



Republika e Kosovës  
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Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

# AUDITOR GENERAL'S REPORT ON THE GOVERNMENT'S ANNUAL FINANCIAL REPORT ON THE BUDGET OF THE REPUBLIC OF KOSOVO

# 2021

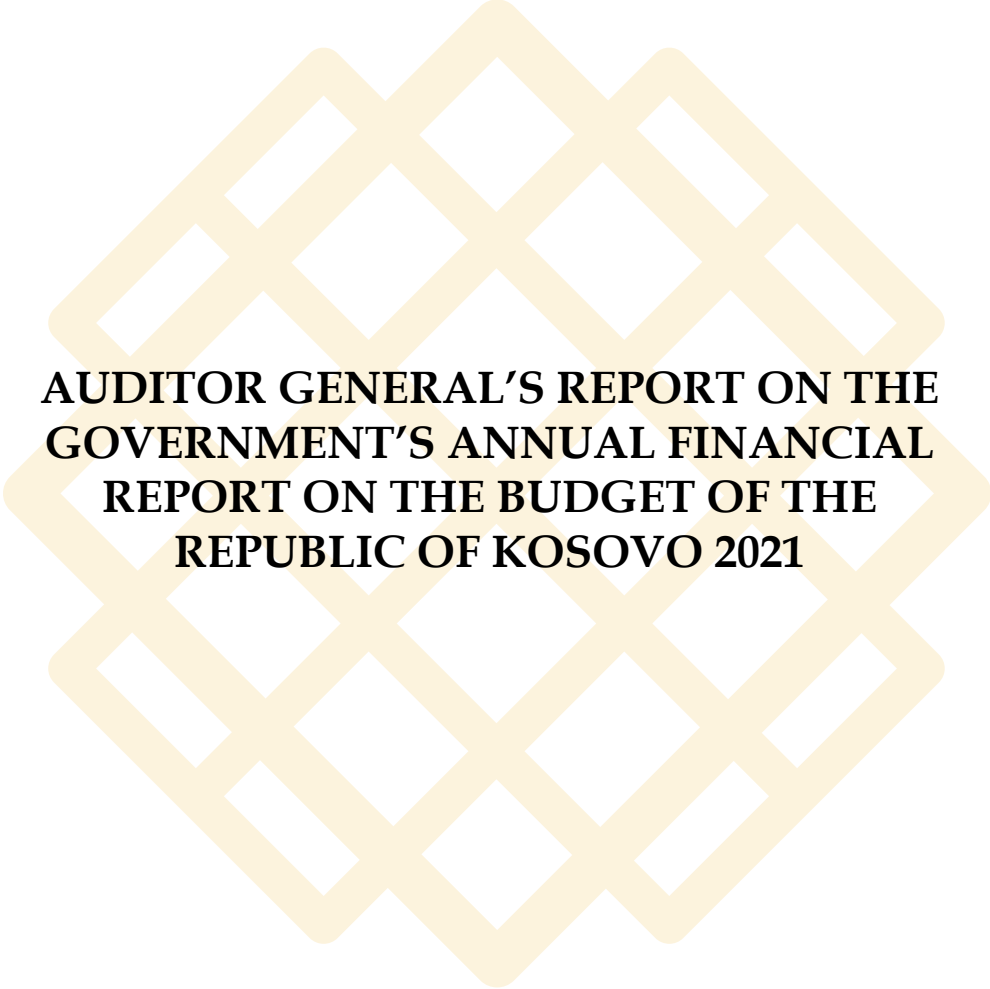
August, 2022



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# **AUDITOR GENERAL'S REPORT ON THE GOVERNMENT'S ANNUAL FINANCIAL REPORT ON THE BUDGET OF THE REPUBLIC OF KOSOVO 2021**

Prishtina, August 2022

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## List of abbreviations

<b>AG</b>	Auditor General	<b>STA</b>	Single Treasury Account
<b>AC</b>	Audit Committee	<b>KFMIS</b>	Kosovo Financial Management Information System
<b>BRK</b>	Budget of the Republic of Kosovo	<b>POE</b>	Publicly Owned Enterprises
<b>CBK</b>	Central Bank of Kosovo	<b>BO</b>	Budget Organisation
<b>CEB</b>	Council of Europe Development Bank	<b>PRB</b>	Procurement Review Body
<b>CEC</b>	Central Elections Commission	<b>IT</b>	Information Technology
<b>CK</b>	Customs of Kosovo	<b>AFS</b>	Annual Financial Statements
<b>COPE</b>	Committee for Oversight of Public Finances	<b>IPSAS</b>	International Public Sector Accounting Standards
<b>CPA</b>	Central Procurement Agency	<b>MESTI</b>	Ministry of Education, science, Technology and Innovation
<b>CRA</b>	Civil Registration Agency	<b>MFLT</b>	Ministry of Finance, Labour and Transfers
<b>DDG</b>	Donors Designated Grants	<b>UCCK</b>	University Clinical Centre of Kosovo
<b>EBRD</b>	European Bank for Reconstruction and Development	<b>CHU/IA</b>	Central Harmonisation Unit/Internal Unit
<b>EMA</b>	Emergency Management Agency	<b>MPA</b>	Ministry of Public Administration
<b>EU</b>	European Union	<b>ME</b>	Ministry of Economy
<b>GDP</b>	Gross Domestic Product	<b>IAU</b>	Internal Audit Unit
<b>ICMM</b>	Independent Commission for Mines and Minerals	<b>HIS</b>	Health Information System
<b>IDA</b>	International Development Association	<b>MIA</b>	Ministry of Internal Affairs

<b>IFI</b>	International Financial Institutions	<b>AAR</b>	Annual Audit Report
<b>IMF</b>	International Monetary Fund	<b>AFR/BRK</b>	Annual Financial Report on the Budget of the Republic of Kosovo
<b>INTOSAI</b>	International Organisations of Supreme Audit Institutions	<b>RTK</b>	Radio Television of Kosovo
<b>KEK</b>	Kosovo Energy Corporation	<b>VAT</b>	Value Added Tax
<b>LPFMA</b>	Law on Public Financial Management and Accountability	<b>NAO</b>	National Audit Office
<b>LPP</b>	Law on Public Procurement		
<b>MTEF</b>	Medium Terms Expenditures Framework	<b>SRC</b>	Civil Registry System
<b>PAK</b>	Privatization Agency of Kosovo	<b>KOSTT</b>	Transmission, System and Market Operator
<b>PIFC</b>	Public Internal Financial Control	<b>ISSAI</b>	International Standards of Supreme Audit Institutions
<b>RAEPC</b>	Regulatory Authority of Electronic and Postal Communications	<b>MESPI</b>	Ministry of Environment, Spatial Planning and Infrastructure
<b>TAK</b>	Tax Administration of Kosovo	<b>PPRC</b>	Public Procurement Regulatory Commission
<b>WB</b>	World Bank	<b>MH</b>	Ministry of Health

## Word of the Auditor General



*Honoured Members of the Parliament,*

*Sound management of public money serving to the citizens' benefits is a mission and responsibility vested to all of us and to all the parties involved in the cycle of public accountability. Accountability, transparency and integrity are values that must be continuously promoted in light of the model of sound and fair management of public money. In addition, they are the prerequisites to opened doors to Euro-Atlantic integration and economic-financial stability of a state. Therefore, well-consolidated financial reporting in accordance with the legal framework,*

