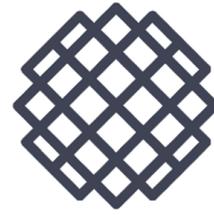




Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

## AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE OMBUDSPERSON INSTITUTION FOR YEAR 2021

**Prishtina, June 2022**

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*\*This report is a translation from the original Albanian version. In case of inconsistencies, the Albanian version prevails.*

# 1 Audit Opinion

We have completed the audit of the financial statements of the Ombudsperson Institution for the year ended on 31 December 2021 in accordance with the Law on the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion the financial statements and conclusion on compliance with authorities<sup>1</sup>.

## Unmodified Opinion on Financial Statements

We have audited the annual financial statements of the Ombudsperson Institution (OI) which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports<sup>2</sup>, for the year ended as at 31 December 2021.

In our opinion, the annual financial statements of the Ombudsperson Institution give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

## Basis for 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. NAO is independent from the auditee in accordance with INTOSAI-P 10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusion on Compliance

We have also audited if the processes and underlying transactions are in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

In our conclusion, transactions carried out in the process of execution of the Ombudsperson Institution's budget have been, in all material respects, in compliance with the established audit criteria arising from the legislation applicable for the auditee related to the use of financial resources.

## Basis for conclusion

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. NAO is independent from the auditee in accordance with INTOSAI-P 10, ISSAI 130, NAO Code of Ethics, and other

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<sup>1</sup> Compliance with authorities – compliance with all the public sector laws, rules, regulations, and relevant standards and good practices

<sup>2</sup> Other reports are required under Article 8 of Regulation no.01/2017 on Annual Financial Report

requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

### ***Responsibilities of Management and Those Charged with Governance for the AFS***

Deputy Permanent Secretary of the Ombudsperson Institution is responsible for the preparation and fair presentation of financial statements in accordance with the International Public Sector Accounting Standards – Financial reporting under the cash basis of accounting. In addition, Deputy Permanent Secretary is responsible for establishing internal controls which he determines are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. This includes the fulfilment of requirements of the Law no.03/L-048 on Public Finance Management and Accountability and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

The Ombudsperson is responsible to ensure the oversight of the Ombudsperson Institution's financial reporting process.

### **Ombudsperson Institution Management's Responsibility for Compliance**

The Ombudsperson Institution's management is also responsible for the use of the Ombudsperson Institution's financial resources in compliance with the Law on Public Financial Management and Accountability, and all other applicable rules and regulations.<sup>3</sup>

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our objective is also to express an audit opinion on compliance of respective Ombudsperson Institution's authorities with the applicable policies, rules and regulations as regards making use of financial resources of the audited organisation

As part of an audit in accordance with the Law on NAO and ISSAIs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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<sup>3</sup> Collectively referred to as compliance with authorities

- Identify and assess the risks of non-compliance with authorities, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on compliance with authorities. The risk of not detecting an incidence of non-compliance with authorities resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ombudsperson Institution's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management and those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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 Findings and recommendations

During the audit, we have found shortcomings in the financial management and control process in the areas of payments execution for goods and services and the assets management. The identified shortcomings are presented for your consideration below in the form of findings and recommendations. We will follow up these recommendations during next year's audit.

This report has resulted in three new recommendations, of which no recommendation was partly repeated or repeated as the last year's audit report resulted in no recommendations at all.

### 2.1 Other issues of financial management and compliance

#### 2.1.1 Goods and Services and Utilities

The final budget for Goods and Services and Utilities in 2021 was €236,422, of which €186,720 was spent. They are mainly relate to the supply with IT equipment (laptop), car fuel, stationeries, luncheons, official travel within the country, etc. We tested 15 samples of €50,216 as part of substantive testing and five samples as part of compliance testing.

**Issue A1 - Acceptance of goods with no acceptance commission in place****Finding**

Financial Regulation no.02/2013 on Management of non-financial assets, Article 8.4, stipulates that the Chief Administrative Officer with the decision establishes a Commission for Acceptance of Non-Financial Assets responsible to verify the quality, quantity, type and value of non-financial assets received and documented with minutes, in compliance with the contract or purchase order. Section 5 of the same Article further states that the Commission for Acceptance of Non-Financial Assets shall be composed of not less than three (3) members, experts in the relevant field, including the employee with material responsibility. Members of this Commission can also be external experts, if necessary.

During examination of payments, we found three payments of €22,949 for which the OI had not established the goods/services acceptance commission. Payments were made for "Supply with IT equipment", "Printing of annual reports", and "Supply with PPE against COVID-19". The goods were accepted by the respective contract managers given that the CAO had not established the acceptance commission.

