



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 ENVIRONMENT AND SPATIAL PLANNING 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 Environment and Spatial Planning* in consultation with the Assistant Auditor General, *Arvita Zyferi-Hashani*, who supervised the audit.

The report issued is a result of the audit carried out by *Ardita Salihu and Mehmet Muçaj team leaders, and Enver Ramadani and Mimoza Morina-Kelani, team members* under the management of the Head of Audit Department *Florim Beqiri*.

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## Executive Summary

This report summarises the key issues arising from our audit of the Ministry of Environment and Spatial Planning 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

The Annual Financial Statements of MESP presented in the 2019 Annual Financial Report, which are related to the statement of cash receipts and payments, the statement of budget execution and the disclosures for these statements are complete and accurate.

The internal control system in MESP is not at the required level. Although the shortcomings related to AFS are not material, numerous shortcomings in the Annual Financial Report, related to accounts receivable, liabilities and assets as well as the shortcomings in the area of compliance with revenues, and wages and salaries require immediate action to prevent the ministry's budget from being damaged any further.

Although MESP prepared the action plan on implementation of recommendations and describing the actions to be taken for their implementation, recommendations were not implemented at a satisfactory level.

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

#### Unmodified Opinion

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 of the management and personnel of the Ministry during the audit process.

<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 our findings can be found in Annex II.

# 1 Audit Opinion on Annual Financial Statements

We have audited the AFS of the Ministry of Environment and Spatial Planning (MESP) 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**

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.

## **Responsibility of Management for AFS**

The Secretary General of MESP 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.

## **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.

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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.

## 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

MESP has not established sound controls in regard to its statutory obligations. Inconsistent implementation of rules has caused shortcoming in the process of collecting revenues, payments, poor management of assets, liabilities, and accounts receivable. These are the main areas where actual action is needed to prevent further damage of the Ministry's budget.

#### 2.1 Budget Planning and Execution

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

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

Description	Initial Budget	Final Budget <sup>2</sup>	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
<b>Sources of Funds</b>	<b>54,885,402</b>	<b>60,734,854</b>	<b>43,655,369</b>	<b>72</b>	<b>38,288,425</b>	<b>40,267,136</b>
Government Grant - Budget	37,857,518	36,627,279	30,142,528	82	34,727,214	39,215,730
Borrowings	300,000	300,000	0	0	0	0
PAK revenues	7,227,884	13,381,003	13,328,959	100	3,056,483	0
Investments clause	9,500,000	9,500,000	0	0		0
External Donations	0	926,572	183,882	20	504,728	1,051,406

The final budget is higher than the initial budget by €5,849,452. This increase is a result of external donations of €926,572 and the amount of €4,922,880 resulting from budget adjustments through Government decisions.

In 2019, the Ministry spent €43,655,369 or 72% of the final budget. Main reasons behind incomplete budget execution are as follows: Investment Clause of €9,500,000 includes two loan agreements in the amount of €7 million, which were not signed. Whilst in regard to the allocated funds of €2.5 million, although the agreement was ratified, the Ministry did not manage to prepare the terms of

<sup>2</sup> Final budget - the budget approved by the Assembly subsequently adjusted by the Ministry of Finance.

reference for the project "Construction of sewage water plant in the Municipality of Pristina." Furthermore, the remaining unspent budget relates to failure to implement various projects planned in the budget of 2019.

**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>54,885,402</b>	<b>60,734,854</b>	<b>43,655,369</b>	<b>72</b>	<b>38,288,425</b>	<b>40,267,136</b>
Wages and Salaries	2,323,127	2,210,322	2,208,838	100	2,197,516	1,976,772
Goods and Services	1,418,081	2,711,107	1,542,613	57	1,555,625	1,419,875
Utilities	83,220	83,220	56,490	68	68,363	67,241
Subsidies and Transfers	200,000	200,000	200,000	100	0	0
Capital Investments	50,860,974	55,530,205	39,647,428	71	34,466,921	36,803,248

Explanations for changes in budget categories are given below:

The final budget for wages and salaries decreased by €112,805, compared to the initial budget. The change was a result of a reduction, in this category, by a government decision of €121,000 and an increase of €8,195 from external donations.

The final budget for goods and services compared to the initial budget increased by €1,293,026. This increase was due to external donations in the amount of €918,000 and the approval of the request for transfer of funds from the budget line of capital investments in goods and services by the Minister of Finance.

The final budget for capital investment increased by €4,669,231 compared to the initial budget, as a result of Government decisions to make expropriation payments.

