



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 REGIONAL DEVELOPMENT
FOR THE YEAR 2019

Prishtina, July 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 Regional Development (MRD) 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 Luljeta Sylaj - Team Leader, and Bahri Statovci and Mazlumsha Sejfadini - 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 Regional Development (MRD) 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 MRD presented in the Annual Financial Report (AFR) for 2019, which are related to the statement of cash receipts and payments, the budget execution statement and the disclosures for these statements are complete and accurate.

Financial management and internal controls are generally appropriate and are being effectively implemented, but more work is required to eliminate the shortcomings identified in some areas.

The ministry has responded positively to the prior year recommendations, where an increased engagement has been noticed in addressing and monitoring them.

Opinion of the Auditor General¹

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.

¹ 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 MRD 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 the Ministry 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 of MRD 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.

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

MRD's internal controls have generally been implemented by management and have proved to be effective in preventing irregularities. However, inconsistent implementation of statutory rules and obligations has caused shortcomings in the management of capital investments, subsidies, assets and contingent liabilities.

2.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Sources of Funds	5,979,529	5,829,527	5,147,388	88	3,526,175	29,631
Government Grant - Budget	4,779,529	4,650,935	4,261,517	92	3,526,175	29,631
Revenues from PAK ³ -	1,200,000	1,178,592	885,871	75	0	0

The final budget of MRD compared to the initial budget was decreased by €150,002. Budget changes occurred based on Government decisions on savings and allocation to categories of expenditures in budget organizations: decision 02/113, dated 05.11.2019 and decision 03/115, dated 17.12.2019. Details are presented in the following paragraphs after Table 2.

In 2019, the ministry spent 88% of the final budget or €5,147,388, with a decrease of 8% compared to 2018. This was due to non-implementation of capital projects, which were co-financed with municipalities. The burden falls on the municipalities, because according to the agreement with the MRD they have been obliged to develop procurement procedures and engage in the completion of the project in the current fiscal year.

² Final budget - the budget approved by the Assembly subsequently adjusted by the Ministry of Finance.

³ Privatisation Agency of Kosovo.

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

Description	Initial Budget	Final Budget	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Spending of funds by economic categories	5,979,529	5,829,527	5,147,388	88	3,526,175	29,631
Wages and Salaries	418,169	374,101	374,101	100	305,837	21,897
Goods and Services	350,000	330,000	285,100	86	236,727	7,734
Utilities	11,360	6,560	5,095	78	1,678	0
Subsidies and Transfers	2,500,000	2,497,060	2,472,541	99	1,447,179	0
Capital Investments	2,700,000	2,621,806	2,010,551	77	1,534,754	0

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries compared to the initial budget was decreased by €44,068. This decrease was as a result of the Government decision no. 03/115, dated 17.12.2019, for savings and allocation in the categories of expenditures in budget organizations;
- The final budget for Goods and Services compared to the initial budget was decreased by €20,000 with Government decision no. 02/113, dated 05.11.2019 for savings and allocation in the categories of expenditures in budget organizations;
- In Utilities, the budget was decreased by €4,800, with Government decision no. 03/115, dated 17.12.2019;
- The final budget for Subsidies and Transfers compared to the initial budget was decreased by €2,940, with Government decision 03/115, dated 17.12.2019; and
- The final budget compared to the initial budget for Capital Investments was decreased by €78,194. The decrease was made with Government decision no. 03/115, dated 17.12.2019, for savings and allocation in the categories of expenditures in budget organizations.

2.1.1 Wages and Salaries

The final budget for Wages and Salaries was €374,101. The number of employees allowed by budget law was 54, whereas the current number of employees at the end of 2019 was 48. During 2019, there were employed nine (9) new staff. We have tested 14 samples of €9,182 as part of substantive testing, and eight (8) samples of €5,413 as part of compliance testing. We have not encountered any irregularities.