This occurred because the CAO did not considered it necessary to establish a goods/supplies acceptance commission given that the goods were sent directly to the warehouse.

In this regard, the OI has sought legal opinion from the Department/Legal Office in the Ministry of Finance, Labour and Transfers for Article 8 of Financial Regulation 02/2013 for the Management of Non-Financial assets. In their opinion, in the defined situations of Article 8, point 2 of Regulation No. 02/2013 (acceptance of wealth in the central warehouse), there is no need to form a commission for accepting goods. Despite this, with the aim of strengthening internal controls of BO, we appreciate that the acceptance of goods is made by the relevant commissions, mainly when goods are of a specific nature such as IT equipment and other similar. Furthermore, even under the special terms of the contract "Supply of information technology equipment", the payment was required to be made after accepting goods with admission commission.

**Impact**

Acceptance of goods/supplies without a respective commission in place increases the risk of accepting goods/supplies that do not comply with the contracted type, quantity and quality.

**Recommendation A1**

The Ombudsperson should ensure that the respective commission on acceptance of goods/supplies are established in time and that all payments are made based on the reports produced by such commissions as established in the respective regulations.

**Entity management response (Agree)****Issue A2 – Payments on luncheons without proper evidences**

**Finding** Decision no.247/2019 (dated 04.11.2019) determining the right and the monthly amount of representation for OI officials, Article 5 , stipulates that the representation funds are only used to cover the expenses incurred for performing official duties, various formal activities and meetings, and may not be used for other purposes and needs.

In seven cases, expenditures of €278.50 incurred on "Luncheons" we were not provided with any evidence by OI to prove that these expenses were used for the purpose of performing official duties, various formal activities and meetings.

This occurred because they failed to adhere to the decision governing the spending of representation funds by the officials of the Ombudsperson Institution.

**Impact** Failure to adhere to the decision's requirements on representation expenditures has led to unreasonable spending of funds.

**Recommendation A2** The Ombudsperson should identify the reasons behind failure to adhere to the decision on representation expenditures and provide for adequate controls in order to prevent such shortcomings from occurring in the future.

### **Entity management response (Agree)**

#### **2.1.2 Capital and non-capital assets**

The value of capital assets presented in the AFS was €75,739, that of non-capital assets was €89,543, and of stocks was €11,850. We tested 10 samples of €59,019 as part of substantive testing and 13 as part of compliance testing.

#### **Issue A3 – Poor assets management**

**Finding** Pursuant to the Regulation no.02/2013 on the Management of non-financial assets by budget organisations, Article 4.4, the ways of assignment and discharge of the officials for the management and use of the non-financial assets should be clearly defined with internal regulation and procedures adopted by the Chief Administrative Officer of the budgetary organization. Whilst paragraph 3 of the same article stipulates that all employees of a budget organization are responsible for preserving the assets in his/her possession and for his supervision against losses, theft, misuse and unauthorized use in accordance with the responsibilities included in his/her scope. Article 6.1 of the same Regulation stipulates that each budget organization shall put in place and update a register of non-financial assets under its management.

With regard to assets management, we found the following:

OI did not have an internal regulation on assets management in place, which would have arranged the way of assignment and discharge of the officials for the management and use of the non-financial assets.

While testing the assets in the KFMIS assets register (assets over €1,000) and carrying out physical examination, we found that the asset named “Notebook computer”, with an original cost of €1,290 and a book value zero, was listed as an asset in use, according to the asset description, but the asset was not existing. The OI officer did not return it following his termination of the mandate.

Moreover, according to OI’s responsible officers, there were other two similar cases of OI officers having not returned the assets/laptops following the termination of their mandates in OI. The book value of one of the laptops as of 31.12.2021 was €205.65, whilst the other’s was €0.

On 27.09.2021 the Secretary General had taken the decision to donate the non-financial assets of the OI to the Directorate of Education of the Municipality of Prishtina, based on the recommendation of the commission for the alienation of assets under €1,000. We found that the donated assets, although damaged and non-functional (their value was zero), were not written off from the non-financial assets registers.

While testing the register of assets under €1,000 we found that the depreciation was not calculated for the new purchases made during 2021. The value of depreciation not applied was €1,979.87. Thus, assets at the end of the year have been overstated by the same amount.

In this regard, responsible officers told us that the officers no longer part of the institution had not handed over the assets. Whilst failure to write off the alienated assets and failure to calculate the depreciation rate was as a result of problems with the e-assets system. This problem has been disclosed in the AFS of 2021.