*international standards and practices will provide for better management, accountability and higher transparency towards the public.*

*In this respect and in line with the constitutional and legal mandate, the National Audit Office has audited the annual financial report of the Budget of the Republic of Kosovo for year 2021. It is thereby my pleasure to submit you the Annual Audit Report presenting the outcomes of our examinations and analyses.*

*For the 2021/22 audit season, the annual audit plan has been fully met, both in number and quality. A total of 133 audits were carried out, which include: the audit of the annual financial report of the budget of the Republic of Kosovo with over €2.5 billion; the audit of 90 budget organisations; 12 publicly owned enterprises; 13 projects funded by the World Bank and other donors; 3 compliance audits, of which 2 are reports with classified information (classification level – Restricted); and 14 performance audits of special importance. More details on the results of these audits are summarized further in this Report.*

*The National Audit Office has managed to extend its scope in some institutions and areas of high public interest, which were not audited by the state audit for years. For the first time in 2021, the Office has audited information classified by the law as RESTRICTED. Our audits focused on the quality of financial reporting, the efficiency and effectiveness of internal control systems, the compliance of audited entities' decisions with the legal framework, as well as other value for money related issues. Inadequate classification of expenditures, problems with assets management and outstanding liabilities, poor development of procurement and contract management procedures, failure to collect accounts receivable were some of the most frequently identified shortcomings, which were also associated with other shortcomings, but at a lower level.*

*Our audits for year 2021 have resulted in a larger number of modified audit opinions on the financial reporting, indicating that the quality of financial reporting by the public institutions needs to be improved. More prompt and rigorous measures for improvement should be taken at the local governance and POEs levels, although some of them were taken latter in 2021. Internal controls also need to be improved in order to be more effective and efficient in developing financial management processes.*

*Moreover, despite the progress made during 2021 in the implementation of recommendations, it was not at the expected level. Coordinated efforts made by NAO and the standing committees to increase the accountability level towards the heads of auditees have started to produce a positive impact. At present, the percentage of implemented recommendations has increased from 45%, that was in the previous year, to 50% in the current year. However, this is not a satisfactory level, and further improvements need to be made in this area which requires a greater commitment of the decision-makers.*

*Ultimately, allow me to extent my gratitude to the Assembly of the Republic of Kosovo and its standing committees for the support and honest cooperation during this audit season. I would also like to express my acknowledgment to all the auditees for the cooperative approach during the audit process, as well as all the staff of NAO their unstinting commitment to complete this season of audit successfully and within the statutory deadline.*

The Auditor General,

Vlora Spanca

Prishtina, August, 2022



## Executive Summary

Pursuant to the constitutional mandate, articles 137 and 138, as well as the legal mandate, article 6, the National Audit Office has conducted 132 audits during the 2021/22 audit season and issued the respective audit reports. In fulfilling this obligation, the National Audit Office has conducted and published: 90 financial and compliance audits of budget organisations, 12 audits of publicly owned enterprises, 13 audits of World Bank and other donor projects, 3 compliance audits of which 2 contained classified information (RESTRICTED) as well as 14 performance audits. The outcomes of these audits have been summarised in this Report.

In the Auditor General's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph, the Annual Financial Report on the Budget of the Republic of Kosovo for year 2021 give a true and fair view in all material respects.

In the Auditor General's conclusion of compliance, except for the effects of the matter(s) described in the Basis for Conclusion paragraph, transactions carried out in the process of execution of 90 budget organisations have been, in all material respects, in compliance with the established audit criteria arising from the legislation applicable for the auditees as regards making use of financial resources.

*For more, see the Audit Opinion and Conclusion chapter*

**Budget planning and execution** - According to the initial budget, receipts/revenues were planned in the amount of €2,555,600,000, whilst according to the revised/final budget they were planned at €2,697,630,000, an increase of €142,030,000. Receipts for year 2021 amounted to €2,490,973,000 or 92% of the final budget. Compared to the outturn of 2020, receipts have increased by €284,326,000, or 13%, whilst compared to 2019, they have increased by €268,051,000 or 12%. On the other hand, payments were in the amount of €2,378,740,000, or 87% of the final budget. Compares to 2020, payments have increased by €43,783,000 or about 2%, whilst compared to 2019 by €226,177,000 or 10.5%.

The difference between receipts and payments is €112,233,000. This amount represents the unspent funds and reflects the increase in cash in the bank account of the Budget of the Republic of Kosovo.

Based on the historical trend over the last three years, we may conclude that payments have recorded a continuous increase. Receipts in 2020 have decrease compared to 2019, as a result of the Covid-19 pandemic situation, whilst revenues have increased compared to the previous year.

**Budget deficit** - LPFMA, Article 22A.1, stipulates that no law on budget appropriations shall include an overall deficit exceeding 2% of the forecasted Gross Domestic Product (GDP). However, upon Government's request, the Assembly of the Republic of Kosovo has set a temporary increase of the deficit ceiling up to 6.5%, whilst the usable bank balance ceiling has been temporarily reduced to 3% of GDP.

For year 2021, the overall deficit estimated with the initial budget was - €337,300,000, or - 4.7% of the estimated GDP, whilst the deficit estimated with the reviewed budget was - €338,433,000 or - 4.6%. Based on the audit, the amount of deficit at the yearend was - €50,363,000 or - 0.64% of the GDP.

This data indicate that the budget deficit ceiling during 2021 was within the set statutory limits, whilst the budget outturn shows that the revenue collection has considerably improved and the request for funding from the deficit has moderated.

**Public Debt<sup>1</sup>** – due to Kosovo's insufficient financial ability to fill the state budget, the Kosovo Budget is also funded by domestic and external borrowing in addition to regular revenues. By the end of 2021, public debt amounted to €1,682,890,000 or around 22% of the GDP. Of which, €576,750,000 are external debts and €1,106,140,000 are domestic ones. Compared to last year's, this year's overall debt has increased by €195,200,000 or around 13%.

During the analyses made, NAO has identified lack of efficiency in spending of funds obtained from external borrowing. This was mainly as a result of problems with the expropriations in infrastructure projects, the budget allocations not in line with project dynamics, the consolidation of projects implementation units in recruiting and retaining staff, budgeting for some projects the loans for which had not been ratified by the Assembly, and the effects of the COVID-19 pandemic.

### Individual Audits of Budget Organisations

Of the 90 audits on individual AFS of budget organisations, 46 have resulted in Unmodified Opinions, and 44 in Modified Opinions (42 qualified and 2 adverse opinions). Compared to 2020, modified opinions to the AFS of BOs have increased by 17 (in 2020 there were 27 modified opinions).

The main reasons for modification of the audit opinions were untrue and unfair presentation of information in the AFS, poor classification expenditures (due to poor planning, payments based on court/enforcement decisions, and the BO themselves),

1. Public debt information has been presented in this report based on the Annual Bulletin for year 2021 on Public Debt, published by MFLT/Treasury.

untrue reporting of capital and non-capital assets, payment to employees who have not attended work (in Ministries – for the former civil protections members), untrue disclosure of accounts receivable and contingent liabilities in individual AFS etc.

**Publicly Owned Enterprises** – All the 12 audits of the AFS of Publicly Owned Enterprises have resulted in modified opinions (10 adverse opinions and 2 qualified ones).