2.1.2 Goods and Services

The final budget for Goods and Services, and Utilities, in 2019 was €336,560, of which €290,195 were spent. Those relate to contracting services, official travel, fuel, telephone, internet, etc. We have tested 11 samples of €44,382 as part of substantive testing, and six (6) samples as part of compliance testing. We have not encountered any irregularities.

2.1.3 Subsidies and Transfers

The final budget for Subsidies and Transfers was €2,497,060, of which €2,472,541 was spent. Subsidies are granted for new and existing/small enterprises, which exercise various activities throughout the territory of the Republic of Kosovo. The purpose was to create new jobs and stimulate enterprises with growing potential. In addition, some other NGOs, which contribute to the field of balanced regional socio-economic development, were supported with smaller value.

We have tested 88 samples of €907,030 as part of substantive testing, and 12 samples as part of compliance testing.

Issue A1 - Unclear criteria in the Guidelines for Grants

Finding

According to the Grant Application Guideline, dated 11.01.2019, the ministry announced a public call for financial support for new, existing (up to two years⁴) and small enterprises. In this guideline, the support was split into three Lots, but the criteria regarding the status of the classification of enterprises were not clearly specified. In the absence of proper clarifications, applicants submitted questions regarding the classification criteria. The ministry responded through a document published on its website, providing clarifications on the conditions that must be met to be categorised in each Lot, based on the Law on Foreign Investments no. 04/L-220. According to this law, a small enterprise must have 10 (ten) to 49 (forty-nine) employees. However, this law does not regulate the scope of grants awarded by the Kosovo budget.

Moreover, in two cases we found that the ministry supported enterprises with grants with over 49 employees, which (according to the law they referred, in the responses to applicants) are considered medium enterprises. One enterprise was supported with €24,500⁵ and the other with €15,000⁶.

⁴ Small existing enterprises;

⁵ 55 employees were declared to TAK, and

⁶ 71 employees were declared to TAK.

This happened due to the lack of clarification of the criteria in the application guideline.

Impact

Benefiting grants from large enterprises affects the spending of funds contrary to the objectives and purpose of the ministry to stimulate new and small businesses.

Recommendation A1 The minister should ensure that clear criteria are set out in the guideline for applicants by avoiding reference to laws that do not cover the scope of the ministry's activities, and to ensure that funding is done only for enterprises that are foreseen according to the guidelines.

2.1.4 Capital Investments

The final budget for Capital Investments was €2,621,806, of which €2,010,551 were spent in 2019. Those relate to capital investments in municipalities for various projects such as; construction of pavements, sports infrastructure, water supply, administrative buildings, regulation of the riverbeds. We have tested 44 samples of €1,957,670 as part of substantive testing, and eight (8) samples as part of compliance testing.

Issue A2 – Support from MRD for municipal capital projects in non-compliance with applicants guideline applications

Finding

One of the criteria defined for the support (funding) of municipal capital projects according to the Applicants Guideline Regional Development Programme 2019, was that: the project should be new and not a continuation of any other project.

We have noticed that MRD, through annex Memoranda of Understanding for co-financing related to municipalities during 2019, supported six capital projects⁷ in 2018, in the amount of €319,884. The funded projects were a continuation from 2018 and not new projects as required by the guideline. It is worth mentioning that the same projects were supported by MRD during 2018, where according to the co-financing agreements the projects had to be completed in 2018, and after this deadline, all obligations are transferred to the responsibility of the municipality. This was due to the irresponsibility of

⁷ Walking paths – with the Municipality of Rahovec, Construction of infrastructure of the sports park in the Municipality of Skenderaj, Regulation of sports fields in the region of Lumëbardhi, Improving the life of citizens - Qamëri-Kamenica, Centre for Development and Advancement in Pejë and Construction of main water collectors Glllogoc-Skenderaj.

the ministry's management to comply with the requirements of the Applicants Guideline.

Impact

The signing of annex contracts with municipalities, which have not managed to complete projects in the planned year, has reduced the budget for new projects and funding and has made discrimination against municipalities, which have shown good performance in implementation.

