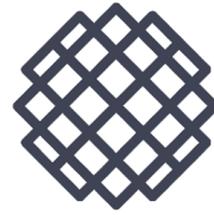




Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

**AUDIT REPORT**  
**ON THE ANNUAL FINANCIAL STATEMENTS OF THE MINISTRY**  
**OF INFRASTRUCTURE FOR THE YEAR 2019**

**Prishtina, June 2020**

The National Audit Office of the Republic of Kosovo is the highest institution of financial control, which for its work is accountable to the Assembly of Kosovo.

The reports of the National Audit Office directly promote accountability of public institutions as they provide a base for holding managers' of individual budget organisations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability.

This audit is carried out in line with the International Standards of Supreme Audit Institutions, and good European practices.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the *Ministry of Infrastructure* in consultation with the Assistant Auditor General, *Qerkin Morina*, who supervised the audit.

The report issued is a result of the audit carried out by (*Mjellma Dibra Morina - Team Leader, and Fanol Hodolli, Natyra Kasumaj and Antigona Çitaku - Team Members*, under the management of the Head of Audit Department *Zukë Zuka*).

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## Executive Summary

This report summarises the key issues arising from our audit of the Ministry of Infrastructure for 2019, which includes the Opinion of the Auditor General on Annual Financial Statements. Examination of 2019 financial statements was undertaken in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

Our audit focus has been on:



### Conclusions

A number of financial adjustments were required to the draft AFS of MI. We have made a number of suggestions to improve narrative disclosures and to ensure completeness of the disclosures required as follows:

- (a) Article 16 – Accounts Receivables – not correctly presented as the final balance by the end of the year did not include the liabilities of previous years; and
- (b) Weakness in notes and disclosures, as:
  - Note 6 – capital expenditures - there is no separate column in the table for the amount of payments executed from “Revenues from Privatisation Agency of Kosovo (PAK)”, but they are included in the total amount under the Government Grant;
  - Regarding advances, no sufficient information was given;
  - Article 19.3.1 – Capital assets over €1000 – classification of assets under the annual reporting (treasury guide) format was not carried out;
  - Explanatory notes on the disclosed amounts do not contain details on capital projects, and clarifications on the progress of projects financed by external funds; and
  - Article 17 – outstanding liabilities – not correctly presented.

As a result of recommendations given in the analytical review stage, adjustments were made in the draft annual financial statements presented for audit, except for the Article 14 – Budget Execution Report – where non-tax revenues were presented as designated incomes, and unjust presentation of liabilities.

In terms of Financial Management and Control, there are areas that need improvement in order to increase responsibility and accountability. Significant improvement should be made on assignment of tasks according to responsibilities and on budget execution.

In regard to Implementation of Recommendations for 2018, it results that 8 of the 16 recommendations were not addressed at all. Along with the relatively low implementation of recommendations, the Ministry has not reported on the progress of recommendation implementation. Consequently, the ministry has not set a process to manage and monitor implementation of recommendations. To this end, weaknesses are identified each year, to highlight the management of expenditures and low efficiency in execution of capital investments.

### **Opinion of the Auditor General<sup>1</sup>**

#### **Unmodified Opinion with Emphasis of Matter**

The Annual Financial Statements of Ministry of Infrastructure for the year 2019 give a true and fair view in all material respects.

#### **Emphasis of Matter:**

We draw your attention to the following matters:

- (a) Compensation of Salaries amounting €156,151, for 32 officers by no work attendance;
- (b) Compensation of allowances, retroactively, from Goods and Services amounting €91,909; and
- (c) Misclassification of payments into inadequate economic categories, amounting €289,685.

For more details, see Chapter 1 of this report.

#### **Management's Response on 2019 audit**

The Minister has agreed with audit findings and conclusions and has committed to address all given recommendations.

The National Audit Office appreciates the cooperation from the management and personnel of the Ministry during the audit process.

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<sup>1</sup> Annex I explains different types of Opinions in line with ISSAIs.

## Audit Scope and Methodology

The Audit involves examination and evaluation of Financial Statements and other financial records in regard to as the following:

- Whether the financial statements give a true and fair view of the accounts and financial matters for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- Whether the internal controls and internal audit functions are appropriate and efficient; and
- Whether appropriate actions for implementation of audit recommendations have been undertaken.

The audit was based on risk assessment. We have analysed the Ministry's operations, the extent the management controls could be relied to in order to determine the level of in-depth testing required to obtain evidence supporting the Auditor General's opinion.

Our procedures have included a review of internal controls, accounting systems and interrelated substantive tests, as well as related governance arrangements to the extent considered necessary for the effective conduct of audit. Audit findings should not be regarded as representing a comprehensive overview of all the weaknesses that may exist, or of all improvements that could be made to the systems and procedures operated.

The following chapters provide in detail our audit findings and recommendations in each audited area. Management's responses to audit outcomes can be found in Annex II.

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# 1 Audit Opinion on Annual Financial Statements

We have audited the AFS of the Ministry of Infrastructure for the year ended on 31 December 2019 in accordance with the Law on NAO and the International Standards of Supreme Audit Institutions (ISSAIs). Audit examinations were carried out in order to allow expressing opinions on AFS which comprise the Statement of Cash Receipts and Payments, and Budget Execution Statement, provided further in detail.

## **Unmodified Opinion with Emphasis of Matter**

In our opinion, the Annual Financial Statements for the year ended on 31 December 2019 give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards according to cash based accounting.

## **Basis for the Opinion**

The audit is carried out in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the section 'Auditor's responsibilities for the audit of the Annual Financial Statements' of our report. In compliance with ISSAI 10 and 30, and other relevant requirements for audit of budget organisations' AFSs, the NAO is independent from the Ministry. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Emphasis of Matter**

We draw your attention to the matters presented below:

1. *Compensation of salaries by no work attendance*

Based on Government Decision no. 06/39, dated 22.07.2015, the MoI has engaged 32 staff (in its municipal units) for whom there is no evidence on their attendance as required by Regulation no. 05/2010 on Working Hours. The nonattendance at work has been confirmed by the Ministry itself. The ministry made the regular payment of their salaries during the whole years, and the total amount of paid salaries for that staff was €156,151.

2. *Retroactive payment of allowances from goods and services beyond the budget appropriations*

According to Regulation 33/2012, Article 10 - Terms and budget planning for payment of allowances and compensations - paras. 1. Public administration institutions, along with the annual budget request and prior approval from the Ministry responsible for Public Administration, each year, shall submit to the Ministry responsible for Finances the amount needed for allowances, compensation and other payments for the relevant institution; 2. Every allowance and compensations set by this Regulation cannot be accomplished, if not planned in the annual budget of the relevant institution; and 3. Any allowance and compensations not defined by this Regulation is not permitted.

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Allowances in salaries were approved by a decision of the Secretary General (SG), avoiding the legal basis on budget appropriations. Payments were executed from Goods and Services. The decision for approval of allowances is based upon the Regulation on Borrowings Fund Management<sup>2</sup> although in some cases the staff was not part of Project Implementation Units (PIU):

- Compensation of PIU staff for Prishtina-Hani i Elezit highway was made based on the decision issued by the Minister of Infrastructure on 21.06.2018 on behalf of the Inter-Ministerial Steering Committee upon the request of SG. The request was based on the Regulation 33/2012 Article 13 para. 4<sup>3</sup> (for specialized professional perfection) and on regulation 05/2017 on Management of Borrowing Funds, although these two legislations were nor relevant to the case. The decision sets forth the implementation of payments, retroactively, and compensation for the appointed positions by decision (2778/14) dated 15.09.2014 shall be made as of January 2018, whereas the compensation for the positions appointed by decision (2199) dated 09.03.2018 shall be made as of March 2018.

In the two tested payments we identified that the payments were executed based on the decision dated 15.09.2014. These payments amounted €36,616 and €37,468. However, the MoI provided no evidence that the engaged staff, as per the decision, had special contract for engagement in PIU.