### 2.1.1 Revenues

Revenues generated by MESP in 2019 totalled €1,075,032. Revenues are generated from licenses, water use, taxes for construction permits, sale of services, municipal environmental permits, etc. MESP generated these revenues through the Department of Water, the Department of Environmental Protection, the Department of Housing and the Cadastral Agency. The collected revenues are transferred to the Kosovo budget and are not used by the ministry. We tested 15 samples of €352,996 as part of substantive testing and 14 samples of €189,854 as part of compliance testing.

**Table 3. Own Source Revenues (in €)**

Description	Initial Budget	Final Budget	2019 Receipts	2018 Receipts	2017 Receipts
Own source revenues			1,075,032	1,398,646	644,262
<b>Total</b>			<b>1,075,032</b>	<b>1,398,646</b>	<b>644,262</b>

**Issue A1 - Non-implementation of the agreement for programing the debt settlement****Finding**

In 2018, the minister of MESP entered into agreements with regional public water companies in order to programme and settle debts accumulated for water use during 2007-2017, programming their repayment in five instalments, for five years. Debt settlement according to agreements started from 2018 and ends in 2022. Article 5 of the agreement stipulates that in case of non-implementation of the agreement with MESP for debt repayment, the validity of water permit and consequently the operation license from the Water Service Regulatory Authority of public water companies will terminate automatically.

We tested five samples where the value of debt settlement under the agreements was €216,373 and we noticed that three water companies had not repaid the financial obligation (instalment) for 2019 according to the agreement. The value of unpaid instalments was €128,954, the ministry has not taken any action in this regard, as provided for in the agreement. This was due to poor monitoring of the implementation of agreements with water companies.

**Impact**

Poor monitoring of debt repayment agreements affects the damage of the ministry's budget and creates inappropriate future practices to collect the ministry's revenues.

**Recommendation A1** The Minister should ensure that the debt settlement procedures are being implemented accurately and, in cases of non-compliance, the minister should take concrete penalty measures against water companies, as provided for by agreements for debt settlement.

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**Issue A2 – Poor oversight of water users****Finding**

Article 10 of the Administrative Instruction (CRK) No. 02/2016 on the Water Payment Structure stipulates that the financial decision for payments is issued by the responsible authority, which has issued the water permit for water use, water discharge and inert use. Among other things, the water permit issued by MESP for water users provides for that the party is obliged to inform MESP in writing every three months for the amount of water used.

In 2019, MESP did not receive reports on the amount of water used from 37 companies (four of which are public companies), which have water permits, and in the absence of reports, they failed to provide information on the financial value of periodic spending of the amount of water. Consequently, MESP has failed to invoice the amount of water used for these companies even though they have a water permit and use the water.

This happened because the ministry had not taken action on the lack of reporting on the amount of water used by these companies.

**Impact**

Failure to bill debtors due to the lack of reports on the amount of water used damages the ministry's budget, causing understatement of own source revenues and accounts receivable.

**Recommendation A2** The Minister should provide for the monitoring of the process of reporting on use of water by companies. He should provide for the financial value of the amount of water used and make invoicing based on the fees defined according to the legal framework.

### 2.1.2 Wages and Salaries

The final budget for 2019 is €2,210,322, of which €2,208,838 was spent. The number of employees by budget was 355, whereas by the end of the year the number of employees was 336. During 2019 there were employed 11 new staff. We tested 28 samples of €111,843 as part of substantive testing, and 16 samples as part of compliance testing. In addition to this, we tested 38 samples based on the Brussels agreement.

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**Issue B1 – Lack of records on work attendance**

**Finding** Law 03/L-149 on Civil Service of the Republic of Kosovo, Article 36 stipulates that civil servants working time shall not exceed forty (40) hours per week, unless otherwise determined by this Law. Regulation 05/2010 on working hours, Article 7, stipulates that during working hours, all civil servants are obliged to attend their working place. Every civil servant shall sign in the attendance book or electronic register.

The Government decision no.06/39 dated 22.07.2015 approves the agreed conclusions for the implementation of the so-called Civil Protection. In MESP, 38 former members of the Civil Protection were assigned to work, who were provided with acts of appointment securing them with jobs.

We have found that for the 36 above-mentioned officers, the ministry has no evidence to confirm their presence at work, or reports on the work done during 2019, while the Ministry has regularly paid them.

The financial value for salary expenses for these 36 officers for 2019 was €163,198. This situation was the same last year too and the same was reported in our 2018 audit report. This happened because management controls were not implemented to ensure that all employees are present in the workplace during working hours.

**Impact** Paying employees in absence work attendance records and in the absence of engagement to perform official duties are considered irregular payments and damage the ministry's budget.

**Recommendation B1** The Minister should ensure that regular monitoring of work attendance is carried out for all employees of the ministry and, in cases of non-compliance with working hours, the minister should take concrete measures as provided for by the applicable legal framework.