The POEs audit results have revealed shortcomings in their business operations as most of them have operated with losses. The most emphasised shortcomings these POEs have been facing were: nonadherence to the statutory deadlines for financial reporting, poor quality of financial statements, increased outstanding liabilities, failure to record and value the assets, low liquidity of payments, and low level of implementation of recommendations.

On the other hand, the negative trend marked in the recent years in these POEs indicates the need for both managements and the stakeholders to conduct a comprehensive analysis. The Government and the municipalities these POEs operate in should closely cooperate with the respective heads in analysing the situation and proposing the measures to remedy the existing situation before their operational continuity and existence is put to question.

**IT and Procurement Performance Audits** – have covered areas of economical, educational, environmental, security, and public procurement importance, which promote efficiency, accountability, effectiveness, and transparency in public administration. These audits have revealed: the environment and waters have not been protected from power-generating economic operators, shortcomings in the education area when it comes to students assessment methodology, challenges faced by health institutions in managing the pandemic, shortcomings in the management of energy procurement processes, poor management of public funds by the public broadcaster etc.

In the IT area, responsible institutions have not taken sufficient actions for proper governance and the data protection and security system in the Civil Registry Agency does not sufficiently provide for the system continuity and the integrity of data at any time, as well as the implemented application controls. In addition, the payroll system does not contain the required standards to efficiently manage their distribution. Based on the follow-up audit on implementation of recommendations, the Treasury of Kosovo and the Ministry of Finance, Labour and Transfers have made significant progress, but insufficient when it comes to the implementation of the action plan for the full implementation of the recommendations.

**Implementation of recommendations** – based on the individual audit reports, we may conclude that 50% of the recommendations given in 2020 have been fully implemented, whilst, compared to 2019 their implementation has increased by 5%. This increase in the implementation of recommendations was reflected at the central level and independent institutions. Meanwhile, the level of implementation of recommendations given in the AAR/BRK for year 2020 was still low, regardless of the increase marked compared to 2019. Of the 54 recommendations given in the AAR of 2020, 12 have been fully implemented, 10 were under implementation, and 32 were not addressed.



# **Annual Financial Report of the Budget of the Republic of Kosovo**



## 1. Audit of the Annual Financial Report 2021

The role of the Auditor General is to provide a basis for closing the accountability process between the Assembly and the Government for the execution of the state budget during the year. This is achieved by applying the principles of managerial accountability at all levels of government, including ministries, municipalities, independent institutions and publicly owned enterprises.

The Auditor General, based on his constitutional and legal mandate, conducts the annual audit of the Government's Annual Financial Report for the execution of the budget of Kosovo.

The audit of the Government Annual Financial Report 2021 is based on the following documents:

- Constitution of the Republic of Kosovo (Articles 137 and 138);
- Law no. 05/L-055 on the Auditor General and the National Audit Office of the Republic of Kosovo (Article 18);
- Law no. 03/L-048 on Public Financial Management and Accountability, amended and supplemented (Articles 47 and 48);
- Annual Audit Plan for the audit season 2021/2022;
- Financial and Compliance Audit Manual;
- Quality Control Manual;
- MF Regulation. No. 01/2017 on Annual Financial Reporting by Budget Organizations; and
- INTOSAI Framework for Professional Pronouncements, namely, International Standards on Supreme Audit Institutions (ISSAIs).

The audit has been planned and conducted based on the International Standards of Supreme Audit Institutions, in order to obtain reasonable assurance that the financial statements are free from financial misstatements and that government activities, financial transactions and the information presented are in accordance with the law, regulations and other acts. Risks, control environment, and internal controls have been identified and assessed at the preparatory stage.

According to LPFMA, the Kosovo's budget accounting and reporting system is based on the cash basis. Cash management is organised through the Treasury Single Account. The Treasury Single Account is a system of bank accounts used for revenue

collection and expenditure execution, which is managed and controlled by the Treasury. In spite of this, MF Regulation no.01/2017 requires budget organizations to keep separate accounting records based on which they should prepare their financial statements and report to the MFLT/Treasury.

The Annual Audit Report is submitted to the Government and the Assembly. Whereas, the results of individual audits are sent to the Assembly of Kosovo, municipal assemblies, boards of directors and managements of the auditees.

Our analytical reviews have shown that none of 90<sup>2</sup> budget organizations had discrepancies with the requirements of Regulation No. 01/2017 on Annual Financial Reporting, in terms of format, structure, and reporting deadlines.

All BOs have submitted the financial statements within the statutory deadline of 31 January 2021. However, until the drafting of the Government's Consolidated Financial Statements (31 March 2021), 48 BOs have made corrections in their statements, whilst 42 BOs did not require any adjustments. Yet, during the audit, we found unadjusted errors in a considerable number of budget organisations.

The unadjusted errors were most frequently presented in individual reports relate to:

- Differences between the notes presented in the Kosovo Financial Management Information System (KFMIS) and the information presented in the two main table of the Annual Financial Statements.
- Misclassification and recording under the wrong economic category; and
- Incomplete presentation of assets, accounts receivable, and outstanding and contingent liabilities in the Annual Financial Statements.

The issues raised above will be examined in detail in the following chapters of the report.

## 1.1 Audit Scope and Methodology

The Ministry of Finance, Labour and Transfers/Treasury, on behalf of the Government, is responsible for the preparation and fair presentation of the Annual Financial Statements in accordance with International Public Sector Accounting Standards (IPSAS) - financial reporting under the cash basis of accounting - as well as for the application of internal controls.

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2. This number does not include the National Audit Office and the Kosovo Intelligence Agency.



The Treasury's Director General has, according to the format required by the Law on Public Finance Management and Accountability (LPFMA as amended and supplemented) and in accordance with IPSAS, submitted the Annual Financial Statements 2021 to the Government for approval, within the deadline of 21 March 2022. The AFR 2021 was rectified on 27 July 2022.

The National Audit Office (NAO) is responsible for carrying out regularity audits (financial and compliance) which include examination and evaluation of the Government's AFS. The audit was focused on three key statements and explanatory notes/disclosures:

- Statement of cash receipts and payments;
- Consolidated statement of budget comparison with execution;
- Consolidated statement of cash assets and funds balances; and
- Completeness and quality of information in the explanatory notes/disclosures of financial statements.

The audit objective was to provide reasonable assurance:

- Whether the AFR give a true and fair view of the financial situation for the reporting period in all material respects;
- Whether the AFR give a true and fair view of the financial accounts and transactions for the reporting period;
- On the effectiveness of internal controls applied during the preparation of the AFR; and
- Whether the Government has taken appropriate measures to implement the audit recommendations for the previous year and earlier years.

The 2020 AFR/BRK examination has been taken in accordance with International Public Sector Auditing Standards (ISSAIs) and the NAO internal guidelines. Our approach is based on a thorough understanding of the process through which the AFR has been produced and producing of an audit strategy that mainly focuses on addressing the specific risks for the opinion while providing an acceptable level of assurance for the statements obtained as a whole. the extent to which errors in presentation of data in the AFR are tolerated, and are not considered to have a significant impact on the reliability of the statements, is 1%.

The selected approach also reflects the evaluation of the results from the audits of some annexes of the AFR which are consolidated from the individual financial

statements, such as assets, liabilities, accounts receivable, public debts, and other annexes.