- According to decision 247/17 dated 17.05.2017 on establishment of PIU Prishtina-Gjilan-Dheu i bardhë Highway, no compensation was foreseen for the appointed manager of this unit. However, according to agreement (19.03.2019) concluded between the SG and the employee, there was appointed the PIU manager, whose engagement started as of 17.05.2017. For the period the employee was engaged in a regular position, only the difference from the basic salary was compensated to him. The compensation in 2019 was retroactively executed totalling €19,328, based on the date of employee's engagement. Compensation by means of allowance to the regular staff of Ministry was executed upon request of the Director of Budget and Finance and the approval of the Ministry's SG. According to the decision, the compensation is awarded to officials engaged in additional tasks for preparation and implementation of payments to projects financed by external borrowings. According to the decision, it is obliged the implementation thereof, retroactively, effective from 01.01.2019 for the compensation of 14 MoI officials by determining the amount of the allowance. The tested sample includes payment for the first two months of the year in amount of €899 to one of the employees, as per this decision. Meanwhile, there is no evidence that there was any additional task to be carried out other than the regular daily activities. Among the compensated employees there was one

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<sup>2</sup> Regulation no. 01/2016 on Borrowing Funds Management, as amended and supplemented by Regulations 03/2017 and 05/2017, respectively.

<sup>3</sup> Regulation no. 33/2012, Article 13: Compensation for specialized professional perfection for the needs of the institution or the state, if not covered by any other body, shall be covered by the institution; 4.1 In addition to compensations foreseen under paragraph 4 of this article, civil servants at the time of professional perfection will not lose the right to regular monthly salary

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employee who was engaged in the PIU by SG's decision with a fix salary for that period, that is she was compensated with an allowance for the same work (€899 for two months).

- Compensation of members of the Commission for Oversight of Capital Projects in MoI. Decision of SG dated 11.06.2019 is based on the Law no. 06/L-133 on Budget Appropriations for 2019, Article 20, and the allowance is set with reference to Regulation 05/2017<sup>4</sup>. Both acts refer to PIUs engaged on management of activities for projects financed by borrowings, while the members of this commission are not part of PIUs. The decision obliges payment of allowances retroactively, starting from 07.06.2013. The tested sample includes payment for 15 months to one of the members of the commission amounting €7,597.

### 3. *Payments executed from an inadequate economic category*

In 2019, payments amounting €283,619 were made for road maintenance, although they do not meet the criteria to be qualified as Capital Investments, as they rather fall in the category of Goods and Services. Such payments were made for monitoring and inspection, removal of water, car towing, salt supply, cleaning of street gutters, curbing stones, sidewalks, etc. The calculated amount was extracted from stages in the construction logbook. Such payments lead to overstatement of assets registers. These services were planned by MoI and budgeted by MoF as Capital Investments. The CFO and the Department for Roads Management failed to distinct the investment maintenance from the routine maintenance. Additionally, purchases of a switch, in amount of €4,950, and a laptop, in amount of €1,116, were recorded under the economic code 13503 'Computers less than 1,000' from Goods and Services, whereas they should have been recorded under Capital Investments.

## **Responsibility of Management for AFS**

The Secretary General of the Ministry of Infrastructure is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Cash based Accounting and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law No. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented) and Regulation No. 01/2017 on Annual Financial Statements of Budget Organisations.

The Minister is responsible to ensure the oversight of the Ministry's financial reporting process.

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<sup>4</sup> Regulation No. 05/2017 on the amendments of Regulation No. 01/2016 on the management of borrowing funds, supplemented and amended by Regulation No. 03/2017, issued by Ministry of Finance.

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## **Auditor General's Responsibility for the audit of the AFS**

Our responsibility is to express an opinion on the AFS based on our audit conducted in accordance with ISSAIs. These standards require that we obtain reasonable assurance about whether the financial statements are free from material misstatements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will detect every material misstatement that might exist. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

The audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the entity's circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the presentation of the financial statements.

We communicate with the management of the audited entity regarding the audit scope, planned time and significant findings including any significant shortcoming in internal control that we have identified during the audit.

The audit report is published on the NAO's website, except for information classified (as sensitive) or other legal or administrative prohibitions in accordance with applicable legislation.

## **Recommendations related to Annual Financial Statements**

**Recommendation B1** The Minister should undertake every action to ensure regular attendance of these employees by constantly monitoring them, as stipulated in legislation.

**Recommendation A1** The Minister should ensure that, when compensating the staff, the regular method of allowance payment is followed, the allowances are budgeted in the correct category, and decisions are reconsidered, and he should ensure that the Ministry is undertaking the appropriate legal measures.

**Recommendation C1** The Minister should ensure that effective processes are established to confirm that the drafting AFS 2020 plan addresses all the issues regarding compliance. Specific actions should be taken to address the causes behind misclassifications, data presentation in budget execution report and disclosures in AFS.

## 2 Financial Management and Control

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Budget Organisations. Specifically, we have handled budget management, procurement, human resources and assets and liabilities as well as the internal audit function.

### Financial Management and Control Conclusion

Although considerable improvements were noticed in procurement, particularly in following and implementing requirements for fair planning and management of Ministry's needs, significant shortcomings are identified in procurement contract management, expenditure management regarding projects financed by borrowing, co-funding with municipalities, personnel management due to incorrect application of procedures, and management of assets and accounts receivable.

In terms of financial systems, controls must be strengthened over spending execution, budget outturn by pointing out capital investment, where there are delay in implementation of projects particularly of those finances by borrowing. The Ministry has not established yet proper controls for management of financial obligations, and therefore there are still shortcomings in reporting and timely payment of such obligations.

#### 2.1 Budget Planning and Execution

We have considered the sources of budget funds and spending of funds collected by economic categories. This is highlighted in the tables below:

**Table 1. Sources of budgetary Funds (in €)**

Description	Initial Budget	Final Budget <sup>5</sup>	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
<b>Sources of Funds:</b>	<b>301,487,751</b>	<b>301,373,981</b>	<b>196,989,433</b>	<b>65%</b>	<b>244,826,294</b>	<b>234,379,056</b>
Government Grant	141,137,251	141,023,481	124,357,256	88%	166,079,589	234,309,830
PAK Revenues	65,550,500	65,550,500	62,646,477	96%	74,453,333	0
Funding from Borrowings	23,300,000	23,300,000	9,985,700	43%	4,293,372	69,226
Investment Clause	71,500,000	71,500,000	0	0%	0	0

The final budget of the Ministry is lower than the initial budget by €113,770, which was a result of Government decisions or adjustments reflected for accomplishment of budget requests. Yet, the budget by the end of the year resulted in a budget underspending of €104,384,548.

<sup>5</sup> Final budget - the budget approved by the Assembly subsequently adjusted by the Ministry of Finance

The low execution of expenditures results from the projects planned to be funded by Borrowings and the investment clause. Failure to implement them is related to delays in establishment of Project Implementation Units. Funds from the investment clause were designated for projects: (1) Expansion and rehabilitation of motorway M9 Prishtina-Peja – €45,000,000; (2) rehabilitation of regional roads – €15,000,000; (3) Rehabilitation of Rail Route Fushë Kosova-Hani i Elezit – €10,000,000; and (4) Transportation and Traffic Safety Project – €1,500,000.

In 2019, the Ministry spent 65% of the final budget or €196,989,433, with a decrease of 14% compared to 2018. However, the budget execution remains at an unsatisfactory level and explanations for the current position are detailed below.