### 2.1.3 Goods and Services

The final budget for Goods and Services in 2019 was €2,794,327, of which €1,599,103 were spent. Those mainly relate to stationery, fuel for vehicles, expenditures for abroad travelling, vehicles maintenance and servicing, outsourced services, and utilities. In 2019, there were 162 persons hired on special service agreements, most of them were engaged from previous years<sup>3</sup>. It is worth

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<sup>3</sup> The number of persons engaged on special service agreements in 2018 was 148.

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mentioning that the number of persons engaged thereof in 2019 was reduced because terminated contracts were not renewed<sup>4</sup>.

In the category of Goods and Services, we tested 22 samples of €111,505 as part of substantive testing, and 12 samples as part of compliance testing.

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**Issue B2 - Hiring under Special Service Agreements without recruitment procedures and for more than six months**

**Finding** According to Law no. 03/L-149 on the Civil Service of the Republic of Kosovo, Article 12, paragraph 4 - Fixed-term appointments of less than six (6) months shall be governed by contracts called Special Service Agreements and shall be regulated by the Law on Obligations and a simplified recruitment procedure shall be applied.

We tested six samples, which were hired according to the special service agreements and we identified that in two cases who were engaged as foresters in the national park, their hiring period was more than six months. Also for these two cases, the ministry had not conducted any recruitment procedure in 2019.

**Impact** Engagement with special service agreements more than six months and non-compliance with simplified recruitment procedures undermined competition and denied the opportunity to other potential candidates to qualify for these positions.

**Recommendation B2** The Minister should ensure that hiring under the Special Service Agreements are made by applying simplified recruitment procedures provided for by law and that their duration should be within six months.

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<sup>4</sup> 67 engaged for Let's Do it Kosovo Project and contracts of 21 persons that terminated in 2019 were not renewed.

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### Issue A3 – Amount of framework contract exceeded

**Finding**

Law no. 05/L-068 amending and supplementing Law no. 04/L-042 on Public Procurement of the Republic of Kosovo amended and supplemented by Law no. 04/L-237, Article 22, stipulates that if the public framework contract is concluded for less than thirty-six (36) months, it may not be extended beyond the specified time limit, without conducting new procurement procedures. This means that the duration of the public framework contract should be determined from the beginning of the procurement process. The estimated amount, specified in the tender documents is only an indicative amount. The contracting authority should specify the value or quantity of the contract in the tender dossier as a threshold or a ceiling and will allow deviation from it, by also stating the percentage of permissible discrepancy. The permissible discrepancy cannot be higher than plus/minus thirty percent (30%). If the purchase orders exceed the total indicative amount or the total indicative value of the public framework contract (including + thirty percent (30%) regardless of the original date of the Public Framework Contract, the contract will be terminated automatically.

On 12.07.2016, MESP concluded a public framework contract “Supply with cartridges for the needs of the ministry. The value of the contract was €44,953. We have identified that MESP, during the period 2016-2019, made supplies in the amount of €64,814, exceeding the contract value by €6,375<sup>5</sup> above the allowed rate of 30%.

This was as a result of poor oversight of the progress of the contract implementation by the contract manager.

**Impact**

Exceeding the allowed rate in the contract may lead the budget organisation into unplanned financial liabilities.

**Recommendation A3** The Minister should ensure that contract managers continuously monitor the progress of contract implementation in order to prevent supplies from being exceeded. In cases when the contract exceeds the rate of 30%, the contract should be terminated immediately.

### 2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers in 2019 was €200,000, which was fully spent by the Ministry. We tested 5 samples of €34,950 as part of substantive testing, and 3 samples as part of compliance testing.

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<sup>5</sup> 44,953€+(44,953€\*30%)=58,439€, incurred expenditure 64,814€-58,439€ including 30%=6,375€ exceeded

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**Issue A4 – Failure to submit the plan for NGOs subsidy to the Kosovo Government**

**Finding** Regulation no. 04/2017 on Criteria, Standards and Procedures on Public Funding of NGOs - Article 6 'Annual plan of financial support' stipulates that providers of financial support should prepare the annual plan of financial support for NGOs at the latest 30 days after the approval of the annual budget of the Republic of Kosovo and should send it to respective Office for Good Governance at the Prime Minister's Office of the Republic of Kosovo

MESP subsidised 33 NGOs during 2019. The ministry has not submitted the annual plan of financial support to NGOs to the relevant Office for Good Governance at the Office of the Prime Minister, as provided for by the regulation on NGO subsidies. This was because MESP neglected this process.