Recommendation A2 The minister should ensure that the requirements of the Applicants Guideline are respected and will not enter into any annex co-financing agreements with municipalities for ongoing projects, which are not new.

2.2 Capital and non-capital assets

The amount of capital assets presented in Annual Financial Statements (AFS) is €1,991,956, that of non-capital assets is €15,338, and of stock is €28,925. We have tested 51 samples of €2,324,816⁸ as part of substantive testing, and samples as part of compliance testing.

Issue B4 - Failure to transfer asset ownership to the beneficiary

Finding

Regulation 02/2013 on the Management of Non-financial Assets, Article 12 states that Budget Organizations (BOs) can acquire and construct assets through co-financing, which are registered as following investments with the financing BOs. At the moment when the non-financial assets have passed all the rules and procedures of submission, the financing BO will close down the following investment account and the receiving budget organization will record the assets received in its registers.

In 2019, MRD financed the project "Asphalting of local roads in the villages, Dush, Jellovc, Dellovicë and Grabanicë" in the amount of €130,000, although the technical acceptance was made on 17.12.2019 by the municipality, the transfer of the assets was not done to the register of the beneficiary municipality. This asset was listed as a following investment, overstating capital assets.

The non-removal of the project from the register of capital assets occurred because the asset officer has not provided the technical acceptance document of the project on time as well as the payment documentation.

⁸ The tested value includes assets of 2019, transfer of capital assets to beneficiary municipalities, as well as testing of asset balances for the previous year.

Impact Failure to transfer assets to the registers of beneficiary municipalities has resulted in the capital assets of the ministry being overstated in the AFR.

Recommendation B1 The minister should ensure that all assets registered as following investments, after the completion of technical acceptance procedures are transferred as assets to the registers of beneficiary budget organizations, and the same are removed from the assets registers of the ministry.

Issue A3 – Inaccurate reporting of non-capital assets

Finding Article 19.3.2-Non-capital assets with a value under €1,000 of the AFR requires that assets under €1,000 are presented in full and accurate values.

We have noticed that the ministry in the AFR Article 19.3.2 on non-capital assets (value under €1000) disclosed only the acquisitions of 2019. Non-capital assets at the end of 2019 had to be reported in the amount of €48,666, while they were reported in the amount of €15,338, understating assets by €33,328.

According to the AFR, this omission occurred due to negligence during the preparation of the AFR.

Impact Inaccurate reporting of non-capital assets has resulted in an understatement of assets in the AFR.

Recommendation A3 The minister should take measures to ensure that the value of non-capital assets in the AFR includes the cumulative value of assets belonging to the organization and not just the current year.

Issue A4 – Carrying out inventory of assets before the end of the year

Finding MoF Regulation No. 02/2013 on the Management of Non-financial Assets by BOs paragraph 4.7 stipulates drafting the general report based on individual reports of the Commission for Inventory of Non-Financial Assets at the appropriate time before the preparation of the annual financial statements.

The Commission for Inventory of Non-Financial Assets in MRD has drafted the report on 18.09.2019, four months before the submission of the AFR.

The inventory process was carried out earlier because the competent officials did not have proper knowledge of the asset management regulation.

Impact Carrying out inventory before time has hampered the effective management of assets and, as a result, the value of assets presented in the AFR was incorrect.

Recommendation A4 The minister should ensure that the inventory of assets is carried out at the end of the year in order to provide accurate and complete information on the assets of the ministry before the preparation of the annual financial report.

2.3 Outstanding and Contingent Liabilities

The statement of liabilities not paid to suppliers at the end of 2019, presented in the AFS of the organization was €9,593. These liabilities are carried forward to be paid in 2020.

For substantive testing purposes, we tested five (5) samples in the total amount of €7,226, which were paid at the beginning of 2020. We also verified whether the MRD has reported to the Ministry of Finance on a regular monthly basis for outstanding liabilities.

Outstanding liabilities related to official lunches, water and electricity expenses and rental expenses for vehicles and buildings. Invoices were received at the end of December and after the closing of the Kosovo Financial Management Information System (KFMIS). These were the reasons why invoices were not processed for payment in 2019.