**Table 2. Spending of funds by economic categories - (in €)**

Description	Initial Budget	Final Budget	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
<b>Spending of funds by economic categories:</b>	<b>301,487,751</b>	<b>301,373,982</b>	<b>196,989,433</b>	<b>65%</b>	<b>244,826,294</b>	<b>234,379,056</b>
Wages and Salaries	1,925,977	1,812,208	1,812,208	100%	1,829,911	1,743,492
Goods and Services	8,103,323	8,453,323	8,371,109	99%	6,594,681	5,776,727
Utilities	375,190	375,190	145,970	39%	154,243	137,337
Subsidies and Transfers	1,443,814	1,878,814	1,502,676	80%	1,041,743	1,442,658
Capital Investments	289,639,447	288,854,447	185,157,470	64%	235,205,716	225,278,842

Explanations for changes in budget categories are given below:

The budget for Wages and Salaries was reduced because of budget savings. Whereas the budget for Goods and Services was increased by €350,000. It must be underlined that the budget execution from this category was increased in the first and second quarter where most of the appropriated budget was spent during that period. The budget increase is a result of increase of expenditures by contracting services and number of staff engaged under special service agreements. Whereas, there were budget movements also in the category of Capital Investments where it was reduced by €785,000 as a result of decisions for budget savings. And yet the execution from this category was low. This was due to setbacks of projects financed by borrowings and investment clause. MoI had planned to finance 300 capital projects in 2019. That number included 88 new projects and 94 planned projects, which had not started yet. A portion of these funds were transferred to new projects.

## 2.1.1 Revenues

Revenues generated by MoI in 2019 totalled €3,514,990. These relate to revenues generated from driving licence fees, business licence, administrative fees, licence for free individual activities, penalties from inspectorate, etc.

**Table 3. Revenues (in €)**

Description	Initial Budget	Final Budget	2019 Receipts	% of 2019 Receipts	2018 Receipts	2017 Receipts
Revenues	2,494,700	2,494,700	3,514,990	141%	2,805,710	2,510,869
<b>Total</b>	<b>2,494,700</b>	<b>2,494,700</b>	<b>3,514,990</b>	<b>141%</b>	<b>2,805,710</b>	<b>2,510,869</b>

Revenues generated by MoI are deposited to Kosovo Fund and registered in KFMIS in accordance with the Treasury Financial Rules; the MoI is not authorized to spend them.

From the generated revenues, we have tested eight (8) samples of €36,230 as part of substantive testing, and eight (8) samples as part of compliance testing. When examining the samples, we found no irregularity to report on.

## 2.1.2 Wages and Salaries

The final budget for salaries was € 1,812,208. The number of employees by budget was 308, whereas by the end of the year the number of employees was 285. During 2019 there were employed six (6) new staff. We have tested seven (7) samples as part of substantive testing, and 11 samples as part of compliance testing.

### 2 - Shortcomings in recruitment procedures

#### **Finding**

The Regulation on Recruitment Procedures in Civil Service, Article 41, para. 1 stipulates that the Personnel Manager of the recruitment institution shall notify in writing the successful candidate on their right to appointment. The notification also determines that the Official Appointment Act shall be issued within 30 days. Article 41, paragraph 2 stipulates that the notification shall contain the names of successful candidates, venue of employment and gained points during the selection procedure.

In three (out of six) recruitment processes tested, we encountered shortcomings in the procedures.

- In the Driving License Department, on 25.06.2019, there were advertised two vacancies for Administrative Officer. On 23.07.2019, the Personnel Division made the advertisement for the successful candidates on the MoI website, who were two, and in accordance with the evaluation and recommendation by the ICCS Commission and approved by the Secretary General (SG). However, on 23.08.2019 on the ministry's website, at the request of the senior executive officer of the SG, the cancellation of the vacancies was advertised. The cancellation notice published on the MoI website was made one day after the legal deadline<sup>6</sup> ended and it did neither contain the reason for the cancellation, nor date nor protocol number. The cancellation notice did not specify that only one position was cancelled, as one candidate had already signed the appointment act, but as a cancellation of competition as a whole. The candidate selected for the second position had been informed through this notice that the competition had been cancelled and the same had exercised the right to appeal.

Officers in charge were unable to provide evidence to reason the partly cancellation of vacancy. On the other hand, the vacancy was cancelled due to the request of the senior executive officer through SG and without a justification.

**Impact**

Cancellation of vacancy without a justified decision may lead to submission of cases to the competent authorities because of non-compliance with legal requirements.

**Recommendation A2** The Minister should ensure the full implementation of the above-mentioned legal provisions regarding recruitment procedures and vacancy cancellation, and demand responsibility from the officers in charge for their actions or inactions necessary to ensure professional competence for implementation of applicable legal provisions.

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<sup>6</sup> 31 days from 23.07.2019-23.08.2019

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### 2.1.3 Goods and Services

The final budget for Goods and Services, including utilities, in 2019 was €8,828,513, of which €8,517,079 were spent. Those relate to winter and summer maintenance, contracting service, rental services and other operating services. We have tested 35 samples of €832,116 as part of substantive testing, and 10 samples as part of compliance testing.

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3 - Establishment of the Project Implementation Units (PIU) without a prior proposal by the Minister of Finance

**Finding** The Law no. 06/L-133 on Budget Appropriations, Article 20, para. 1, stipulates that in order to oversee and implement the projects financed by borrowing and other projects of interest to the Republic of Kosovo, upon proposal of the Minister of Finance, the respective experts may be remunerated for overseeing the implementation of such projects, pursuant to the sublegal act<sup>7</sup> issued by the Law No.03/L-175.

Based on the analysis of documentation and examination of samples, we have identified that several Project Implementation Units for projects financed from borrowing were established in MoI, of which we have identified six of them. These PIUs are established by decision of Minister of Infrastructure without the prior approval of Minister of Finance, as required by law.

The MoI management was not able to provide the appropriate explanations for not complying with the legal requirements and the reasons for the establishment of these PIUs.

**Impact** Establishment of these units without complying with regulatory requirements can affect irregular budget spending as well as shortcomings in financial management and control.

**Recommendation A3** The Minister should ensure that measures have been taken to clarify the lawfulness of these units, to review the decisions for establishment thereto and to take concrete actions by enhancing control and raising accountability in accordance with regulatory requirements.

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<sup>7</sup> Regulation 01/2016 on Borrowing Funds Management, amended and supplemented by regulations 03/2017 and 05/2017.

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#### 4 - Payment execution from the borrowing fund not in compliance with the agreement

##### **Finding**

Forms and categories that will be financed from borrowing are defined in the respective loan agreements for funded projects. These agreements define the categories of items to be financed from borrowings. With reference to the Law no. 06/L-133 on Budget Appropriations for 2019, Article 20, the oversight of the implementation of projects financed from borrowings is done as provided for in the loan agreement. As a result, budget allocations for the source of borrowing will have to be for the implementation of these projects and in accordance with the criteria set out in the loan agreement.

According to loan agreements, the category planned for external financing is for Civil Work<sup>8</sup> only and does not provide for the financing of other operational categories.

In the budget programme '43000 - Project Implementation Unit' according to the Law on budget appropriations, funds in the amount of €300,000 were allocated for financing from borrowings, while €269,507 were spent by the end of the year.

From the sample testing, we identified seven payments (totalling €30,305) which were executed in KFMIS from borrowing sources, but which should have been executed from the Government Grant. Payments were executed for compensation of personnel engaged for performing services in the PIU Kijevë-Zahaq (3 payments), PIU Regional Roads (3 payments) and PIU Prishtina - Gjlan Dheu i Bardhë (one payment).

In this regard, there were suggestions from the Treasury on non-execution of funds from this programme. These funds will therefore remain a burden for the Kosovo Budget, as these payments are not related to this project and will not be able to be reimbursed by the lender, because they are not in accordance with the terms of the lender's agreement.

The project 'Expansion and rehabilitation of the Prishtina-Mitrovica Motorway' is the only project that according to the loan agreement had planned to finance advisory services (within operating expenses) and part of the funds budgeted in this programme were spent according to the project destination.

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<sup>8</sup> With reference to Law 06/L-063 on Ratification of the Loan Agreement between the Republic of Kosovo and the European Bank for Reconstruction and Development, for the highway project Kijevë-Zahaq, and Law 05/L-097 on Ratification of the Loan Agreement between the Republic of Kosovo and the European Bank for Reconstruction and Development for Regional Road Rehabilitation, the term 'civil works' is used for construction works which are executed from the category of Capital Investments.