Our procedures included an analytical review of the statements, assessment of the statements preparation process, verification of the value of the accounts in the general ledger and compliance with the values presented in the financial statements, assessment of the effect of unadjusted misstatements, if the balance sheets are materially correct and where errors have been identified, adjustments have been made to the financial statements, confirmation that all audit assertions have been adequately addressed, review of internal management controls, accounting systems and a significant number of tests and procedures, which we deemed necessary for the effective conduct of the audit

The following sections of the Report provide a more detailed summary of the audit findings as a result of observations in each area of review. Audit findings should not be considered as a comprehensive overview of all the errors and weaknesses that may exist, or of any improvements that may be made to the government systems and procedures which have characterized 2021, but certainly provide an acceptable level of assurance.

## 1.2 Basis of Preparation, Accounting Policies and Reporting

MFLT/Treasury, on behalf of the Government, prepares the Annual Financial Report of the Budget of the Republic of Kosovo in accordance with LPFMA no.03/L-048, amended by Law no. 03/L-221, Law no.04/L-116, Law no.04/L-194, Law no.05/L-063 and Law no.05/L-007, as well as based on IPSAS.

The basis of accounting and reporting of the Government is LPFMA and IPSAS, according to the cash principle. Based on this, the information presented in these financial statements represents cash receipts and payments and cash flow movements.

According to the cash accounting principle, receipts/revenues are recognized when money is transferred to the Treasury Single Account (TSA), received in commercial banks or waiting to be transferred to the TSA, and money collected by officials of budget organizations pending to be transferred to the Treasury account at the CBK.

Payments/expenditures are recognized when they are withdrawn from the STA, whereas expenditures for petty cash and advance payments for official travel are recognized at the time the petty cash account is closed and official travel expenditures are justified.

Money management is organized in the form of a STA, which is a system of bank accounts used for the collection of revenues and the realization of expenditures, which are managed and controlled by the Treasury in the MFLT.

The Treasury is authorized to execute the payment of invoices and requests for payment under Article 39.2 of the LPFMA and court and enforcement decisions under Article 40 of the LPFMA.

LPFMA has some additional requirements for the presentation of non-financial assets and liabilities in the explanatory notes of the financial statements, in accordance with Part 2 of IPSAS on a cash basis.

Assets presented in Annex 7 are based on KFMIS records, and include assets worth over €1,000 in accordance with Financial Regulation no.02/2013. The list of non-financial assets is presented in the net book value, after the application of depreciation rates according to this regulation.

The report contains disclosures of information for other accounts, which are presented in the annexes: (8) Assets worth less than €1,000; (9) Stocks; (10) Receivables; (11 and 12) Liabilities; (16) Employment records, (17) Number of employees outside the payroll; (18) Number of employees on special service contracts. All these annexes are consolidated from the individual statements of budget organizations<sup>3</sup>.

Transactions between budget organizations, called “Interdepartmental Transactions” have not been consolidated in these financial statements, in order to maintain the consistency of the information reported in the individual financial statements of budget organizations. Expenditures are categorized according to the economic and functional classification of the Law on Budget, based on the Government Financial Statistics of the IMF (CFS) which are a version of the 2014 cash-based CFS.

Payments made by third parties are not considered receipts or cash payments, but are Government benefits. These payments have been presented as a separate note in annex 4.1 in accordance with IPSAS 2017, effective from 1 January 2019.

Cash consists of funds held in the Central Bank of Kosovo, commercial banks, as well as cash in BOs’ cash registers and cash equivalents.

Payments returned to BRK from previous years in the current year are recorded as revenues of this year. The official reporting currency in Kosovo is Euro (€), whilst i

3. Except for a small number of BOs, where technical errors have been identified and which were not in compliance with historical declarations in previous years.

n the Government's debt disclosure the currency Special Drawing Rights (SDR) in annex 21, and USD in IFI membership fee payments in annex 22 may have been used.

AFS are authorized on the date of signing the declaration by the Minister of Finance, Labour and Transfers, and the Director General of Treasury.

### 1.3 Audit Opinion

NAO audited the AFR/BRK for the year ended 31 December 2021, which includes the Statement of cash receipts and payments, the Consolidated statement of comparison of budget with execution, the Consolidated statement of cash and funds balances as well as explanatory notes/disclosures of financial statements.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the Annual Financial Report of the Budget of the Republic of Kosovo gives a true and fair view in all material aspects for the year ended 31 December 2021, in accordance with International Public Sector Accounting Standards (according to cash based accounting) and Law no. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented).

#### Basis for Qualified Opinion

- **Inadequate classification of expenditures** – Despite the improvements made from previous years and during 2021, we found payments of over €13,150,923 not classified under the adequate categories of expenditures. Of these, €9,327,936 were as a result of inadequate budgeting, whilst €3,822,987 were as a result of court decisions and of the BOs themselves. The category mostly affected by inadequate classification of expenditures was the Capital Investments by €10,244,641, and the others by €2,906,282;
- **Payments to employees based on the Brussels agreement** - During 2021, the Government has paid €962,646 to 199 employees (from the Serbian community engaged based on the Brussels agreement) who did not clock in/out and did not perform for the respective ministries.
- **Assets** – By the end of 2021, the total of net assets was €9,184,886,013. While carrying out individual audits, we found that assets were overstated by €83,606,404 compared to the value presented in the AFR/BRK. The biggest problems faced in this category were: recording of overheads as capital assets; recording of final assets as ongoing investments; incomplete recording of assets; poor application of the depreciation rates; unresolved

ownership matters mainly due to lack of ownership documentation; and poor functioning of the e-assets system.

- **Accounts receivable** – The citizens' and businesses' debts towards the Government amounted to €777,698,602. The lion share of these uncollected debts €560,272,355 were from the central level whilst €217,426,247 from the local level. During the individual audits we found that accounts receivable were understated by €4,493,245 compared to the amount presented in the AFR/BRK.
- **Outstanding and contingent liabilities** – BO's outstanding liabilities towards the suppliers and other economic operators by the end of 2021 were in the amount of €191,179,554. Of which, the lion share of €159,315,069 were from the central level whilst €31,864,485 from the local level. During the audit we found that the outstanding liabilities were understated by €270,315 compared to the amount presented in the AFR/BRK.

In addition to these financial liabilities, there are also contingent liabilities resulting from the lawsuits filed against budget organisations and are expected to receive the judicial epilogue in the future. The estimated potential amount is around €224,615,219 (€157,629,778 at the central level and €66,985,441 at the local level). During the audit we found that the contingent liabilities were overstated by €12,614,867.

The matters summarised in the Basis for the Opinion section are presented in more ore details under the respective chapters of this report.

## 1.4 Conclusion on Compliance

We have audited whether 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, except for the matters described in the Basis for Compliance Conclusion section of our report, transactions carried out in the process of execution of 90 budget organisations have been, in all material respects, in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

### Basis for Compliance Conclusion

Based on the financial and compliance audit of 90 budget organisations, 55 of them have been given modified conclusions on compliance (49 qualified and 6 adverse), indicating that these BOs face problems when it comes to compliance with the authorities or their financial transactions do not comply with the legal requirements

Considering the level of non-compliance at entities level, we may conclude that not all transactions and operations have been carried out in compliance with the authorities.

