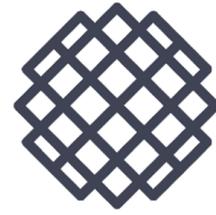




Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT

ON THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR
THE PROJECT “SUPPORT ON IMPROVEMENT OF DRAFTING
/DEVELOPMENT OF POLICIES IN KOSOVO” FOR THE PERIOD
1 JANUARY TO 31 DECEMBER 2021

Audit based on agreement with SIDA

Prishtina, April 2021

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1 Audit Opinion

This report summarises the key issues arising from the audit of the Annual Financial Statements for Special Purposes for the project “Support on Improvement of Drafting /Development of Policies in Kosovo for the period 1 January to 31 December 2021”, which sets out the Opinion of the Auditor General. Examination of the special purpose financial statements for the audit period was carried out in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). Our approach included tests and procedures which were necessary to obtain an opinion on the financial report.

Issues related to managerial reporting, controls and implementation of recommendations are presented in the Management Letter prepared in addition to the audit report.

1.1 Audit Opinion on Annual Financial Statements on the project “Support on Improvement of Drafting /Development of Policies in Kosovo”

Our audit of the special-purpose financial statements considers compliance with reporting requirements under the agreement and the quality and accuracy of the information presented in the financial statements.

Unmodified opinion

We have audited the special-purpose financial statements of the SIDA funded project on Support on Improvement of Drafting /Development of Policies in Kosovo for the period 1 January 2021 to 31 December 2021, which involves a summary of funds resources and expenditures incurred, statement of application for withdrawal of funds and disclosures.

In our opinion, the special-purpose annual financial statements of the Project on Support on Improvement of Drafting/Development of Policies in Kosovo for the period 1 January 2021 to 31 December 2021, give a true and fair view in all material respects, in accordance with reporting requirements agreed by both parties and in accordance with the principles of cash based accounting.

Basis for the Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of accounting

1. We would like to draw your attention to the fact that the special-purpose financial statements have been prepared in compliance with special purpose framework. As a result, they cannot be used for any other purpose.

Our audit opinion was not modified in this respect.

Responsibilities of Management and Those Charged with Governance for the Annual Financial Statements

The Management of the Office of the Prime Minister (Project's implementation unit) is responsible for the preparation and fair presentation of special-purpose financial statements in accordance with the Agreement entered into between the Government of Kosovo (represented by the Office of the Prime Minister) through the Government Coordination Secretariat and the Swedish International Development Cooperation Agency. SIDA financial support consists of two parts: a direct contribution to the Government (Treasury), and payments for technical assistance. OPM is responsible for bookkeeping as well as preparation and fair presentation of annual financial statements.

The Chief Administrative Officer is responsible to ensure the oversight of OPM's financial reporting process.

Auditor General's Responsibility for the audit of AFS

We conducted our audit in accordance with the Law on National Audit Office and INTOSAI Framework of Professional Pronouncements (IFPP). This law and these standards require that we honour the ethical criteria and plan and carry out the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

The audit involves performing procedures to obtain evidence about the financial records and disclosures in the special-purpose financial statements. 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. The audit also includes assessing the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as assessing the presentation of the financial statements.

In carrying out the risk assessment procedure, we consider the relevant internal control in relation to the preparation of the financial statements by the entity, but not for the purpose of expressing an opinion on its effectiveness. However, we will communicate in written any significant shortcoming in internal control relevant to the audit of the financial statements, which we identify during the audit.

2 Audit Scope and Methodology

The National Audit Office (NAO) under the agreement/contract with the Swedish International Development Cooperation Agency (SIDA), is responsible for execution of the regularity and compliance audit. This audit involves the examination and evaluation of annual financial statements/annual financial report and other financial records as follows:

- 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 financial report is in compliance with the requirements of the special agreement between the Government of Kosovo, represented by Office of the Prime Minister (OPM/GCS) and Sweden, represented by the Swedish International Development Cooperation Agency (SIDA);
- Appropriateness of internal control functions;
- Whether all needed actions on implementation of recommendations have been taken;
- Whether the closing balance of the previous period is the same as the current opening balance; and
- For all matters arising from or relating to the audit and additional duties according to agreed procedures.