Despite our efforts for the necessary clarifications with SG about the functioning of these units, we have not received the necessary answers.

**Impact**

Such situation led to execution of payments not in accordance with the borrowing fund, and such funds will remain unreimbursed by the lender. The funds spent will therefore be a burden to the budget and deemed as unplanned expenditures.

**Recommendation A4** The Minister should ensure the internal control system regarding the management and processing of payments for PIUs is reviewed in order to ensure reliability on utilisation of budgetary resources including those from the borrowing fund.

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## 5 - Engagement of officers in PIU with no lender's approval

### **Finding**

With reference to the Loan Agreement<sup>9</sup> for the Prishtina-Mitrovica motorway project, section 3.04, the Borrowing Agreement for the rehabilitation of Regional Roads and the Agreement for the Kijevë-Zahaq highway project, paragraph 3.02, the personnel employed with PIU should be qualified according to the Terms of Reference, acceptable to lender. Consequently, as regulated by the sublegal acts<sup>10</sup>, the contract will be awarded to the staff of the Unit only after it has received final approval from the creditor.

For the projects at stake, we have identified three cases of personnel engaged in these PIUs without obtaining approval from the lender. The staff was engaged by decision of the Secretary General. The engagements were for the Prishtina-Mitrovica Unit, a finance expert officer; Regional Roads unit, a budget and finance expert; and the Kijevë-Zahaq Unit, a procurement expert officer.

Although MoI did not provide clarifications on the functioning of these units, according to the establishment and operation of the PIUs, it seems that MoI did not comply with the lender's requirements according to the ratified agreement.

### **Impact**

Engagement of personnel in PIU without the application of terms of reference according to the lender's agreement leads to irregular expenditures.

**Recommendation A5** The Minister should ensure that accountability has been sought, by identifying such cases, and measures have been taken to establish control, by reviewing the composition of the PIU members, which should be in line with the requirements according to the agreements approved with the lender and should prevent such engagements in the future.

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<sup>9</sup> Law No. 04/L-256 on Ratification of the Loan Agreement for the High Speed Road Project Pristina-Mitrovica between the Saudi Fund for Development and the Government of the Republic of Kosovo.

<sup>10</sup> Article 7, paragraph 7 of Regulation 01/2016 amended by 05/2017.

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## 6 - Advances closed after the statutory deadline

**Finding** The AI 2004/07 for Official Travels, Article 8, stipulates that the request for compensation and per diem along with the evidence of financial expenses is submitted to the budget and finance service within 15 business days from the day of completion of the official travel.

Four samples were tested in this field, totalling €8,086 from advances for official travels abroad, which were closed after the statutory deadline. The question is about payments in the amount of €905 (20 days); €2,819 (32 days), €2,806 (4 days) and €1,556 (21 days).

The reason for these delays is the negligence of the users of advances to fulfil their timely obligations, and of the finance officers to discharge their responsibilities towards the management of these funds.

**Impact** The inefficiency of controls when closing advances can lead to failure to return the funds and unauthorised use thereof.

**Recommendation A6** The Minister should take measures to increase control in administration in order to notify the relevant officers on fulfilment of obligation to close the advances in time and increase the accountability of the officers who use the advances for official travels.

### 2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €1,878,814, of which €1,502,676 were spent in 2019. Those relate to humanitarian road and railway transportation according to the agreement with Trainkos. We have tested five (5) samples of €352,504 as part of substantive testing, and one (1) samples as part of compliance testing, as the only procedure executed during the year.

We found no irregularity in this area.

### 2.1.5 Capital Investments

The final budget for Capital Investments was €288,854,447, of which €185,157,470 or 64% were spent in 2019. They relate to road constructions, road paving, co-financing of projects based on Memoranda with Municipalities, road maintenance, etc.

Factors that influenced on the low level of spending are the setbacks in execution of projects planned from the investment clause (€71,500,000) which were not executed at all, and delays in execution of projects financed from borrowings. There were stagnations in projects such as “Rehabilitation of the road M2 Prishtina-Mitrovica” and “Expansion of the road Lake Badovci-Mramor-Grashtica”.

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We tested 102 samples of €89,274,826 as part of substantive testing, and seven (7) samples as part of compliance testing, while for one case, we obtained evidence that the original case was taken for further investigation by the investigation bodies. The procedures related to the EOs contracted regarding the Prishtina-Hani i Elezit highway have been taken for investigation by the investigation bodies. We have included payments in this regard in substantive testing, in which case we have treated them in terms of contract compliance and their presentation in the accounting books.

According to the ministry, there was a low implementation of works and payments during the year, because the expropriation had not been settled for these projects. Consequently, because of delays in the performance of obligations to property owners, obstacles have arisen from owners in the performance of work.

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#### 7 - Amendment of project and acceptance of works not in compliance with technical specifications

##### **Finding**

The Rules and Operational Guidelines for Public Procurement, point 61.20 stipulates, "Project Manager is to ensure that the economic operator meets all performance or delivery obligations in accordance with the terms and conditions of a contract". Article 61.21 "An amendment to a contract is initiated by the Contract Manager and in case of employment contracts, prior approval of the designer is required"

For the project "Construction of the road Bardh i Madh - Lismir, Fushë Kosovë, L = 3,521m" in the amount of €475,904, dated 03.03.2020, we performed a physical examination, whereby we identified that items which were issued in the financial stage for payment as completed by the economic operator and verified by the project manager, some of them were not performed. There was also a change in some items of the project or non-implementation of items for which no approvals were received from the requesting unit.

Items for accepted yet unfinished works (according to the examination) were as follows:

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- Earthworks Item 1.3.8.1 Humization of roadsides slopes t=15cm thick, includes junctions, the amount €5,519 was paid while this item was not worked at all;
  - Earthworks Item 1.3.1 Excavation of soil, amount €30,266 was partly carried out and not according to the project;
  - Horizontal Signalling (Thermoplastic) Item 1.1 - 1.6, supply and execution of the line dividing the traffic lanes, amount paid €19,522, while a simple colour supply was used (it was not thermoplastic colour);
  - Vertical Signalling Item 2.1-2.4, supply and placement of junction signs, upcoming traffic signal information and dimensioning according to standards, amount paid €1,760, signals were badly fixed (most of them could be manually removed, and two of them had collapsed);

We noticed in the project file that by decision no. 10991 dated 11.10.2019, the Secretary had appointed the commission for technical acceptance and the final account of the works performed in "Bardh i Madh, Lismir, Fushë Kosovë, L=3,521 m". On 31.10.2019, this commission sent the report to the ministry's management for technical acceptance of the work performed under the contract, and highlighted that the works were not carried out according to the main project design, that changes were made with the consent of the contract manager without preliminary approval of the Contracting Authority. Eventually, the commission concluded that the work performed was not accepted, there are violations of the terms of the contract and non-implementation of the project, and the useful life could not be determined for this project. During our examination of the works, the members of the commission were also present.

The contract manager rejected this report, and asked the secretary to change the technical acceptance commission. Meanwhile, the contract manager made some changes to the final payment item, changing some of the items he had previously approved under the payments<sup>11</sup>.

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<sup>11</sup> Regarding the payment in the amount of €236,815, (certificate for payment in amount of €236,815 dated 15.07.2019) the paid items were: Item 3-Culverts 400X350x800, concrete works and reinforcement, amounting €12,300; and Item 4-Culverts 200X250X800, concrete works and reinforcement, amounting €5,128; and under the Payment in amount of €20,675, (payment certificate dated 20.12.2019, last stage), items paid/changed were item 3. Culverts 400X350x800, concrete works and reinforcement, amounting €1,019, and item 4. Culverts 200x250X800, concrete works and reinforcement, amounting €781.

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By decision dated 06.12.2019, the Secretary changed the commission members and requested re-evaluation for technical acceptance.

The changed commission, on 23.12.2019, drafted the report for technical acceptance of the project. The conclusion of the commission was that the works performed according to the contract are accepted, as they had been performed according to the required quality. However, it should be noted that during this period, the contract manager changed the final stage in several items from the one of the first commission.