The main reasons behind the modified conclusion were mainly related to: inadequate development of procurement procedures and in the lack of execution projects; engagement of officers on special service agreements without conducting the procurement procedures; failure to verify 20% of taxable properties and to apply the deductions on more than one property; granting of subsidies not in line with the established criteria and delayed reasoning of the subsidy; use of inadequate contracts, leading to exceeded value compared to the estimated one; and delayed payment of invoices.

### **The Assembly of Kosovo is recommended**

- To strengthen oversight controls over the Government, before the Law on annual budget appropriations for the following year is adopted, in order to ensure that all expenditures are planned under adequate economic categories, as required in the LPFMA and IPSAS.

### **The Government is recommended:**

- To ensure, through MFLT, that the requirements for complete and true reporting in the statements of disclosures are met; and
- To continue strengthening budgetary controls, through MFLT, in order to prevent budget misclassifications from occurring.

## **2. Declaration on the allowed budget deficit ceiling**

According to Law no.04/L-194 amending and supplementing the Law on Public Finance Management and Accountability, Article 46, the Minister shall submit to the Government the final report on budget, including a report on revenues and expenditures, which provides comparative data over the years regarding adherence to the deficit ceiling<sup>4</sup>, including: the causes behind deviations and funding of deficits if any, or the causes of budget surpluses and investment of these surpluses if any..

The LPFMA no.04/L-194, Article 22.A.1, stipulates that no law on budget appropriations shall include an overall deficit exceeding 2% of the forecasted GDP.

Whilst, Article 22.A.3 stipulates that for the purpose of maintaining a total debt significantly below the debt ceiling laid down in Law on Public Debt, the Assembly shall, every fifth fiscal year, review and therefore adjust, if needed:

- the deficit ceiling consistent with the debt ceiling and the medium-term GDP growth forecasted in the most recent MTEF, and
- the enforcement procedures and key parameters underlying the deficit ceiling.

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4. 22.B.3. Notwithstanding paragraph 2. Article 12 (22A) of this Law, the municipalities' share in the Deficit Ceiling shall remain unchanged in the event the Deficit Ceiling is temporarily increased in accordance with paragraph 1. of this Article, unless the Assembly decides to increase the individual share of one or more municipalities up to the full extent of paragraph 2. Article 12 (22A) of this Law.

Due to the impact of Covid-19 pandemic on some of the macrofiscal parameters, the Government has taken the Decision no. 03/02, dated 05.06.2020, to temporary change some of the fiscal rules, set forth by the Law no.03/048 on Public Finance Management and Accountability, amended and supplemented. Sections 1 and 2 of the Decision require the Assembly of the Republic of Kosovo to temporarily increase the deficit ceiling up to 6.5% and reduce the usable bank balance level up to 3% of GDP.

To cover the proposed increase in deficit, the Ministry of Finance has identified additional sources of funding, i.e. internal and external sources of financing, through securities, international loans and grants.

Article 22.A.4. stipulates that the deficit ceiling may be adjusted earlier if such adjustment shall aim to stabilize the forecasted total debt level significantly below the debt ceiling.

According to fiscal rules, the budget deficits are funded through borrowing funds and one-off revenues of PAK. The Government has adhered to the above-mentioned requirements and for the same purposes planned to borrow €610,200,000. This amount was planned to cover the expenditures which were higher than the planned revenues.

We analysed the deficit estimates in Annex 1 of the AFR on the disclosure of data in the table of budget deficit for 2021 and found no discrepancies.

**Table 1 - Differences in the calculation of the budget deficit (in '000 €)**

Budget Items	Initial budget (Law 07/L-041)	Reviewed budget (08/ L-016)	Outturn in AFR/BRK	Outturn according to audit
1. Budget revenues	1,887,900	2,043,200	2,184,054`	2,184,054
2. Budget expenditures	2,454,200	2,516,633	2,288,267	2,288,267
3. Overall deficit/surplus	-566,300	-473,433	-104,2013	-104,213
4. Expenditures exempted under the fiscal rule 20	229,000	135,000	53,850	53,850
5. Overall deficit under the fiscal rule (5=4+3)	-337,300	-338,433	-50,363	-50,363
6. Overall deficit/surplus in %	-4.70%	-4.60%	-0.69%	-0.64%
7. forecasted GDP	7,159,900	7,341,500	7,341,500	7,818,000



As shown from the table above, the estimated overall deficit under the initial budget was -337,300,000, or -4.70% of the forecasted GDP, whilst the estimated deficit under the reviewed budget was -€338,433,000 or -4.60%. The overall estimated deficit under the outturn in the AFR/BRK was -50,363 or -0.64% of DGP, whilst according to the audit the outturn in AFR/BRK was -0.69%. This slight difference in percentage occurred because Treasury applied the GDP according to the revised budget whilst the audit team was based on GDP at the end of 2021 according to the Kosovo Statistics Agency.

The budget deficit ceiling at the end of 2021 was within the established statutory limits and the budget outturn shows the level of revenue collection has significantly improved and the demand for funding from the deficit has decreased.

**Table 2 - Budget deficit estimates for year 2021 (in '000 €)**

Description	Initial budget	Reviewed budget	Outturn AFR/BRK
<b>1. Budget revenues</b>	<b>1,887,900</b>	<b>2,043,200</b>	<b>2,184,054</b>
Tax revenues	1,723,100	1,839,300	2,006,850
Tax returns	-45,500	-48,000	-58,912
Non-tax returns	199,800	241,400	236,116
of which: concession tax	19,000	19,000	16,972
of which: Mining rent	15,700	20,000	19,235
Budget support from grants	10,500	10,500	0
<b>2. Budget expenditures</b>	<b>2,454,200</b>	<b>2,516,633</b>	<b>2,262,980</b>
Wages and Salaries	639,800	646,200	667,312
Goods and Services	363,900	384,333	327,696
of which: Utilities	30,110	29,990	25,287
Subsidies and Transfers	753,100	864,300	842,570
Capital expenditures	626,100	554,500	419,807

of which: funding from the regular budget	403,100	443,600	399,789
of which: capital expenditures from the clause	195,000	111,000	20,018
of which: PAK liquidation funds	28,000	-	-
Reserve	32,800	32,600	-
Interest payment	38,500	34,700	30,881
<b>3. Overall deficit/surplus</b>	<b>-566,300</b>	<b>-473,433</b>	<b>-104,213</b>
<b>4. Expenditures exempted under the fiscal rule<sup>20</sup></b>	<b>229,000</b>	<b>135,000</b>	<b>53,850</b>
Expenditures from carried-forward OSR	-	-	33,832
Expenditures from receipts designated for PAK	6,000	6,000	-
PAK liquidation funds	28,000	18,000	-
expenditures funded from the investments clause and PAK	195,000	111,000	20,018
<b>5. Overall deficit under the fiscal rule (5=4+3)</b>	<b>-337,300</b>	<b>-338,433</b>	<b>-50,363</b>
<b>6. Overall deficit/surplus in %</b>	<b>-4.70%</b>	<b>-4.60%</b>	<b>-0.69%</b>
<b>7. Forecasted GDP</b>	<b>7,159,900</b>	<b>7,341,500</b>	<b>7,341,500</b>

The table shows that the budget deficit ceiling has been adhered to with both the Law on Budget and the reviewed Law on Budget for year 2021. Moreover, compared to the previous year, the outturn of the budget deficit ceiling has decreased from 5.3% (2020) to 0.64% in (2021). This was as a result of the high level of revenue collection.