**Impact** Failure to submit the annual financial support plan leads the Office of the Prime Minister to lack information on the amount of financial support for the fiscal year, the areas financial support will be provided in to NGOs, financial support objectives, and the time of execution of beneficiary projects.

**Recommendation A4** The Minister should ensure that, no later than 30 days after the approval of the annual budget of the Republic of Kosovo, they prepare an annual financial support plan for NGOs and submit it to the relevant Office for Good Governance at the Office of the Prime Minister.

### 2.1.5 Capital Investments

The final budget for Capital Investments in 2019 was €55,530,205, out of which €39,647,428 were spent. Those mainly relate to payments for land expropriations and public infrastructure investments. We tested 100 samples of €20,872,319 as part of substantive testing, and 11 samples as part of compliance testing.

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**Issue B3 – Payments through court decisions**

**Finding** Article 4, paragraph 2 of Administrative Instruction no. 08/2009 on the Execution and Payment of Final Court Judgments, stipulates that “The Treasury Department shall verify the requisition matter contains complete and accurate data on the debtor and creditor to be paid, the information related with their bank account, the budget organization from the budget of which the order or decision shall be paid, as well as the amount determined in the order or decision”.

We have identified that the expenses made through court decisions were €583,667. MESP constantly pays for expropriations through court decisions. This is because the owners who have been part of the expropriation process, in cases where they were dissatisfied with the final expropriation decision, were entitled to file appeals to the court. In some cases, when the party won the dispute, it does not send the necessary documentation for payment to the ministry, such as, a copy of the bank account and ID card, but it sent it directly to the enforcement agent. This incurs additional costs for enforcement proceedings. From the payments made, we tested five samples in the amount of €432,398, where within this value, we noticed that enforcement expenses in the amount of €9,371 were paid.

This happened due to the inability of the ministry to ensure the completion of the necessary documentation for payment processing

**Impact** Enforcement tax expenditures do not add value to the achievement of objectives and consequently damages the ministry's budget

**Recommendation B3** The Minister should ensure that after the receipt of decisions from the Court, to ensure completion of documentation by the actors involved in the process in order the case to be completed and payment processed.

**Issue B4 – Incorrect classification of expenditures under the Capital Investment category**

**Finding** Regulation 01/2013 on Public Funds Expenditure, Article 18, stipulates that expenditures should have adequate codes defined by the Administrative Instruction for the chart of accounts. The chart of accounts provides for the registration of each expense in the appropriate code within the economic category.

Not all payments for land expropriations were recorded under the appropriate code 32100-Land, but are registered under construction of roads 31210 and others. The value of misclassifications within the capital investment category was €3,730,099. It is worth to be emphasized that MESP after our report, has started to register the expropriation expenses in the appropriate code.

This was due to the inconsistent implementation of the chart of accounts on the part of financial officers.

**Impact** Although errors in the classification of expenses were within the category of capital investment, such records affect the incorrect presentation of costs within the economic category.

**Recommendation B4** The Minister should ensure that in the coming years all expropriation expenses are recorded according to the chart of accounts so that they are classified correctly.

## 2.2 Capital and non-capital assets

The amount of capital assets presented in the Annual Financial Report (AFR) is €280,966,336, that of non-capital assets is €863,473, and of stock is €69,979. We have tested 100 samples of €21,131,611 as part of substantive testing. In regard to compliance testing, we examined whether the Ministry has complied with the requirement of the Rule on assets. Identified issues are the following:

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**Issue A5 – Failure to update the asset register**

**Finding** Regulation no. 02/2013 on the Management of Non-financial Assets by budgetary organizations, Article 13 Acquisition and construction of nonfinancial assets for other budgetary organizations stipulates that: All transactions created during the purchase or construction of non-financial assets for other budgetary organizations must be registered in the books of financing organization in category of investment. At the moment when the non-financial asset has passed all the rules and procedures of delivery, the budget funding organization will close the following investment category, while recipient budget organization shall register non-financial assets on its non-financial assets records.

**Finding** Capital assets in the amount of €1,000 have not been accurately presented in the AFR. MESP registered the projects financed for other beneficiaries upon payment as ongoing investments, but although the project was completed and the technical acceptance was made, they were not removed from the register of the ministry's assets. The identified projects are: Waste Recycling Plant in the Municipality of Mitrovica in the amount of €2,321,194 (technical acceptance on 19.12.2019), Construction of sewerage in the village Breznica in the Municipality of Obiliq in the amount of €28,199 (technical acceptance on 20.11.2019), and the channel for water and prevention of landslides in the Municipality of Shtërpcë €55,978 (technical acceptance on 27.11.2019).

The reason writing off these projects from the capital assets registers, according to the Ministry, is that these projects terminated at the end of 2019; therefore, they were not transferred to the beneficiary organisations where they enjoy the right of ownership.