This happened because the project manager signed the reports that the works were completed under the terms of the contract, while they were not. Furthermore, that was also due to negligence of the management to accept and analyse the report received from the first commission, and take appropriate action for this project.

**Impact**

Failure to implement the project as per the bill of quantities of the signed contract and signing of the acceptance reports by contract manager for works that were not performed according to contract lead to increased risk of traffic safety and damages the ministry's budget. From the financial point of view, it is uncertain whether the value for the money spent has been achieved in the above-mentioned items.

**Recommendation A7** The Minister should ensure effective supervision of projects so that the execution of works is carried out in full compliance with the terms of contract and payments are made only for the completed works. The Minister should also ensure that any amendment in the terms of contract during implementation of project is approved by contract managers only upon receipt of prior approval from the requesting unit and the CAO.

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## 8 - Amendments in contract items without prior approvals

The Rules and Operational Guidelines for Public Procurement, Article 61.6 stipulates that "After a contract has been distributed, contract management, except the capacity to amend or terminate, shall pass from the Procurement Department to the Project Manager.", Article 61.20 stipulates that "Project Manager is to ensure that the economic operator meets all performance or delivery obligations in accordance with the terms and conditions of a contract.", Article 61.21 "An amendment to a contract is initiated by the Contract Manager. In case of employment contracts, the prior approval of the designer is required".

For the projects "Asphalt paving in the road Hajkobillë-Zajqevc-Tuxhec L=12550M" in amount of €1,049,441, we noticed that there were changes in the quantities implemented in 13 items, thus increasing the contracted quantity by 25% but without changing the contract price. While, some items were not implemented at all.

The project has also failed to be implemented as per the bill of quantity and cost estimate contracted in some items. The planned amount of these items<sup>12</sup> was €31,858. While work in the amount of only €660 was done in these items.

For these changes, no approval was taken from Chief Administrative Officer (CAO). According to the contract manager, these items were not implemented because he has assessed that there was no need and the funds were paid for the implementation of additional work for some other items. We requested more detailed explanations on this issue, but we have not received any response from the contract manager.

### Impact

Changing the projected and contracted bill of quantity without prior approval of the requesting unit and the CAO may lead to works for contract implementation are not in conformity with the requirements of the project and the value for money is not achieved.

**Recommendation A8** The Minister should ensure that any amendment in the terms of contract during the implementation of project is made only after the notification of the procurement office, preliminary approvals obtained from CAO and the requesting unit.

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<sup>12</sup> Items: Concrete works, from item 4.1 - 4.5 Supply, transport and placement of concrete edges 18x24 c 30/37.1 M100, 4.5 -4.9, item Excavation of soil and machine for opening holes for 30 manholes with diameter D = 50 cm in depth H = 8.0M., and 4.10-4.13.

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## 9 - Entering into contractual obligations beyond the approved budget appropriations

### Finding

The Law No. 06/L-166 on Budget 2019, Article 12, para. 6 stipulates that signing of contracts for multi-annual capital projects is done by budget organizations only when such expenses are foreseen in the Law on Budget for the fiscal year 2019 and for the two (2) subsequent years. The Operational Guidelines for Public Procurement, Article 8.1 stipulates that the CA shall initiate a procurement activity only after it has conducted a formal needs assessment clearing up, why exactly the procurement has to be done and Article 8.2 stipulates that the CFO shall ensure that the funds are available for the concerned procurement.

We identified three (3) cases where MoI signed contracts for several projects with a value higher than the planned budget by budget appropriations.

- For the project “Construction of the road Lubozhë-Lugu i butë”<sup>13</sup>, in 2019 the Ministry signed a contract in amount of €3,133,834, and implementation of works was set to be performed for 355 working days, while the budget allocation set out in the table of capital projects was foreseen in amount of €150,000 for 2019 only, and not for the subsequent year.
- For the project “Expansion of the national road N9.1 segment Dollc-Gjakovë, L=31.00” (with number 15658), the budget allocation based on Table 3.2 of the Budget Law for this project was €27,448,597. In March 2019, three contracts were signed in amount of €12,873,225. Consequently, after signing the contract for this project, there were €14,575,372 as spare funds. In July 2019, MoI signed three other contracts (split into three lots) in amount of €21,022,555. In this case, MoI entered into contractual obligations amounting higher than the available budget appropriation by €6,447,183.
- For the project “Rehabilitation of Regional Road r 115 Gërlicë e Epërme-Shtërpcë-Brezovicë and road r 210 Brezovicë - Ski Centre” in 2019, the Ministry signed contracts in amount of €3,240,609, while the budget appropriation for three years forecasted in the table 3.2 of capital projects in the Budget Law was €1,300,000.

The statement of needs and determination of the availability of funds, which determines the estimated value of the project were not made in accordance with the budget law.

This was because management had considered that budget could be increased for these projects.

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<sup>13</sup> Project number 18393.

**Impact** Entering into contractual obligations amounting higher than budget allocations without being assured on the availability of necessary funds may lead to contracts failure and incurring of liabilities, which will be a burden to the budget of subsequent years. This also increases the risk that the Ministry be subject to litigations, which may result in additional contract costs.

**Recommendation A9** The Minister should ensure that contractual obligations are created only within the annual budget limits. Where the contracts are multi-annual, this should be envisaged in the MTEF, and the funds commitment should be made up to the amounts the contracts progress is planned.

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**Issue B2 - Technical acceptance of works and projects from a non-competent committee composition****Finding**

The Administrative Instruction (AI) No. 2008/3 of MoI, Article 2 para. 3, stipulates that the Members of the Experts Committee for supervision of works, technical acceptance and test of completed works in road have to be qualified persons and of specialized knowledge in road infrastructure sector, of the field in construction, road traffic safety and similar. The Procurement Officer in charge shall sign a contract, but must not sign acceptance of goods, installed items, completion of a project, delivery in stages, or payment of any invoice.

We have identified that in three cases the Committee for acceptance of works was not composed by members with the required competence and knowledge. In these cases, the Committee consisted of two engineers and another member from the non-professional field and the position that is not allowed, such as an economist and an officer from the procurement office.

- Project “Asphalt paving of the road Hajkobillë-Zajqevc-Tuxhevc” - a procurement officer appointed as a member;
- Project “Construction of Gjeravicë road, Junik-Lugu i Gjatë segment” - a procurement officer appointed as a member; and
- Project “Re-asphalting of the Regional Road R220, Bukosh-Prilluzhë segment” - an economist appointed as a member.

These have occurred because of poor analysis of the legal requirements, AI of the MoI or their neglect.

**Impact**

The appointment of non-competent officers to the committee for technical acceptance and assessment of the construction state increases the risk of accepting projects, which are not in compliance with the required standards and quality. This is not in line with the principles of segregation of duties, either.

**Recommendation B2** The Minister should ensure that part of the committees for acceptance of projects and works will be relevant qualified officers with specialised knowledge in road infrastructure who shall assure that projects are carried out in full compliance with construction standards.

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**Issue B3 - Non-participation of MoI officers in the bid opening and bid evaluation committees for projects under co-financing with municipalities**

**Finding** According to the Memoranda of Understanding for Co-financing with municipalities, Article 4, para 4, it is determined that in bids opening and evaluation committees there should be a member from MoI to ensure that the winning bidder has submitted all the required documentation and that the selection process is done according to applicable legislation.

In three cases, we identified that MoI officers were not appointed as integral part of bid evaluation committees in the procurement processes conducted by municipalities for the following projects:

- Financing of the project in Municipality of Klina, "Asphalting of the road in Jashanica of Klina-phase 2";
- Financing of the projects in Municipality of Istog, "Construction of the centre of Istog, streets "Ibrahim Rugova", "Fadil Ferati" and "UÇK"; and
- Financing of the project in Municipality of Rahovec, "Construction of a four-lane road from Rahovec to Xërxë.