### 3. State Budget Analysis

The data presented in the AFR/BRK are a reflection of the initial and final budget projections for 2021, as well as the result of actual receipts and payments against the respective budget allocations. During 2021, the Budget of the Republic of Kosovo was reviewed, because the Government had deemed it necessary to review the planning of revenues and expenditures.

The Assembly of Kosovo has adopted the reviewed Law on Budget Appropriations

for year 2021, which was characterised by the increased projections of tax and non-tax revenues, decreased financing from borrowing, and increased budget in categories of expenditures. Following the review, the gross tax revenues have increased by €116,130,000 or 6.7%, whilst funding from borrowing decreased by €3,200,000 or 0.52% of the initial plan in the Law on Budget.

In light of the previous year when the revenues projections decreased with the reviewed budget as a result of the impact of the Covid-19 pandemic, the Ministry has, this year, had some reservations when it comes to the initial planning of revenues due to the uncertain stabilisation of the Covid-19 situation and its impact on the country's economy. However, by the middle of 2021, as a result of eased restrictive measures by the Government, the arrival of citizens from the diaspora as well as the creation of stimulating financial and fiscal policies, the country's economic activity has recovered. Thus, the revenues projections increased following the review of the Law on Budget by the Assembly.

Budget transfers based on Government's decisions over the year have led to some budget organisations increasing the budget in certain economic categories and projects and reducing it in some others. The budget increase through Government's decisions occurred in the categories of Salaries and Wages; Goods and Services; Subsidies and Transfers.

The level of revenues collections/receipts in relation to the final budget was €2,490,973,000 or 92%. Compared to 2020, receipts increased by €284,326,000 or around 13%.

This year's budget outturn was 87%, an increase of 5% compared to last year's (in 2020 the outturn was 82%). This level of outturn was as a result of incomplete implementation of capital projects, as well as the activities planned as response to the pandemic emergencies, but due to the mitigation of the pandemic situation, there was no need to use the funds. Therefore, they were declared as budget savings. At the level of source funds, the lowest payments execution rate was marked from the Trust Development Fund for northern municipalities by €388,783 or 7.5%; investment clause by €20,017,715 or 18% of the budget; funding from borrowing by €31,147,858 or 41 % of the budget; carried-forward own source revenues by €33,832,427 or 59%; own source revenues by €54,691,031 or 63%. Complete details on the initial projections and the final budget are presented in the following table.

**Table 3 - Consolidated statement of the budget compared against outturn (in '000 €)**

No.	Budget items	Outturn	According to the final Law on Budget	According to the Law no.07/L-041 on the Budget for year 2021
1	Tax revenues	2,006,850	1,839,330	1,723,200
2	Non-tax revenues	236,116	241,400	199,800
3	Returns	-58,912	-48,000	-45,500
4	Receipts from donations	16,801	22,500	22,500
5	Borrowing financing	269,586	607,000	610,200
6	Other revenues	20,533	35,400	45,400
<b>Total receipts</b>		<b>2,490,973</b>	<b>2,697,630</b>	<b>2,555,600</b>
1	Wages and Salaries	668,124	668,692	639,800
2	Goods and Services	306,238	370,760	333,790
3	Utilities	25,287	27,638	30,110
4	Subsidies and Transfers	842,897	876,161	753,100
5	Capital expenditures	423,941	622,086	626,100
6	Reserves	0	3,498	32,800
7	Debt payment	111,192	153,200	198,600
8	Return from the deposit fund	1,044	0,00	0,00
<b>Total payments</b>		<b>2,378,723</b>	<b>2,722,035</b>	<b>2,614,300</b>
<b>Increased/decreased bank balance</b>		<b>112,250</b>	<b>-24,435</b>	<b>-58,700</b>

The Government had submitted the initial Law on Budget to the Assembly for adoption, forecasting a total of receipts/revenues of €2,555,600,000, payments/expenditures of €2,614,300,000, and a decrease of -€58,700,000 in the bank balance. The unallocated bank balance stock is €226,800,000, whilst the usable bank balance as a percentage of projected GDP is €7,159,900,000 or 3.2%.

According to the final budget, total receipts/revenues had the same value as planned

with the revised budget, i.e. €2,697,630,000, whilst the total payments/expenditures were €2,722,035,000, with a decrease of -€24,435,000 in the bank balance. The unallocated bank balance stock is €284,800,000, whilst the usable bank balance as a percentage of projected GDP is €7,341,500,000 or 3.9%. Our analysis shows that the established criteria (bank balance not less than 3%) in terms of the % of the usable bank balance has been adhered to.

When comparing the data in the AFR/BRK (second statement – under budget outturn column – cash outflow) with those in KFMIS, we found a discrepancy amounting to €17,000.

### 3.1 Analysis of Total Budget Revenues and Expenditures

According to the Law no.07/L-041 on Budget, payments are planned to be higher than regular receipts by €58,700,000. This amount is planned to be financed by the reducing the bank balance accumulated from previous years.

The data presented in the AFS/BRK reflect the actual receipts and payments, as well as the respective budget appropriations. The budget for year 2021 was sent by the Government to the Assembly for review, where various adjustments were made to the initial budget appropriations. These adjustments have been based on the authorisations provided by the Law on Public Financial Management and Accountability (LPFMA).

Receipts/revenues according to the initial budget were planned in the amount of €2,555,600,000, whilst according to the final/revised budget they were €2,697,630,000€, an increase of €142,030,000. The increase was planned from tax revenues of €116,130,000 and non-tax revenues of €41,600,000 and by reducing the funding from borrowing by €3,200,000, the returns by €2,500,000, and other receipts by €10,000,000.

Expenditures according to the initial budget were in the amount of €2,614,300,000, whilst according to the final budget in KFMIS, payments were planned in a total of €2,722,035,000, an increase of €107,735,000. This increase was as a result of the budget review and Government's decisions.

#### Receipts for 2021

Receipts or revenues collected during 2021 amounted to €2,490,973,000. Compare to 2020, receipts have increased by €284,326,000€, or 13%, whilst compare to 2019 they increased by €268,051,000 or 12%.

**Table 4 – Receipts and payments by AFR/BRK (in €'000)**

Description	Initial budget	Final budget	Outturn 2021	Outturn 2020	Outturn 2019
<b>Receipts</b>	2,555,600	2,697,630	2,490,973	2,206,647	2,222,922
<b>Payments</b>	2,614,300	2,722,035	2,378,740	2,334,943	2,152,546
<b>Deficit/Surplus</b>	(58,700)	(24,405)	112,233	(128,296)	70,376

The differences between the initial and the final budget are noted with an increase in terms of planning of both receipts and payments. According to the initial Law on Budget, receipts were planned in the amount of €2,555,600, or by €58,700,000 less than payments (reduction of the bank balance). In addition, according to the final budget in KFMIS, receipts were projected to be higher than payments by €24,405,000. Differences between the initial and final budget projections are quite high as a result of the country's economic growth. The Government had afterwards taken measures to plan the revenues/expenditures leading to changes in the fiscal projections compared to the initial projects in the budget for year 2021.

Receipts for 2021 were in the amount of €2,490,973,000 or 92% of the final budget, whilst payments were in the amount of €2,378,740,000 or 87% of the final budget.

The difference between the total of receipts and the total of payments is €112,233,000. This amount presents the unspent funds and affects the increase of cash in the bank account of the Budget of the Republic of Kosovo, the final balance of which as of 31 December 2021 is €442,189,000.