### **Impact**

Poor controls over assets management have resulted in shortcomings in this area, which lead to the risk of assets being lost or misused. Failure to depreciate the assets leads to their overstatement and to untrue presentation of assets in the annual financial statements.

### **Recommendation A3**

The Ombudsperson should prepare the internal regulation on assets management and reconsider the existing internal controls over assets management. Controls over this area should be strengthened in order to prevent assets from being lost and misused. Assets registers should be updated and their depreciation should be applied, thus providing a fair presentation in the AFS.

### **Entity management response (Agree)**



### 3 Summary on budget planning and execution

This chapter gives a summarised information on the sources of budget funds, spending of funds and revenues collected, by economic categories. This is highlighted in the following tables and charts:

**Table 1. Expenditures by sources of budgetary funds (in €)**

Description	Initial Budget	Final Budget <sup>4</sup>	2020 Outturn	2019 Outturn	2018 Outturn
<b>Sources of funds</b>	<b>1,269,279</b>	<b>1,188,993</b>	<b>1,134,292</b>	<b>1,054,732</b>	<b>1,143,429</b>
Government Grants – Budget	1,269,279	1,175,418	1,134,292	1,054,732	1,124,234
External Donations	0	13,575	0	0	19,194

The final budget was lower than the initial budget by €80,286. The initial budget was decreased by €43,000 as budget savings and by €50,861 based on Government's decisions.

In 2021, the OI spent €1,134,292 or 96% of the final budget, an increase of 2% compared to 2020. However, the budget spending remains at satisfactory level and the explanations on the current position are given below.

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

Description	Initial Budget	Final Budget	2020 Outturn	2019 Outturn	2018 Outturn
<b>Spending of funds by economic categories</b>	<b>1,269,279</b>	<b>1,188,993</b>	<b>1,134,292</b>	<b>1,054,732</b>	<b>1,143,429</b>
Wages and Salaries	982,851	947,571	947,571	918,586	942,935
Goods and Services	258,928	231,514	182,213	94,308	195,231
Utilities	15,000	4,908	4,508	3,488	5,263
Capital Investments	12,500	5,000	0	38,350	0

Explanations for changes in budget categories are given below:

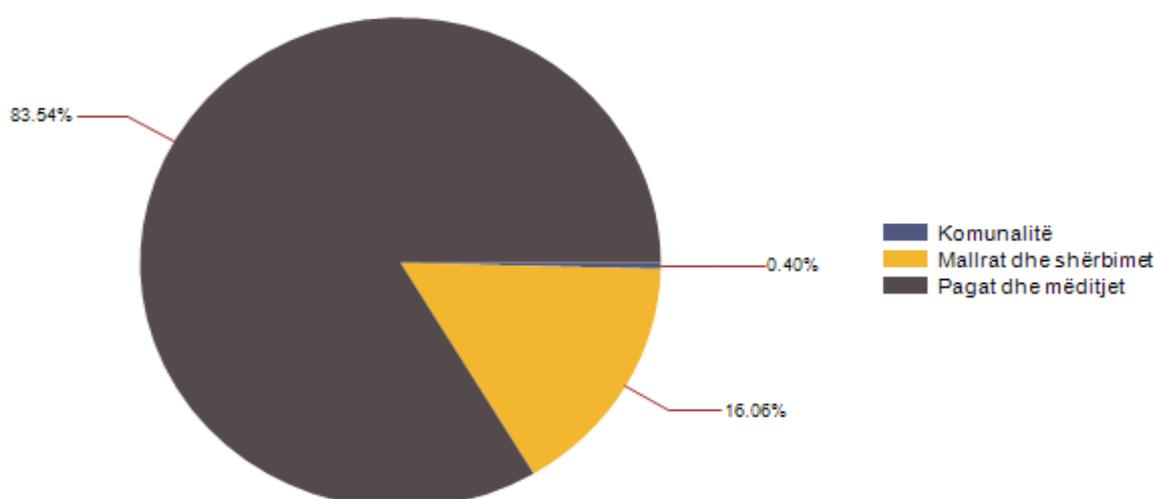
- The final budget of Wages and Salaries was decreased by €35,280 compared to the initial budget based on the Government's decision no.11/52 dated 29.12.2021. This was as a result of the resignation of a deputy lawyer and four other cases involving maternity leave. The amount spent in this category was €947,571;
- The final budget of Goods and Services (donations excluded) was decreased by €40,989 compared to the initial budget. This was as a result of budget savings in the amount of €30,000 and of €10,989 with Government's decisions no.11/52 dated 29.12.2021 and no.21/50 dated 23.12.2021. The budget for this category has been decreased as some activities were funded by the IPA project and some others have remained unimplemented due to the pandemic situation. The amount spent in this category was €182,212;