This occurred due to MoI's negligence to appoint officers according to the requirements of the memoranda.

**Impact** Non-participation of ministry officers in the bid opening and bid evaluation committees, conducted by municipalities, can lead to selection of ineligible operators and the ministry may lack the information on the dynamics of projects.

**Recommendation B3** The Minister should ensure that the ministry's officers are part of the bid opening and bid evaluation committees, or as provided for by the relevant agreements, in order to assure that the procurement processes are conducted under full transparency and in accordance with regulations. He should also have information on the projects dynamics.

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## 10 - Weaknesses in certification of cases

### Finding

The LPFMA 03/L-048, and the amendments thereto, Article 14.4 stipulated that the Certifying Officer shall be responsible for ensuring the implementation of a public contract before authorising the payment and that it shall be in accordance with secondary legislation: a) ensuring that the applicable terms of a public contract have been fulfilled before any payment under such contract is made or authorised; and b) ensuring that the expenditure of public money under any public contract is done in accordance with the FMC Rules.

We tested 10 payments<sup>14</sup> and identified that the certifying officer at the time of certification did not have the technical specification in the payment file, respectively the contracted prices and the separate situations that reflect the work done for the respective invoices. The payment file contained only the first two pages of contract. Certified payments contained as evidence the stages accepted by managers which reflect the total works (cumulatively) from the contract conclusion or from the beginning of works until the date of payment, but not the stage/work related to the actual payment. In the light of this, it was impossible to follow-up the work performed based on the invoice relating to the approved certificate for payment and the contract.

We tested these samples in co-operation with the respective contract managers, by looking for construction logbooks, based upon which we looked for the amount of work completed for payment. From our verifications in some cases we identified differences, i.e. more invoicing and payment than the work completed according to the construction logbook; such as project 13000 Summer maintenance of regional and regional roads 2018/2019 region Gjilan 2, stage six, difference €992.

Payment of obligations for two invoices dated 31.03.2019 regarding fuel, in amount of €12,282, was executed by leaving as supporting evidence the preliminary contract (05.11.2015) and not the current one (11.02.2019).

The reason behind it was that Ministry's officers (project managers) considered the form of certificates used so far (cumulative form) as a good practice.

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<sup>14</sup> (1) €682,160 dated 08.04.2019; (2) €1,063,868 dated 25.07.2019; (3) €649,597 dated 25.07.2019; (4) €1,513,789 dated 19.06.2019; (5) €100,525 dated 29.02.2019; (6) €67,030 dated 17.04.2019, (7) €90,068 dated 30.04.2019; (8) €88,992 dated 12.03.2019 from Capital Investments and (9) two payments from the Goods and Services in amount of €127,166 and €281,593 dated 08.03.2019.

**Impact** Certification of payments lacking technical specification, that is part of the contract, and split stages for each invoice increases the risk of certifying payments that are not in line with the quantities and prices contracted thus causing financial loss to the ministry. Furthermore, the officials' neglect in processing the payment case increases the risk of authorising irregular payments, not in compliance with contractual agreements.

**Recommendation A10** The Minister should ensure that the certification officer should when processing the payments ensure that the financial part of contract is attached to the file and the payment certification is done only based on stages indicating specifically the works related to invoice, and evidenced by relevant documentation.

## 2.2 Capital and non-capital assets

The amount of capital assets presented in AFS is €1,571,666,591, that of non-capital assets is €160,175, and of stock is €100,433. We have tested 100 samples of €87,057,205 as part of substantive testing, and six (6) samples as part of compliance testing.

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**Issue C2 - Delays in the inventorying process for 2019**

**Finding** Regulation MoF No. 02/2013 on Management of Non-financial Assets by BOs, Article 19 para. 4.3 stipulates that Responsibilities of Commission for Non-Financial Assets Inventorying are comparing the situation of inventory with the condition in the non- financial registers; and para. 4.7. Preparing a report in the convenient time before the preparation of the annual financial statements.

Commission for Non-Financial Assets Inventorying in the MoI drafted the report on 02.03.2020, while the decision to appoint the inventorying commission was issued on 13.12.2019. This process was delayed given that the report was drafted after the final AFS were submitted. The report is comprehensive and, other than the description of process followed by the commission, it also contained the list of damaged assets. The report did not specify remarks regarding the harmonisation of records or identification of differences.

According to the report of the commission, the time when the decision was made to appoint the commission and the lack of officials affected the completion of the process.

**Impact** Delays in the inventory process affect the harmonisation of records with inventory situation, which also affect the verification of accuracy and assets situation in the financial statements.

**Recommendation C2** The Minister should ensure that the causes behind delays and shortcomings in assets inventorying process, which would allow for fair reporting of financial value of assets according to legal requirements, are avoided.

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## 11 - Shortcomings in updating asset registers

**Finding** Regulation MoF No. 02/2013 on Management of Non-financial Assets by BOs, Article 6.1 stipulates that each budget organization shall put in place and update a register of non-financial assets under its management. Article 6.3 stipulates that capital assets must be recorded in KFMIS, while the non-capital assets and stocks in the “e- assets” system.

The invoice in the amount of €83,409 contained 9 units totalling €29,166 which belonged to the capital classification by value. They were recorded in the asset register as capital, but not in KFMIS according to legal requirements.

This situation was created by a non-comprehensive budget planning, which would be based on the organisation’s planned needs, and by lack of competencies concerning requirements from regulation on management of asset.

**Impact** Shortcomings identified in asset registers indicate an understatement of assets and incorrect presentation of the value of assets in the financial statements.

**Recommendation A11** The Minister should ensure that functional controls, assuring that the asset register is updated according to the appropriate classification thus reflecting the accurate value, are in place. He should also ensure that appropriate support is provided for training staff engaged in asset management.

## 2.3 Receivables

The MoI disclosed in the 2019 AFS receivables in amount of €3,269,824. This is made of uncollected liabilities for more than 30 days from invoices for gas stations, extraordinary transportation, rent, access control, underground infrastructure instalment, and others.

The Ministry has no procedure or instruction on the management and address of accounts receivable. Neither has it any software for recording and management thereof. Receivables are recorded in an excel spreadsheet prepared by officers who record them, yet this system gives insufficient data for making decisions and on management thereon.

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## 12 - Handling of accounts receivable and failure to take actions for collection thereof

**Finding** The MoI AI 2/2014, Article 4, stipulates that fees to be paid for use of land for the establishment of installations and connection in road. In addition, according to the agreements signed between MoI and users of public property, the deadlines for collecting receivables are determined.

**Finding** From the five (5) samples tested in amount of €6,382, we identified that MoI had not undertaken any action to reduce the accounts receivable. MoI only sent the invoices while it did not take any action to collect revenues. One of the five cases tested has not paid the rent for public property use since 2016, while the other four (4) cases should have made the payment in 2019.

The reason behind it is that MoI has no internal procedure or instruction for management of accounts receivable and has not undertaken concrete actions for the collection of these accounts.

**Impact** Failure to undertake concrete measures to collect debts can affect the non-fulfilment of the budget plan due to non-collection of revenues.

**Recommendation A12** The Minister should undertake actions to identify the reasons for the delays in collection of these payments and establish effective mechanisms for collection of debts from debtors.

## 2.4 Liabilities

### 2.4.1 Outstanding liabilities

According to data presented by the Ministry, the statement of liabilities at the end of 2019 was €23,050,576. These liabilities are carried forward to be paid in 2020.

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**Issue C3 - Unfair presentation of liabilities in Financial Statements**

**Finding** Regulation MoF-No. 01/2017 on AFR, Article 17 - Reporting on outstanding liabilities (invoices) - para 3, stipulates that budgetary organizations shall report all liabilities generated until December 31 of the reporting year.

From testing of the liabilities management and reporting system, we identified an invoice, which was partly paid, while the remaining €894,983 was not reported as liability. The invoice no. 10/01-2019 for payment was in the amount of €4,773,513.39, but MoI paid only a part of obligation due to absence of funds. We noticed that this liability was not reported in the AFS. The correct specification was not been made, either, according to the days of the remaining obligation (less or more than 30 days).