In analysing the historical trend of the last three years, we see that payments have increased steadily, receipts in 2020 have decreased compared to 2019 as a result of the Covid-19 pandemic, whilst revenues in 2021 have increased compared to the previous year.

### 3.1.1 Analysis of Budget Revenues by Economic Categories

Based on the analysis of receipts/revenues by sources, the main budget financing sources are: tax revenues by 78%; funding from borrowing by 11%; non-tax revenues by 9.5%; other revenues by 0.83%; and grants & aids by 0.67%. The table below provides more complete information on the initial and final budget as well as receipts/revenue collection trends over the last three years.

**Table 5 - Receipts by source according to AFR/BRK (in €'000)**

Receipts	Initial budget	Final budget	Outturn 2021	Outturn 2020	Outturn 2019
Direct taxes	304,000	326,400	342,165	267,247	292,259
Indirect taxes	1,419,200	1,512,930	1,664,685	1,272,735	1,415,291
Returns	-45,500	-48,000	-58,912	-32,999	-45,507
Non-tax revenues	199,800	241,400	236,116	181,201	214,614
Financing from Borrowing	610,200	607,000	269,586	389,031	158,264
Grants and assistance	22,500	22,500	16,801	43,078	19,487
Other receipts	45,400	35,400	20,533	86,355	168,514
<b>Total</b>	<b>2,555,600</b>	<b>2,697,630</b>	<b>2,490,973</b>	<b>2,206,647</b>	<b>2,222,922</b>

The table shows that receipts from indirect tax have sharply increased by €391,950,000 compared to the previous year and those from funding from borrowing have significantly decreased by €119,445,000.

### **Budgetary performance of Kosovo Customs and Tax Administration**

Kosovo Customs and Kosovo Tax Administration are the two main government agencies for collecting direct and indirect taxes, such as: VAT, customs duties, excises, corporate income tax, personal income tax and other taxes.

Customs revenues planned by the Government of Kosovo with Law no.07/L-041 on Budget Appropriation for year 2021 were €1,173,000,000. Meanwhile, with the revised Law no. 08/L-016, the projected amount of customs revenues was increased to €1,248,400,000. Of which, CK managed to collect €1,376,704,600, the net value of which was €1,373,862,694 or 110% of the plan (gross revenue €1,376,704,600 - €2,841,906 returns).

In 2021, CK collected gross revenues of €1,376,704,600, which compared to 2020 were by €1,052,525,263 or around 31% more.

Tax revenues projected in the Law on Budget Appropriations for year 2021 for TAK were €520,200,000. Whilst with the revised law, the projected amount of tax revenues was increased to €556,000,000.

TAK managed to collect €597,702,804, the net value of which was €541,632,809, (gross revenue €597,702,804 - €56,069,995 returns). In 2021, the collection of gross revenues was by €130,662,971, or around 28%, higher than in 2020.

While shortcomings have been found when it comes to the revenues collection by the CK, this was not the case with TAK where we found shortcomings such as incomplete fiscalisation process and inefficient management of accounts receivables/old debts.

Despite the efforts made by TAK, the complete fiscalisation of all businesses still remains a challenge. The number of businesses not yet fiscalised, and required by the law to be equipped with cash registers by the end of 2021, was 13,656. The lion share of these businesses, 9,794 ones or around 72%, consists of microbusinesses having an annual turnover of up to €5,000.

## Budget Revenue Analysis (structure)

### Direct taxes

Direct taxes consist of four categories: corporate income tax (CIT); personal income tax (PIT); property tax (PT), as well as other taxes (TAK fines). The outturn of direct taxes was in the amount of €342,165,000 or 105% of the amount planned in the annual budget.

The main sources of the direct taxes are: personal income tax with €189,521,000 (55%) of the total outturn; corporate income tax of €113,946,000 (33%); property tax with €36,258,000 (11%); and other taxes with €2,440,000 or around 1%. From these, the personal income tax and the corporate income tax were collected by the TAK, whilst the property tax by the municipalities. Compared to 2020, direct taxes in general have considerably increased with €74,918,000 or by 28%, and with €49,906,000 or 17% compared to 2019.

The Law no.06/L-005 on Immovable Property Tax, Article 2, clearly stipulates that each BO must collect revenues from the immovable property tax. In relation to this, Law no.04/L-110 on Constructions, Articles 1 and 2, define the purpose of issuing the construction permits. Whilst Law no.04/L-144 On Allocation For Use And Exchange Of Immovable Property of the Municipality sets forth the procedures and forms of giving public property to use.



During 2021, as in the previous years as well, the municipalities of Mitrovica North, Zvečan and Zubin Potok continue not to collect revenues from the property tax, construction permits, property given to use and have not developed internal regulations on taxes, fees, and charges for the public services delivered to the citizens either. Therefore, the own source revenue collection is very low. This was as a result of the municipalities' failure to implement the laws and to take concrete actions on collecting such revenues, which have a significant impact on the municipality's budget and the improvement of services to the citizens.

### **The Government is recommended:**

To ensure, through MLGA, that mechanisms for the implementation of the laws governing the collection of revenues are put in place for the municipalities of Mitrovica North, Zvečan and Zubin Potok. Collection of these revenues would enable the implemented of many projects as well as the improvement of the citizens welfare in the respective municipalities.

### **Indirect taxes**

The main sources of indirect taxes are: value added tax (VAT); customs duty; excises and other indirect taxes. The total outturn for this category of revenues was €1,664,685,000 or 110% of the amount planned in the annual budget. The collected value added tax was €1,038,218,000 or 62.3% of the total outturn; excise tax €501,295,000 or 30%; customs duty €124,606,000 or around 7.5%; and other indirect taxes €565,000 or 0.02%. Compared to 2020, direct taxes have considerably increased with €391,950,000 or by 31%, and with €249,394,000 or by 17% compared to 2019.

### **Tax refund**

Tax refund is a reimbursement to taxpayers who have overpaid their taxes. When making reconciliation of tax balances with TAK and Customs of Kosovo, differences are calculated and returned to different entities after reviewing the requests for reimbursement as such.

According to the budget, refunds were planned in the amount of €48,000,000, whilst the refunds by the end of the year were €58,912,000 or 122% of the plan and 3% of the total of collected taxes. Of these, TAK has refunded €56,070,000, whilst Customs has refunded €2,842,000.

The amount of the refunded direct and indirect taxes by the Customs of Kosovo relates to the refunded excise by €1,157,985, custom duty by €333,775, custom VAT

by €798,841, and the return of other custom fee/taxes by €551,305. Meanwhile, those returned by TAK relate to the returned VAT by €53,005,138, salary withheld tax by €243,725, business tax by €109,971, corporate tax by €2,707,062, and other types of taxes by €4,099.

Compared to 2020, this year's tax refunds were by €25,913,000 or 78% higher.

### Non-tax refund

The category of non-tax revenues includes all types of administrative and other taxes, different types of fines, receipts from inspections, use of public property, service fees, licences, rental of public property, concession tax, mining rent etc.

Non-tax revenues are collected by the central level, independent budget agencies, local level and the publicly owned enterprises.