Our audit methodology was focused on examining financial records and transactions, including supporting documentation. We have established the level of in-depth testing required to obtain evidence supporting the Auditor General's opinion.

Based on the special agreement entered into by the Government of Kosovo (OPM) and Sweden (SIDA) stipulates, inter alia, that the Government shall maintain a sound financial management system for the Project in accordance with national legislation, or with other agreed procedures applied by the public administration. In addition, it shall be responsible for and carry out all procurements within the Project in accordance with its procurement rules, guidelines, and procedures.

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.

Findings related to the audit opinion on annual financial statements are presented in this report.

Whilst findings related to financial management aspect, internal audit function, and compliance issues are summarised in the Management Letter as well as the findings based on agreed procedures.

3 Financial Management and Control

We have considered the spending of funds by budget lines. This has been presented in the following tables.

3.1 Financial Management and Control Conclusion

The financial system and controls over expenditures are generally good. However, management of expenditures for interns was followed by weaknesses, although with no material impact, which has been addressed in the Management Letter. As for the agreed procedures, we have not identified any shortcomings.

3.2 Budget planning and execution

In 2021, the BO spent 26.55% or €39,912.05 of the final budget, a decrease of 12% compared to 2020. However, budget execution remains at an unsatisfactory level and explanations on the current item are detailed below.

Table 1. Expenditures by budget lines of SIDA (in €) – rounded figures

| Description | Planned budget | 2021 Outturn | 2020 Outturn | 2019 Outturn |
|---|----------------|---------------|---------------|----------------|
| Types of expenditures/total | 150,335 | 39,912 | 97,429 | 246,847 |
| Salaries for interns | 20,000 | 20,000 | 29,750 | 26,000 |
| Study visit to Sweden | 0 | 0 | 0 | 43,794 |
| Study visit to Belgium | 0 | 0 | 0 | 0 |
| Office equipment | 7,000 | 9,079 | 300 | 712 |
| Translation expenses | 0 | 0 | 4,418 | 24,375 |
| Meeting expenses | 13,988 | 1,214 | 51,278 | 30,155 |
| Socialising (Team Building) | 3,000 | 0 | 0 | 625 |
| Trainings (including trainings of 2020) | 73,347 | 1,667 | 11,683 | 78,962 |
| Regional cooperation | 0 | 0 | 0 | 14,943 |
| Annual audit (2021 and 2022) | 6,000 | 2,940 | 0 | 2,730 |
| Mid-term evaluation of the project | 0 | 0 | 0 | 19,218 |
| KIPA | 0 | 0 | 0 | 3,868 |
| Support for consultation | 27,000 | 5,012 | 0 | 1,465 |

Explanations for changes in budget categories are given below:

In 2021, the BO spent 26.55% or €39,912.05 of the final budget, a decrease of 12% compared to 2020. However, budget execution remains at an unsatisfactory level and explanations on the current item are detailed below.

- The budget line for interns was spent at 100%;
- The budget line for office equipment was not spent at all as most of the necessary equipment were provided over the past years;
- From the budget line for meetings only 7% of the planned budget was spent;
- From the budget line of training, including trainings of 2020, only 2% of the planned budget was spent;
- From the budget line for annual audit (2021-2022) for 2021, 49% of the budget outturn was spent.
- The budget line on socialising was not spent at all;
- The budget line of trainings was spent at 1% only;
- The budget line of support for consultation/workshop was spent at 18% only.

Bezad Halilaj, Deputy Auditor General

Naser Arllati, Assistant Auditor General

Jusuf Kryeziu, Head of Audit

Refiqe Morina, Team leader

Fatlinda Podvorica, Team member

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.