These irregularities resulted mainly due to the non-functioning of internal controls, which should have been put in place for a fair management of liabilities.

**Impact** Such weaknesses raise doubts on the accuracy of liabilities presented in Financial Statements. Taking into consideration the delays in liabilities, the ministry may be subject to direct execution of payments from the MoF and because of court decisions.

**Recommendation C3** The Minister should ensure that payment of invoices is made in accordance with the deadlines set by the regulation and that all liabilities are fairly presented in the liabilities reporting.

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### 13 - Delayed payment of liabilities

**Finding**

Law on Public Financial Management and Accountability, Article 39, stipulates that budgetary organizations shall pay every valid invoice within thirty (30) calendar days from the date of receipt of the invoice

- From the testing of payments in Capital Investments in 6 cases<sup>15</sup>, and in Goods and Services 4 cases<sup>16</sup>, invoices or liabilities to suppliers totalling €431,077 were paid after the statutory deadline of 30 days. Delays ranged from 11 days to 5 months.
- Invoices or liabilities to supplier Bechtel Enka totalling €49,888,561 were paid after the statutory deadline of 30 days. The invoices originated from 2018. The Government, by its decision no. 01/50 dated 05.06.2018, approved the request of the consortium Bechtel&Enka for allocation of funds in order to cover costs for continuing the construction of the national road R6, "Arbër Xhafer", Prishtinë-Hani i Elezit. Based on Agreement no. 02/8457 concluded on 05.09.2018 between the MoI and the Consortium in question, the payment in the amount of €53,100,000 for the extension of the term was included. According to this agreement, payment should be made in 12 instalments (€4,425,000 each), and the last instalment should be made by no later than 01.06.2019. We noticed that, by the end of 2019, payment for debt settlement, as under the agreement, was executed in amount of €48,675,000, while the amount of €4,425,000 has not been paid yet.

The reason behind delayed payments was mainly due to lack of funds, given that for some projects contracts were concluded on previous years though funds were insufficient.

**Impact**

Non-compliance with the statutory deadline for payment of obligations may result in forgetting to pay invoices and, consequently, MoI may not have the necessary and timely information regarding the prior liabilities. This can also affect the progress of project implementation and potential lawsuits filed by EO.

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<sup>15</sup> (1) Case €216,302, project no. 15086 payment date, 15.03.2019, while the invoice 19.09.2018. (2) Case in amount of €49,297, project no. 13618, payment date 22.03.2019, invoice date 16.10.2018 (one portion of the obligation for this project was paid on 23.10.2018, but an amount of €49,296 remained as obligation, while €136,361 was paid). (3) Case in amount of €88,992, project no. 15019, payment date 12.03.2019, while the invoice date is 24.12.2018. (4) Case in amount of €20,236, project no. 15306, payment date 24.07.2019, while invoice date is 14.03.2019, (5) Case in amount of €10,546, project no. 14738, payment date 04.04.2019, while the invoice date is 12.10.2018 and (6) Case in amount of €45,703, project no. 15347, payment date 27.11.2019, while invoice date is 02.09.2019.

<sup>16</sup> Invoices: (1) €281,593 executed with 11 days delay, (2) €83,410 - 39 days delay, (3) €12,283 - 54 days delay, (4) Obligation for electricity €53,126, out of 31 invoices in the amount of €57,341€, only €4,216 were paid.

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**Recommendation A13** The Minister should ensure that sufficient funds are planned for each project, so that no liabilities towards the EO are incurred. He should also increase controls on invoice management system, so that all invoice payments are made in accordance with the statutory deadlines.

## 2.4.2 Contingent liabilities

The statement of contingent liabilities at the end of 2019 was €22,274,580. They relate to cases where the MoI is the sued party in the court proceedings and there is no final decision yet.

## 2.4.3 Contractual obligations

The Ministry reported no data on contractual obligations. Yet, considering that MoI still has incomplete projects, contractual obligations are obvious. However, given that the officers in charge have not provided specific data on such obligations, we were not able to present any financial amount.

## 2.5 Internal audit function

The internal audit function is established by the Statute of the Internal Audit Unit (IAU). The IAU operates with two members and the Head of Audit Unit. The positioning of IUA in the organisational structure serves the mission set forth in statute. The Internal Audit plan foresees 10 regular audits of (7) high priority and (3) medium priority. In 2019, there were carried out seven (7) audits and one (1) ad hoc audit. In regard to the scope, one audit was focused on the activities of 2019, one on the activities of 2018/19, four on the activities of 2018 and two on the activities of 2017/18. The MoI has established the Audit Committee whose mandate is set by the Statute of Committee. For complying with the legal requirements, it held 4 meetings during the year.

We have examined the plan for implementation of recommendations and the IA report resulted in 52 recommendations. Until the time of our audit 50% of them were implemented. The IAU has prepared regular periodic reports on its activities.

### 3 Progress in Implementing Recommendations

Our Audit Report on the 2018 AFS of the Ministry of Infrastructure resulted in 16 key recommendations. The Ministry prepared an Action Plan stating how all recommendations will be implemented.

The Ministry did not submit the Progress report on implementation of recommendations (30<sup>th</sup> of September and 15<sup>th</sup> of March) under requests deriving from the Rules of Procedure on implementation of audit and action plans.

At the end of our 2019 audit, seven (7) recommendations were implemented; one (1) was under implementation; and eight (8) were not addressed yet. For a more thorough description of the recommendations and the way they have been addressed, see Table of recommendations.

**Table 4 Summary of prior year recommendations and of 2018**

No	Audit area	Recommendations of 2018	Actions undertaken	Status
1	AFS	The Minister should ensure that an analysis is carried out to determine the reasons for the Emphasis of Matter of the Opinion and their elimination. Therefore, specific actions should be taken to address the causes to eliminate misclassifications and irregular payments, which should be in line with the requirements of applicable laws.	The issue of misclassification was also present in 2019. This year the ministry engaged 32 people without work attendance. While other issues raised have been implemented.	Recommendation partly implemented
2	AFS	It should also ensure that when preparing the AFS, effective processes are established to confirm that the production plan for 2019 AFS addresses all issues pertaining to compliance. It should be ensured that steps are taken to ensure a correct presentation of outstanding liabilities as required by Treasury Rules.	The 2019 FS needed adjustments. Shortcomings have also been identified in the final FS.	Recommendation unimplemented
3	Budget planning and execution	The Minister should take actions for the timely functionalisation of Project Implementation Units so that capital projects are implemented in accordance with reached agreements.	With reference to the issues raised in 2019, the situation is the same.	Recommendation closed unimplemented
4	Wages and Salaries	The Minister should ensure that staff engagement with SSA is done in full compliance with the requirements of	No improvement was made by the MoI in this regard.	Recommendation unimplemented

		the regulations, respectively the procedures are implemented with full transparency, taking into account the professional preparation and performance of recruited candidates. In addition, in co-ordination with the MoF and the MPA, the Minister should review the possibility that regular positions are staffed according to the Law on Civil Service.		ted
5	Goods and Services, and Utilities	The Minister should ensure that effective financial controls are established and a better co-ordination between the requesting unit, the contract manager and the procurement office is achieved in order for all obligations to be paid in time and to avoid the possibility of additional payments for court procedures, default interest and enforcement costs.	There have been no such cases from the evidence obtained.	Recommendation implemented
6	Capital Investments	The Minister should ensure that its officers should be part of the bid opening and evaluation commission processes to ensure that procurement processes are conducted in the framework of full transparency and in compliance with the regulations and be informed with the dynamics of projects.	Based on the testing conducted, No improvement was made by the MoI in this regard.	Recommendation unimplemented
7	Capital Investments	The Minister should ensure that before municipal agreements on co-financing of certain projects are reached, the municipalities have regulated property issues, a copy of the plan and the consent on connections given by the municipal companies (electricity, water and sewage). Otherwise, no funding should be made.	The tests identified two projects with delays in implementation due to non-expropriation, but they are contracts under the MoI management. These two issues have been addressed under the low budget execution.	Recommendation unimplemented
8	Capital Investments	The Minister should review the above two cases and analyse why the mentioned irregularities have occurred and ensure that the Procurement Department will strictly apply all procurement regulation	The recommendation was taken into account, as the tests identified no such.	Recommendation implemented

