>MAFRD has not submitted the action plan on implementation of recommendations. Progress has been made in implementing the recommendation on strengthening of expenditures monitoring and management mechanism.</p> <p>Meanwhile, the regularity audit report for 2019 addresses two findings regarding the program for grant and subsidies, which indicates that the two recommendations similar to those given in performance audit have not been implemented.</p>	
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	<p>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</p> <p>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.</p>			<p>There is no action plan on implementation of recommendations. It is not assessed.</p>
<i>Chapter 15</i>				
<p>Ministry of Economic Development and respective Boards of Directors</p>	<p>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</p> <p>Shareholders should hold POE's Boards of Directors to account for preparation of true and fair AFS in order to improve the quality of reports for respective enterprises and for implementation of recommendations.</p>		<p>The shareholder has hold some of POEs' Boards to account and dismissed most of the boards of central level POEs, but not all of them.</p>	<p>Modified opinions are still given to POEs.</p>

<p>Government, MED / Municipalities</p>	<p>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</p> <p>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.</p>	<p>The situation of liabilities in the annual and strategic plans of respective POEs has been analysed; they have been reprogrammed in most of the cases.</p>		<p>At the local level, they do not have any more rigorous oversight. The situation is basically the same.</p>
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Annex III: Main Government Financial Statements 2019

Statement of receipts and payments in cash for the Government of Kosovo for the year ended on 31 December 2019

		2019	2018	2017
		Treasury Single Account	Treasury Single Account	Treasury Single Account
	Note	'000	'000	'000
RECEIPTS				
Direct taxes				
Corporate Income Tax	2	94,593	86,797	75,277
Personal Income Tax	3	165,616	152,820	136,924
Property Tax	4	27,277	24,195	22,407
Other Direct Taxes	5	4,773	3,692	3,426
		292,259	267,504	238,034
Indirect Taxes				
Value Added Tax	6	845,647	799,020	756,117
Customs Duties	7	130,326	123,747	125,993
Excise tax	8	435,496	418,903	432,279
Other indirect taxes	9	3,822	2,460	847
		1,415,291	1,344,130	1,315,236
Tax returns				
Tax returns	10	-45,507	-47,880	-57,583
		-45,507	-47,880	-57,583
Non-tax revenues				
Taxes, charges and others from BOs, Central Government	11	121,405	110,398	103,445
Taxes, charges and others from BOs, Local Government	12	50,050	46,350	43,348
Concessional tax	13	11,083	8,792	8,519
Royalty	14	29,385	25,233	30,570
Interest revenues (loans to POEs)	15	2,691	2,092	2,633
		214,614	192,865	188,515
Borrowing				
External state borrowing	16	35,041	11,334	108,256
Receipts for sub-borrowing service	17	7,901	8,250	8,377
Internal state borrowing	18	115,322	102,434	95,301
		158,264	122,018	211,934

Grants and donations				
Donor designated grants	19	7,987	8,319	8,312
Grants for budget support	20	11,500	-	-
		19,487	8,319	8,312
Other receipts				
Deposit fund	21	2,081	3,612	2,481
Return of loans from POEs	22	10,876	10,876	6,716
Dedicated revenues	23	5,555	10,493	9,390
One-off PAK financing	24	150,002	86,146	325
One-off KPST financing	25	-	11,590	-
Total receipts		2,222,922	2,009,673	1,923,360
PAYMENTS				
Operations				
Wages and salaries	26	616,921	592,587	550,749
Goods and services	27	273,312	229,057	204,161
Utilities	28	24,866	23,441	24,158
		915,099	845,085	779,068
Transfers				
Subsidies and Transfers	29	627,959	558,778	508,316
Capital Expenditures				
Property, plants, equipment, transfers	30	533,773	533,064	471,098
Other payments				
Debt servicing	31	74,633	40,741	77,308
Debt servicing				
Returns from deposit funds	32	1,082	1,890	1,014
Total payments		2,152,546	1,979,559	1,836,805
Cash increase/decrease		70,376	30,115	86,555
Cash at the beginning of the year	33	387,874	357,760	271,204
Cash at the end of the year	33	458,251	387,874	357,760

Consolidated Statement of Comparison of Budget with the Execution for the Government of Kosovo for the year ended on 31 December 2019

	2019				2018		2017
		Outturn	Final Budget	Initial budget	Budget changes	Outturn	Outturn
	Note	A	B	C	D=B-A		
		'000 €	'000 €	'000 €	'000 €	'000 €	'000 €
CASH INFLOW							
Direct taxes		292,259	288,510	288,510	(3,748)	267,504	238,034
Indirect Taxes		1,415,291	1,492,040	1,492,040	76,749	1,344,130	1,315,236
Tax returns		(45,507)	(50,000)	(50,000)	(4,493)	(47,880)	(57,583)
Non-tax revenues		214,614	208,227	208,227	(6,387)	192,865	185,881
Grants and donations		19,487	18,487	10,500	(1,000)	8,497	8,698
Borrowing		158,264	336,195	336,195	177,931	122,018	211,934
Other receipts ¹		168,514	187,400	187,400	18,886	122,717	21,547
Total receipts		2,222,922	2,480,859	2,472,872	257,938	2,009,851	1,923,746
CASH OUTFLOW							
General public services		285,221	329,487	338,642	44,266	204,611	193,212
Defence		49,936	56,785	58,990	6,849	46,477	34,914
Law and order		197,747	206,425	194,744	8,679	176,342	156,050
Economic affairs/relations		404,517	588,914	571,900	184,397	450,818	418,819
Environment Protection		23,672	41,207	42,786	17,534	16,447	9,934
Residence issue and Community		43,706	57,416	53,097	13,710	43,212	35,288
Health		220,805	240,953	234,284	20,148	199,806	178,607
Recreation, culture, religion		60,992	75,944	78,083	14,953	57,080	47,929
Education		323,007	351,621	346,048	28,614	301,877	282,747
Social Protection		490,679	495,010	459,658	4,331	440,435	401,370
Other ²		52,264	74,005	74,005	21,741	42,631	78,322
Total payments	33	2,152,546	2,517,767	2,452,237	365,222	1,979,737	1,837,191
Deficit/Surplus		70,376	(36,908)	20,635	(107,284)	30,115	86,555

1 Include: dedicated revenues, return of loans by POEs, one-off PAK revenues receipts from deposits, and other receipts from municipal carried forward revenues amounting 23 million euro. In budget planning (column B and C) this item is reflected in compliance with Table 1 of the Law No. 06/L-133 on Budget, whereas under the requirements of public sector accounting standards (IPSAS) it is not handled as receipts into TSA (already part of previous year bank balance). Given that it is planned as receipts – funding source (hence as revenue only) according to Budget Law (Table 1), the item receipts from municipal carried forward revenues is presented in this statement just as approved by Law No. 06/L-133 on Budget.

2 Include: payment of principal, sub-borrowing, payment for membership to IFIs and Returns from deposit funds (net).



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

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2019 dhe për zbatimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, ju konfirmojmë se:

- kemi pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit/Pasqyrave Financiare Vjetore të Buxhetit të Republikës së Kosovës, për vitin e përfunduar më 31 dhjetor 2019 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kemi ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzojmë një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Prishtinë, 14 Gusht 2020


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Hykmete Bajrami
Ministre e Ministrisë së Financave


.....
Ahmet Ismaili
Drejtor i Përgjithshëm i Thesarit