MRD at the end of 2019 presented contractual liabilities in the amount of €67,339, which will burden the budget of 2020. These liabilities are related to contracts signed during the current year 2019.

Issue A5 – Inaccurate presentation of contingent liabilities

Finding Article 18 of MoF Regulation No. 01/2017 on Annual Financial Reporting requires budget organizations to report contingent liabilities.

The ministry has disclosed contingent liabilities in the AFR in the amount of €4,800, which were not related to contingent liabilities, but to contingent assets. The ministry demanded from a previously subsidised business to return the funds as it had not fulfilled its obligation under the contract. This is because the beneficiary has not used the investment according to the purposes for which it was subsidised.

This was due to the lack of officials' knowledge on how to report such revenues in the event of an occurrence.

Impact The disclosure of such values in the AFR in addition to being inaccurate affects that users of the AFR are poorly informed about contingent liabilities.

Recommendation A5 The minister should ensure that the disclosure of contingent assets/liabilities is done in accordance with their respective legal form according to the requirements of the regulation on Annual Financial Reporting.

2.4 Internal audit function

MRD has not established the Internal Audit Unit (IAU). However, based on its request, an audit was conducted by the Internal Audit Department/Ministry of Finance. The objective of the audit was budget planning and execution of expenditures in support of the functioning of the ministry, management of personnel and assets. Three (3) recommendations were made in this report, which identified some of the shortcomings in the internal control system of MRD. The ministry has prepared a plan for addressing the recommendations, setting out deadlines and officials responsible for addressing the recommendations.

It should be emphasised that currently the MRD has sent an official on training in the field of internal audit, who is in the process of certification.

3 Progress in Implementing Recommendations

Our Audit Report on the 2018 AFS of MRD resulted in nine (9) recommendations. MRD prepared an Action Plan stating how all recommendations will be implemented. It also submitted the Progress report on implementation of recommendations (30th of September and 15th of March) under requests deriving from the Rules of Procedure on implementation of audit and action plans.

At the end of our 2019 audit, six (6) recommendations were implemented, one (1) was not implemented and two (2) recommendations were closed. For a more thorough description of the recommendations and the way they have been addressed, see Table 4 (or Table of recommendations).

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

Table 4 Summary of prior year recommendations and of 2019

No	Audit area	Recommendations of 2018	Actions undertaken	Status
A1	AFS	The Minister should undertake all necessary actions to ensure the transfer of ownership of capital assets to municipalities for completed projects, which are still found in the Ministry's assets register. Further on, to ensure that the depreciation process for non-capital assets is carried out according to legal requirements, and all outstanding liabilities are presented fairly in the AFS.	Although the ministry was committed to transferring a large number of assets to the municipalities, there were still shortcomings.	Recommendation unimplemented
A2	Goods and Services, and Utilities	The Minister should ensure that upon appointing contract managers, to adhere to the principle of segregation of duties.	The ministry was committed in fair segregation of tasks. We have not encountered such cases for 2019.	Recommendation implemented
A3	Capital Investments	The Minister should ensure establishment of proper controls, and that during the evaluation process of projects to be financed by the Ministry, through establishment of a professional committee, are observed rigorously observed the criteria and the support documentation that ensures implemented of the project.	The commission established by the ministry during 2019 has made the assessment in accordance with the established criteria.	Recommendation implemented
A4	Capital Investments	The Minister should provide more effective oversight mechanisms towards the evaluation process and ensure that the criteria are applied equally for all applicants.	The commission established by the ministry during 2019 has made the assessment in accordance with the established criteria.	Recommendation implemented
A5	Capital Investments	The Minister should ensure that the process of execution of payments is preceded by a detailed control, which ensures that the documentation is complete, based on the terms set forth in the memorandum of	The ministry was committed to have valid performance security for each contract.	Recommendation implemented