<sup>4</sup> Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance

- The final budget of Utilities was decreased by €10,092 compared to the initial budget. This was as a result of budget savings in the amount of €8,500 and of €1,592 based on Government's decision no.21/50 dated 23.12.2021. Utility costs include fixed telephony and electricity for the regional office in Graçanica. The amount spent in this category was €4,507.91;
- The final budget for Subsidies and Transfers was decreased by €7,500 compared to the initial budget. Initially, €1,000,000 were allocated on 14.01.2021 based on Government's decision no.06/58 for the implementation of the economic recovery package. Afterwards, €3,028 were cut by the MFLT. The budget of this category was spent at about 99%.
- The final budget for Capital Investments was decreased by €334,729 compared to the initial budget. It was cut by €4,500 as budget savings and by €3,000 based on Government's decision no.21/50 dated 23.12.2021 for the project "Supply with technical equipment and software of information technology" in the amount of €12,500 and as such is reflected the Public Investment Program (PIP 2021). The project has failed because it has been published three times and no bids have ever been submitted from economic operators.

The final budget has increased by €13,575 from donations received by OI in 2015. In order to use such donations, OI must first submitted projects which will have to be approved by donors. In lack of projects, this budget has remained unspent year after year.

**Chart 1. Expenditures by economic categories for year 2021**



Revenues generated by OI in 2021 totalled to €117, as funds returned for OE failure to provide cleaning services which OI had outsourced for its regional offices.

**Table 3. Revenues (in €)**

Description	Initial budget	Final Budget	2020 Receipts	2019 Receipts	2018 Receipts
<b>Total revenues</b>	<b>0</b>	<b>0</b>	<b>177</b>		
Other revenues	0	0	177		

## 4 Progress in implementing recommendations

Our audit report on 2020 AFS of OI resulted in no recommendations

Vlora Spanca, Auditor General

Naser Arllati, Assistant Auditor General

Jusuf Kryeziu, Head of Audit

Shemsije Llugiqi, Team leader

Ganimete Dalloshi, Team member

Mazlumsha Sejfadini, Team member

## Annex I: Letter of confirmation/ Comments of BO regarding the audit report (if any)

<b>Issue</b>	<b>Comments from the BO</b>	<b>KNAO view</b>
Issue 1:		
Issue 2:		
Issue 3:		
Issue 4:		

## Annex II: Explanation regarding different types of opinion applied by NAO and other parts of the Auditor's Report

Auditor's Report on the financial statements<sup>5</sup> should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities<sup>6</sup>. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

For the purpose of concluding whether an opinion on the financial statements is modified or unmodified an auditor should assure himself/herself whether audit results include or not (a) detected material or pervasive misstatement(s) or potential one(s) presumed in the event of a limitation of scope.

A misstatement is a difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

**(extract from ISSAI 200)**

### Forms of opinion

#### **Unmodified opinion**

It is formulated when no misstatements or non-compliance were detected or misstatements and/or non-compliance were detected, a single one or aggregate, that do(es) not equal or exceed the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions do(es) not equal or exceed the level of lower materiality established for this class of transactions. It is also formulated if there is no limitation of scope or a limitation of scope may not lead to omission of (a) material misstatement(s) and/or non-compliance).

Limitation of scope occurs when an auditor 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 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.

#### Modifications to the opinion in the auditor's report

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

<sup>5</sup> Financial statements in the public sector include also the statement(s) of budget execution

<sup>6</sup> Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

and/or non-compliance, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement and/or non-compliance, the auditor should modify the opinion in the auditor's report. A modified opinion may be:

- Modified (qualified)
- Adverse, or
- Disclaimer

### **Qualified opinion**

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that equals or exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions equals or exceeds the level of lower materiality established for this class of transactions. It is also formulated if there is a limitation of scope that may not lead to omission of (a) material misstatement(s).

### **Adverse opinion**

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that pervasively exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions pervasively exceeds the level of lower materiality established for this class of transactions.

"Pervasive is a term used, in the context of misstatements and/or non-compliance, to describe the effects of misstatements and/or non-compliance on the financial statements or the possible effects on the financial statements of misstatements and/or non-compliance, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- a) Are not confined to specific elements, accounts or items of the financial statements
- b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

### **Disclaimer of opinion**

It is formulated when limitation of scope, i.e. inability to obtain sufficient appropriate audit evidence, is material and pervasive.

### **Emphasis of Matter paragraphs and Other Matters paragraphs in the auditor's report**

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.

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.

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.