**Impact** Failure to update the asset register leads to overstatement of non-financial capital assets and misleads different stakeholders or users of the financial report

**Recommendation A5** The Minister should ensure that the assets register is updated in a timely manner, so that the value of non-financial assets is presented correctly in the AFR and all assets financed for other organisations are transferred to the beneficiaries upon meeting the conditions.

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**Issue A6 - Assets stocktaking not in compliance with regulation**

**Finding** Regulation no. 02/2013 on the Management of Non-financial Assets by Budgetary Organizations, Article 6 stipulates that the Chief Administrative Officer has the responsibility to establish the Commission for the Evaluation of Non-Financial Assets and the Commission for the Inventory of Non-Financial Assets.

The ministry has not established commissions for the evaluation and inventory of non-financial assets and, as a result, the evaluation and inventory of assets for 2019 had not been done. This occurred due to ministry's management not complying with regulation procedures

**Impact** Failure to conduct stocktaking of non-financial assets increases the likelihood of their misuse. This leads to incorrect reporting of the value of assets

**Recommendation A6** The Minister should ensure that the assets stocktaking and evaluation commissions are established at the end of each year, as foreseen by the regulation, in order to avoid deviations in the reporting of assets value in the Annual Financial Report.

## 2.3 Accounts Receivables

In the Annual Financial Report (AFR) of 2019, MESP disclosed accounts receivable (A/R) in the amount of €568,624, which were reduced compared to last year's (€1,416,233). The reason behind reduced accounts receivable was that, in 2019, the Ministry presented the cases pending before the court as contingent assets in AFR. Accounts receivable consist of water use fees (€537,865) and construction permits (€30,759). Furthermore, the Ministry presented €2,642,450 of contingent assets in the AFR, which relate to the claims of the Ministry towards other parties that have not complied with the legal requirements and are pending before the court. During the audit of the accounts receivable, we found the following shortcomings.

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**Issue A7 – No actions taken toward users with no water permit**

**Finding** Law no. 04/L-147 for Kosovo Waters, Article 97, provides in detail the actions and competencies that should be undertaken by the Water Inspectorate in cases when it identifies activities carried out without water permit or contrary to the permit. When it is found that the provisions of this law and the provisions issued under this Law have been violated, the water inspector shall report to the ministry in writing on the irregularities and shortcomings and shall decide on the measures and deadlines for their elimination. The water inspector and the authorised water inspector shall inform the police when they suspect that a criminal offense has been committed in the water assets.

From the register received by the ministry for water users, we noticed that there are over 70 debtors (water users) whose water permits have expired and, according to the ministry, they have not been extended due to non-repayment of accumulated debts. Although, according to the ministry, these users continue to use the water without a water permit and without fulfilling the financial obligation, the inspectorate has not taken concrete actions to prohibit their activities. This situation has occurred as a result of constant complaints filed by water users opposing the payment of the tax determined by AI no. 06/2006 on the structure of water payments, on justification that the fees were very high compared to countries in the region.

**Impact** The lack of necessary actions to prevent and regulate such phenomena leads to understatement of accounts receivable and damages the ministry's budget

**Recommendation A7** The Minister should ensure that regular monitoring of Kosovo's water use is carried out and, in cases of misuse by companies operating in this field, the minister should take concrete measures to stop illegal actions according to the provisions foreseen by the applicable legal framework.

## 2.4 Liabilities

### 2.4.1 Outstanding liabilities

The statement of liabilities presented by the Ministry in the AFR was €265,750,022, which were overstated. Outstanding liabilities consisted of land expropriations made through Government decisions and other liabilities for goods and services and capital investments. We tested 8 samples of €88,617,849 as part of substantive testing and 10 samples as part of compliance testing.

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Based on the data provided by the Ministry, contractual liabilities of €4,806,327 are expected to be executed in the following years.

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### Issue A8 – Overstatement of outstanding liabilities

**Finding** Outstanding liabilities reported under Article 17 of the AFR were presented in the amount of €265,750,022, while they should be presented in the amount of €233,514,955<sup>6</sup>, causing an overstatement of €32,235,067.

This was due to the negligence of the financial official who has presented the expropriation requests two times in the report of liabilities and consequently these notes have been transferred to the AFR as well.

**Impact** Overstatement of outstanding liabilities leads to incorrect presentation of information in the AFR and misleads AFR users.

**Recommendation A8** The Minister should ensure that adequate evidence is kept regarding the liabilities of the ministry so that the records in the AFR are accurate.