		understanding.		
A6	Capital and non-capital assets	The Minister should increase accountability measures towards the assets inventory commission, so that the general inventory report is submitted on time, before the preparation of the annual financial statements, so that the potential changes identified by the inventorying process are presented in assets registers.	For 2018, the commission delayed the drafting of the inventory report, while in 2019, it drafted the inventory report much earlier than preparing the AFR, and we have a new recommendation.	Recommendation closed
A7	Outstanding liabilities	The Minister should ensure that are taken necessary actions with regard to informing or training of staff on Treasury rules, and ensure a regular process of registering of invoices and regular reporting of outstanding liabilities.	All outstanding invoices are reported and recorded.	Recommendation implemented
A8	Internal Audit System	The Minister should ensure that are taken measures so that internal audit services are provided through establishment of the IAU within the Ministry.	The Ministry of Finance conducted an audit for the MRD and one official is in the process of certification.	Recommendation implemented
A9	Management Reporting	The Minister should ensure that a review has been carried out to determine the form of financial and operational reporting to senior management, and budget performance, including expenditures as a subject of regular reporting and review by management. Further on, to perform risk identification at the departmental level and measures taken to manage them, including reporting /reviewing of the register on a regular (quarterly) basis, to determine whether actions have been taken as planned.	Management has been committed in this regard.	Recommendation closed
No	Audit area	Recommendations of 2019		
A1	Incorrect evaluation of	The minister should ensure that clear criteria are set out in the guideline for applicants by avoiding reference to laws that do not cover the scope of the		

	applications	ministry's activities, and establish effective controls in the application review and evaluation process to ensure that funding is done only for enterprises that are foreseen according to the guidelines.
A2	Support from MRD for municipal capital projects in incompliance with applicants guideline applications	The minister should ensure that the requirements of the Applicants Guideline are respected and will not enter into any annex co-financing agreements with municipalities for ongoing projects, which are not new.
B1	Failure to transfer asset ownership to the beneficiary	The minister should ensure that all assets registered as following investments, after the completion of technical acceptance procedures are transferred as assets to the registers of beneficiary budget organizations, and the same are removed from the assets registers of the ministry.
A3	Inaccurate reporting of non-capital assets	The minister should take measures to ensure that the value of non-capital assets in the AFR includes the cumulative value of assets belonging to the organization and not just the current year.
A4	Carrying out inventory of assets before the end of the year	The minister should ensure that the inventory of assets is carried out at the end of the year in order to provide accurate and complete information on the assets of the ministry before the preparation of the annual financial report.
A5	Inaccurate presentation of contingent liabilities	The minister should ensure that the disclosure of contingent assets/liabilities is done in accordance with their respective legal form according to the requirements of the regulation on Annual Financial Reporting.

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

											
ZYRA KOMBËTARE E AUDITIMIT CITA KOMBËTARE E AUDITIMIT NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE				REPUBLIKA E KOSOVËS - REPUBLIC OF KOSOVO QEVERIA - VLADA - GOVERNMENT MINISTERI I ZHVILLIMIT RAJONAL - MINISTRI OF REGIONAL DEVELOPMENT ARHIVA / ARCHIVE DALËSE / EXHIBIT/COPIES				REPUBLIKA E KOSOVËS - REPUBLIC OF KOSOVO QEVERIA - VLADA - GOVERNMENT MINISTERI I ZHVILLIMIT RAJONAL - MINISTRI OF REGIONAL DEVELOPMENT ARHIVA / ARCHIVE DALËSE / EXHIBIT/COPIES			
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LETËR E KONFIRMIMIT											
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Për: Zyrën Kombëtare të Auditimit											
Të nderuar,											
Përmes kësaj shkrese, konfirmoj se:											
<ul style="list-style-type: none"> • kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit/Pasqyrave Financiare Vjetore të Ministrisë së Zhvillimit Rajonal, 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. Enis Kervan 											
Ministër i Ministrisë së Zhvillimit Rajonal,											
Data: 21 Korrik 2020, Prishtinë,											