		requirements in the future.	cases.	
9	Capital Investments	The Minister should consider the above case and strengthen controls and accountability measures in the procurement office to ensure that the signing of the contracts is in full compliance with the deadlines published in the contract notice and such practices are not repeated in the future.	Tests identified no such cases.	Recommendation implemented
10	Capital Investments	The Minister should ensure that the necessary actions are taken to ensure that the procurement office provides assurance that the development of procurement processes from the initiation of the activities to the signing of contracts is conducted within the legal framework, or should specifically request from the procurement manager not to sign contracts without evidence of the project performance security.	Tests identified no such cases.	Recommendation implemented
11	Capital Investments	The Minister should ensure that all field examinations, including geodetic surveys, recording of the real situation on the ground, resolution of property issues and accurate mapping of the roads, have been carried out before drafting the executive projects. Afterwards, determine the bill of quantity and bill of accounts of the project to reduce the possibility of exceeding the works stipulated by the contract.	We identified no such cases.	Recommendation implemented
12	Capital Investments	The Minister should ensure that in cases when the need for technical corrections to projects is imposed, the process for re-designing the projects is carried out only after procurement procedures have been developed or by companies contracted by the Ministry.	Tests identified no such cases.	Recommendation implemented
13	Capital Investments	The Minister should ensure that part of the commissions for the acceptance of projects and works will be officials with relevant qualifications, with specialised knowledge in road infrastructure that would provide	The issues raised show that the same situation continues in MoI regarding the committees for the acceptance of works.	Recommendation unimplemented

		assurance that the projects were implemented in full compliance with the construction standards.		
14	Capital Investments	The Minister, when procurement procedures are conducted when dealing with supplies or work, where approximate quantities are known, should ensure to consider the preliminary suggestions of the requesting procurement units for the type of contracts and procedures to prevent the possibility of manipulations.	Tests identified no such cases	Recommendation implemented
15	Capital and non-capital assets	The Minister should ensure that members of the asset inventory and valuation commission and asset management officers are appointed competent and professional employees that would enable full inventory, reporting and asset management in accordance with legal requirements.	The inventorying process was delayed even though a final reports after the FS date was drafted.	Recommendation unimplemented
16	Outstanding Liabilities	The Minister should first ensure that there are secure funds for the payment of outstanding liabilities from previous years and that all invoices received during the year will be paid within the established deadlines.	Liability management is still challenging to MoI. Although the reporting is regular, it is accompanied with shortcomings regarding completeness.	Recommendation unimplemented
No	Audit area	Recommendations of 2019		
1	Audit Opinion	The Minister should undertake every action to ensure regular attendance of these employees by constantly monitoring them, as stipulated in legislation. Otherwise, this issue must be discussed before the Government.		
2	Audit Opinion	The Minister should ensure that, when compensating the staff, the regular method of allowance payment is followed, the allowances are budgeted in the correct category and decisions are reconsidered, and he should ensure that the Ministry is undertaking the appropriate legal measures.		
3	AFS	The Minister should ensure that effective processes are established to confirm that the drafting AFS 2020 plan addresses all the issues regarding compliance. Specific actions should be taken to address the causes behind misclassifications, data presentation in budget execution report and disclosures in AFS.		

4	Wages and Salaries	The Minister should ensure the full implementation of the above-mentioned legal provisions regarding recruitment procedures and vacancy cancellation, and demand responsibility from the officers in charge for their actions or inactions necessary to ensure professional competence for implementation of applicable legal provisions.
5	Goods and Services	The Minister should ensure that measures have been taken to clarify the lawfulness of these units, to review the decisions for establishment thereto and to take concrete actions by enhancing control and raising accountability in accordance with regulatory requirements.
6	Goods and Services	The Minister should ensure the internal control system regarding the management and processing of payments for PIUs is reviewed in order to ensure reliability on utilisation of budgetary resources including those from the borrowing fund.
7	Goods and Services	The Minister should ensure that accountability has been sought, by identifying such cases, and measures have been taken to establish control, by reviewing the composition of the PIU members, which should be in line with the requirements according to the agreements approved with the lender and should prevent such engagements in the future.
8	Goods and Services	The Minister should take measures to increase control in administration in order to notify the relevant officers on fulfilment of obligation to close the advances in time and increase the accountability of the officers who use the advances for official travels.
9	Capital Investments	The Minister should ensure effective supervision of projects so that the execution of works is carried out in full compliance with the terms of contract and payments are made only for the completed works. The Minister should also ensure that any amendment in the terms of contract during implementation of project is approved by contract managers only upon receipt of prior approval from the requesting unit and the CAO.
10	Capital Investments	The Minister should ensure that any amendment in the terms of contract during the implementation of project is made only after the notification of the procurement office, preliminary approvals obtained from CAO and the requesting unit.
11	Capital Investments	The Minister should ensure that contractual obligations are created only within the annual budget limits. Where the contracts are multi-annual, this should be envisaged in the MTEF, and the funds commitment should be made up to the amounts the contracts progress is planned.
12	Capital Investments	The Minister should ensure that part of the committees for acceptance of projects and works will be relevant qualified officers with specialised knowledge in road infrastructure who shall assure that projects are carried out in full compliance with construction standards.
13	Capital Investments	The Minister should ensure that the ministry's officers are part of the bid opening and bid evaluation committees, or as provided for by the relevant agreements, in order to assure that the procurement processes are conducted under full transparency and in accordance with regulations. He should also have information on the projects dynamics.

14	Capital Investments	The Minister should ensure that the certification officer should when processing the payments ensure that the financial part of contract is attached to the file and the payment certification is done only based on stages indicating specifically the works related to invoice, and evidenced by relevant documentation.
15	Capital and non-capital assets	The Minister should ensure that the causes behind delays and shortcomings in assets inventorying process, which would allow for fair reporting of financial value of assets according to legal requirements, are avoided.
16	Capital and non-capital assets	The Minister should ensure that functional controls, assuring that the asset register is updated according to the appropriate classification thus reflecting the accurate value, are in place. He should also ensure that appropriate support is provided for training staff engaged in asset management.
17	Receivables	The Minister should undertake actions to identify the reasons for the delays and failure of debtors to pay the receivables and to establish effective mechanisms for collection thereof.
18	Outstanding Liabilities	The Minister should ensure that payment of invoices is made in accordance with the deadlines set by the regulation and that all liabilities are fairly presented in the liabilities reporting.
19	Outstanding Liabilities	The Minister should ensure that sufficient funds are planned for each project, so that no liabilities towards the EO are incurred. He should also increase controls on invoice management system, so that all invoice payments are made in accordance with the statutory deadlines.

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

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## 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: Letter of Confirmation

REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA/REPUBLIC OF KOSOVO	
MINISTRIAT E INFRASTRUKTURËS DHE TRANSPORTIT	
MINISTARSTVO INFRASTRUKTURE I TRANSPORTA	
MINISTRY OF INFRASTRUCTURE AND TRANSPORTATION	
Njësia org. Org.Jedimja Org.Unit	04
Nr. Prot. Broj Prot. Prot. No.	4548
Nr. Faqeje Br. Stranica No. Pages	1
Data: Datum: Date:	23.06.20
PRISHTINË/A	



Republika e Kosovës  
Republika Kosova-Republic of Kosovo  
Qeveria - Vlada - Government  
Ministria e Infrastrukturës  
Ministarstvo Infrastrukture  
Ministry of Infrastrukture

### 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, konfirmoj se:

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

z. Arban Abrashi  
Ministër i Ministrisë së Infrastrukturës,

Data: 22. Qershor 2020, Prishtinë