## 2.4.2 Payments for expropriations

MESP is responsible for paying the liabilities arising from the expropriation process. These expenses are made from the budget allocated for capital investments. The final budget for expropriation expenditures for 2019 was €20,215,037, of which, €20,188,139 were spent. Financial liabilities for expropriations made through government decisions for the period 2010-2019 have amounted to €231,702,806<sup>7</sup>, of which €88,915,752 belong to the decisions issued in 2019, which the ministry should pay within two years from the date of entry of decisions in force.

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<sup>6</sup> 231,702,806 should be financial liabilities for expropriations and €1,812,149 liabilities for goods and capital investments

<sup>7</sup> Obligations for expropriation consist of obligations for the expropriation of privately owned property €119,369,984, for the expropriation of municipal property €11,130,262, for the expropriation of socially owned property €85,347,035, and for the expropriation of publicly owned property €15,855,525.

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**Issue A9 - Failure to pay expropriation liabilities**

**Finding** Law no. 03/1-048 on Public Financial Management and Accountabilities, Article 39, stipulates that the CFO of a budget organisation shall be responsible for ensuring that every valid invoice and demand for payment for goods, services and/or works supplied to the budget organization is paid within thirty (30) calendar days after the budget organization receives such an invoice or demand for payment.

We found that €31,591,176 was the value of owners' applications for compensation of expropriation in 2019, the payment of which was not processed. This was due to the lack of allocated budget for expropriations.

**Impact** Failure to timely pay expropriations liabilities brings the Ministry before lawsuits from former owners of expropriated properties. Court fees may also increase the expropriations liability even more.

**Recommendation A9** The Minister of MESP, in co-operation with other stakeholders, should provide for sufficient budget to pay expropriations liabilities, which have been increasing from year to year.

**Issue B5 - Delays in the payment of liabilities**

**Finding** Law no. 03/L-048 on Public Financial Management and Accountability, Article 39, paragraph 1 stipulates that the CFO of a budget organization shall be responsible for ensuring that every valid invoice and demand for payment for goods, services and/or works supplied to the budget organization is paid within thirty (30) calendar days after the budget organization receives such an invoice or request for payment.

Over €236,941 of liabilities have not been paid by the ministry within the stipulated legal deadline of 30 days. These liabilities relate to goods and services and capital investments.

This happened due to incomplete implementation of legal rules for public funds expenditures by officials responsible for repaying liabilities within the established deadline.

**Impact** Failure to pay liabilities according to set deadlines increases the risk that debts will increase and increases the likelihood of lawsuits filed against the ministry. This can cause other budget turmoil during the year.

**Recommendation B5** The Minister should ensure that all liabilities are paid within the established legal deadline in order to avoid direct payments by the Treasury

### 2.4.3 Contingent liabilities

The statement of contingent liabilities at the end of 2019 was €31,879,567. They mainly relate to parties claims on land expropriations.

## 2.5 Internal audit function

The Internal Audit Unit (IAU) operates with three staff members – IAU Director and two auditors. An effective audit activity requires an inclusive program reflecting financial and other risks of the audited entity and provides reasonable assurance on the effectiveness of internal control. IAU planned and implemented six (6) audits for 2019 and one upon request. A total of 30 recommendations were given, of which 10 were under implementation, 12 were implemented and 8 were not implemented at all.

IAU prepared and submitted the Annual Performance Report for 2019 to the Central Harmonisation Unit.

The Internal Audit Committee held four (4) meetings by the end of the audit 2019 stage, where IAU findings and recommendations were deliberated.

## 3 Progress in Implementing Recommendations

Our Audit Report on the 2018 AFS of MESP resulted in 17 recommendations. MESP prepared an Action Plan stating how all recommendations will be implemented.

It also submitted 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, 4 recommendations have been implemented; 2 were partly implemented; 1 was under implementation; 7 have not been not addressed yet; and 3 have been closed as unimplemented. For a more thorough description of the recommendations and the way they have been addressed, see Table 4 (Table of recommendations).

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

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Table 4 Summary of prior year recommendations and of 2018

No	Audit area	Recommendations of 2018	Actions undertaken	Status
A1	AFS	The Minister should ensure that the necessary measures are taken to eliminate the causes that have led to the Emphasis of Matter. In this regard, to carry out identification and recording in registers, information related to assets, liabilities and receivables, for their presentation in the AFS is accurate and complete	The finding, which is related to the registration of assets over €1,000, and the accounts receivable have been addressed, while the findings related to non-registration of assets under €1,000, the register of water permits, liabilities and irregular payments remain unaddressed.	Partly implemented
B1	Budget planning and execution	The Minister should ensure that budget drafting is based on a detailed analysis of all factors affecting its execution in order to avoid the differences between planning and spending. The Minister should also ensure that all obstacles related to project execution are eliminated, and to initiate procurement procedures on time	Although in the action plan it was decided that the recommendation will be implemented in December 2019, it has not happened due to the fact that the level of execution of the final budget for 2019 was 72%. So the differences between planning and budget execution were significant.	Recommendation closed as unimplemented
C1	Lack of evidence for attendance	The Minister should undertake all actions to ensure regular attendance of these employees by carrying out constant monitoring, as foreseen by legal acts. On the	MESP has made efforts to address this issue together with the	Not implemented

	at workplace	contrary, this issue should also be discussed with the Government, as this problem is widespread in other ministries	municipalities and the MLGA, but in 2019, the situation is the same as in 2018.	
B2	Application of different coefficients for the same positions	The Minister should ensure that the payment of officials is done based on job descriptions, preventing the possibility of different payments for the same positions	The management has not taken any concrete action to address this issue on the grounds that they were waiting for the new salary law.	Recommendation closed as unimplemented
B3	Shortcomings in employee engagement with Special Services Agreement	The Minister should ensure that legal deadlines are applied for the duration of engagement with the SSA, and that such contracts are used only for special services, and not for regular positions, and every recruitment is made through the procedures required by the law	The management has not taken any concrete action to address this issue	Not implemented
A2	Financial support to cover travel expenses for persons who were not part of the Ministry	The Minister should ensure that any expenditure incurred by the ministry's budget for financing of the ministry's activities, is documented and carried out in compliance with the financial regulations.	During 2019, we have not identified any shortcomings of this nature.	Implemented
A3	Delays in the implementation of the procurement plan for capital projects	The Minister should ensure that all the factors that may affect in implementation of the plan are taken into consideration when preparing the annual procurement plan, such as: resolution of property disputes, preparation of executive projects, timely initiation of procurement procedures, establishment of the evaluation commissions with adequate experience and expertise, etc.	During 2019, we have not identified any shortcomings of this nature.	Implemented
A4	Improper budget planning and initiation	The Minister should ensure that the legal requirements are strictly adhered, so that budget planning and drafting of key projects is made in accordance with the on-site circumstances, so that the projects can be	In some cases, the management has signed contracts according to budget plans, while only in	Partly implemented

	of projects without securing preconditions for implementation	implemented on time and without additional costs. Further on, before contracting the works, for each MESP-funded project, all necessary permits shall be obtained	one case we noticed that the situation was like last year. The contract was €898,900, while the budget was €850,000. Since it was like a single case, we have not addressed it in the report.	
A5	Failure to respect the criteria in awarding economic operators	The Minister should increase responsibility measures towards Bid Evaluation Committees, so that bids are evaluated objectively, and to ensure that only responsible and meritorious operators will be awarded	When testing procurement procedures, we did not identify any issues to highlight therefore we consider that last year's recommendation was addressed.	Implemented
B4	Failure to set up the Electronic Expropriation System	The Minister should review the entire process and identify all the factors that have led to delays in setting up this system into function, and ensure that within a reasonable period of time the system is functional.	This recommendation has been planned by the management to be addressed in the 2020 action plan. The audit team of 2020 will verify the implementation of this recommendation.	Under implementation
C2	Payments through court decisions	The Minister should ensure that the causes of the findings presented above are analysed. In cooperation with the State Advocacy and Courts, it should be ensured that the Ministry receives a copy of the final judgements so that the obligations from the latter are carried out in a timely manner to avoid additional possible expenditures, due to enforcement procedures. Further on, in order to avoid additional costs, it should be discussed with the Government and the Ministry of Finance to provide additional funds for settlement of expropriation obligations on time.	The management failed to implement this recommendation, so although the ministry received a copy of the decision from the State Advocacy, there have been times when the case has been sent to the enforcement agent and, as a	Not implemented

			result, costs have increased.	
B5	Recording by inadequate codes of expropriations	The Minister should strengthen internal controls in the area of payments and finance, to ensure that all expenditures are classified correctly and in accordance with the government accounting plan	The situation is the same this year as well	Not implemented
A6	Shortcomings in payment process	The Minister should establish additional financial controls and ensure that financial officers strictly adhere to the spending procedures, and that all invoices are paid within defined legal deadlines	The situation on this issues is almost the same as the one we have reported in the management letter	Not implemented
A7	Delays in inventorying of Assets	The Minister should ensure that the inventory commission compiles the inventory report prior to the preparation of the AFSs, and ensures that asset inventory reconciliation with the organization records is performed prior to the preparation of the AFSs in 2019. This report should be reviewed by the management, and the asset register is updated depending on inventory outcomes	The management has not taken any concrete action to address this issue	Not implemented
C3	Delays in payment of Liabilities	The Minister should ensure that finance officers confirm the existence of these obligations in advance, and thereafter to process all invoices for payment on time	The ministry failed to pay all liabilities within the legal deadline in 2019.	Not implemented
B6	Poor functioning of Audit Committee	The Minister should ensure that the Audit Committee has adopted its work status, and that CA will review the work plan and internal audit reports constantly, as well as suggest to the management in taking measures and actions in relation to the recommendations given by the audit	The management has taken the necessary action and has drafted the Audit Committee statute.	Implemented
B7	Lack of risk monitoring	The Minister should ensure that the risks register is continuously monitored by responsible persons, on regular time periods, in order to reduce the impact of risks at acceptable levels	Although the management has specified in the action plan that the risk register will be updated at the end of the fiscal year, such a register has not been drafted.	Not implemented

N	Audit area	Recommendations of 2019		
A1	Revenues	The Minister should ensure that the debt settlement procedures are being implemented accurately and, in cases of non-compliance, the minister should take concrete penalty measures against water companies, as provided for by agreements for debt settlement.		
A2	Revenues	The Minister should provide for the monitoring of the process of reporting on use of water by companies. He should provide for the financial value of the amount of water used and make invoicing based on the fees defined according to the legal framework.		
B1	Wages and salaries	The Minister should ensure that regular monitoring of work attendance is carried out for all employees of the ministry and, in cases of non-compliance with working hours, the minister should take concrete measures as provided for by the applicable legal framework		
B2	Goods and services	The Minister should ensure that hiring under the Special Service Agreements are made by applying simplified recruitment procedures provided for by law and that their duration should be within six months		
A3	Goods and services	The Minister should ensure that contract managers continuously monitor the progress of contract implementation in order to prevent supplies from being exceeded. In cases when the contract exceeds the rate of 30%, the contract should be terminated immediately.		
A4	Subsidies and Transfers	The Minister should ensure that, no later than 30 days after the approval of the annual budget of the Republic of Kosovo, they prepare an annual financial support plan for NGOs and submit it to the relevant Office for Good Governance at the Office of the Prime Minister		
B3	Capital Investments	The Minister should ensure that after the receipt of decisions from the Court, to ensure completion of documentation by the actors involved in the process in order the case to be completed and payment processed.		
B4	Capital Investments	The Minister should ensure that in the coming years all expropriation expenses are recorded according to the chart of accounts so that they are classified correctly.		
A5	Capital assets	The Minister should ensure that the assets register is updated in a timely manner, so that the value of non-financial assets is presented correctly in the AFR and all assets financed for other organisations are transferred to the beneficiaries upon meeting the conditions.		
A6	Assets	The Minister should ensure that the assets stocktaking and evaluation commissions are established at the end of each year, as foreseen by the regulation, in order to avoid deviations in the reporting of assets value in the Annual Financial Report.		
A7	Accounts receivable	The Minister should ensure that regular monitoring of Kosovo's water use is carried out and, in cases of misuse by companies operating in this field, the		

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		minister should take concrete measures to stop illegal actions according to the provisions foreseen by the applicable legal framework.
A8	Liabilities	The Minister should ensure that adequate evidence is kept regarding the liabilities of the ministry so that the records in the AFR are accurate.
A9	Expropriation liabilities	The Minister of MESP, in co-operation with other stakeholders, should provide for sufficient budget to pay expropriations liabilities, which have been increasing from year to year.
B5	Outstanding liabilities	The Minister should ensure that all liabilities are paid within the established legal deadline in order to avoid direct payments by the Treasury

## 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.

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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 ZYRA KOMBËTARE E AUDITIMIT NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE			
DATE / DATA / DATUM: 26.06.2020 DATE / DATA / DATUM: 26.06.2020			
Nr. Org. 03	Nr. Jedin. 47	Nr. Klasif. 881	Nr. Procl. 881



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

Nr. Dokumenti 62	Nr. Procl. 627
Nr. Dokumenti 1	Nr. Procl. 25.06.20

**Ministria e Ekonomisë dhe Ambientit**  
**Ministarstvo Ekonomije i Životne Sredine**  
**Ministry of Economy and Environment**

**LETËR E KONFIRMIMIT**

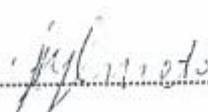
Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2019 dhe për zbatimin e rekomandimeve

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 Vjetore të Ministrisë së Mjedisit dhe Planifikimit Hapësinor, 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.

Mentor Sylmeta..... 

Sekretar i Përgjithshëm i Ministrisë së Ekonomisë dhe Ambientit

Data: 25.06.2020

Prishtinë