According to the initial Law on Budget, the non-tax revenues for 2021 were planned in the amount of €199,800,000, whilst following the budget review, they were planned at €241,400,000. Of which, €119,700,000 were planned at the central level, €49,000,000 at the local level, €30,000,000 from the dividend, €20,000,000 the mining rent, €19,000,000 concession fee, and €3,700,000 from the interest.

The total amount of outturn of non-tax revenues during 2021 was €236,116,000 or 98% of the plan. Of which, €129,563,000 was collected by the central level, €57,271,000 by the local level, €19,235,000 from the mining rent, €16,972,000 concession fee, €10,000,000 the dividend, and €3,074,000 from the interest of the loan to POEs.

When comparing the outturn of these revenues with the budget, we may conclude that the plan has been implemented at 108% at the central level and 116% at the local level. When analysing the trend of the last three years, we may conclude that non-tax revenues have increased with €54,915,000 or by 30% compared to year 2020 and with €21,502,000 or 10% compared to year 2019.

Shortcomings identified in the individual audit reports for the category of non-tax revenues are:

- Poor management of property tax revenues;
- Failure to inspect 20% of municipal property;
- Delayed issuance of construction criteria and permits;
- Use of public property without compensation and with expired contracts;
- Poor invoicing of the property tax;

- Delayed review of applications for construction permit and environmental permit;
- Double benefiting from the property tax deduction for the primary residence;
- Shortcoming in the leasing of municipal of property;
- Poor management of revenues from waste tax;
- Complaints against poor valuation of property;
- Failure to verify the current situation of buildings;
- Delays in reviewing the taxpayers complaints;
- Shortcomings in property inspection activities;
- Failure to report on receipts collected by “Istref Begolli” Theatre;
- Failure to implement the revenues collection laws (property tax, construction permits, and leasing of public property);
- Failure to send out invoices/ decision on the business tax; and
- Failure to report the collected revenues.

### External and internal borrowing

As a source for financing budget payments, with the Law no.07/L-001 on Budget Appropriations for year 2021, the Government had planned to finance part of the payments from the borrowings.

Pursuant to the Law no.07/L-041 on Budget Appropriations for year 2021, receipts from borrowing were planned in the amount of €610,200,000, whilst with the revised law the amount of financing from borrowing was reduced to €607,000,000 or 0.52% of the initial plan. The budget outturn was in the amount of €269,586,000 or around 44% of the final budget. This was due to the changed macro-fiscal parameters, such as the increase in tax and non-tax revenues projections, as a result of the positive developments in the economic situation in the second half of 2021.

External borrowing was planned in the amount of €407,000,000, whilst €125,339,000 or 31% of the plan was executed. This happened because the implementing units did not take into account all the factors and did not make the necessary preparations when planning the projects (such as resolving the problems with expropriation) following the requests for initiating the borrowing process. Borrowing arrangements occurred before the conditions were created for the use of these funds.

Domestic borrowing was planned in the amount of €200,000,000, of which €144,247,000 or 72% of the plan was executed.

## Designated donor grants

Designated Donor Grants are funds that must be used in accordance with the terms of agreements between the Government and donors. These funds are planned with an annual budget and constitute part of the total budget revenues for financing various projects.

Based on the Law no.07/L-041 on Budget Appropriation for year 2021, grants, including the budget support ones, were planned in the amount of €22,500,000. The same amount was also planned with the final budget, whilst receipts were in the amount of €16,801,000 or 75%. The outturn for these grants in 2020 was €43,078,000, whilst in 2019 it was €19,487,000.

By the end of 2021, the unspent funds from donors amount to €15,818,000. Inefficient use of donors funds under the terms set out in the agreement increases the risk of receiving less grants in the future.

## Other Receipts

Other receipts consist of one-off financing from PAK, repayment of loans from publicly owned enterprises, concession fees, dedicated revenues and deposit fund. According to the Law no.07/L-041 on Budget, other receipts for year 2021 were planned in the amount of €45,400,000, whilst with the revised budget they were reduced to €35,400,000. This amount consists of: one-off revenues from PAK with €18,000,000, repayment of loans from publicly owned enterprises with €11,400,000, and earmarked revenues of PAK with €6,000,000.

The outturn was in the amount of €20,533,000, of which: repayment of loans from publicly owned enterprises was €11,387,000 or 55%; earmarked revenues was €4,645,000 or 22,6 %; receipts of deposits was €4,462,000 or 21.7%; and one-off revenues from PAK was €39,000 or 0,2%.

### 3.1.2 Analysis of Expenditures by Budget

The final budget for total expenditures was €2,722,034,733, whilst the outturn was €2,378,726,215 or 87% of the budget.

The information presented in the AFR/BRK reflect the actual receipts and payments as well as the respective budget appropriations. The Budget for year 2021 has been subject to the review process and Government's decisions on budget changes. As a result, BOs have made budget transfers within the economic categories..

Based on the Law no.07/L-041 on Budget 2021, payments were planned in the

amount of €2,614,300,000, whilst the final budget they were planned in the amount of €2,722,050,000, an increase of €107,750,000 or 4%.

**Table 6 – Fluctuations between the initial and final budget (in €'000 )**

Description	Initial budget appropriation (Law on budget)	Changes according to LPFMA/1	Changes to OSR	Changes to designated donor	Final budget appropriations KFMIS	Changes to initial budget
Wages and Salaries	639,800	27,002	772	1,118	668,692	5%
Goods and Services	333,790	18,793	3,909	14,269	370,760	11%
Utilities	30,110	-2,793	315	5	27,638	-8%
Subsidies and Transfers	753,100	111,960	10,161	940	876,161	16%
Capital Expenditures	626,100	-52,796	41,965	6,817	622,086	-1%
Reserves	32,800	-29,287	-	-	3,513	-89%
Other	198,600	-45,400	-	-	153,200	-23%
<b>Total</b>	<b>2,614,300</b>	<b>27,479</b>	<b>57,122</b>	<b>23,149</b>	<b>2,722,050</b>	<b>4.10%</b>

### Budget fluctuations by economic categories between the budget law and the final budget

- The initial budget for Wages and Salaries was €639,800,000, whilst the final budget was €668,692,464, an increase of €28,892,464 or around 5%. This was as a result of the payment of allowances to certain categories of public employees engaged in pandemic management upon Government decisions;
- The initial budget for Goods and Services was €333,790,000, whilst the final budget was €370,760,000, an increase of €36,970,000 or 11%. This is due to the need to cover BOs claims related to the costs incurred as a result of Covid-19 pandemic;
- The initial budget for Subsidies and Transfers was €753,100,000, whilst the final budget was €876,161,000, an increase of €123,061,000 or 16%. This was as a result of payments from the Covid-19 emergency package and economic recovery package;
- The initial budget for Capital Investments was €626,100,000, whilst the final budget was €622,086,000, a decrease of €4,014,000 or 0.64%.
- Financing of the principal, under-borrowing and interest was down to €153,200,000 from €198,600,000 as planned in the initial budget, i.e. €45,400,000 or 29% less.

### Outturn of budget expenditures (expenditures structure)

As presented in the following table, to total of payments executed in 2021 were €2,378,740,000. Compared to 2020, payments have increased by €43,783,000 or around 2% and by €226,177,000 or 10.5% compared to 2019.

**Table 7 – Statement of total payments compared to the last two years (in €'000)**

Description	Initial budget	Final budget KFMIS	Outturn 2021	Outturn 2020	Outturn 2019
Wages and Salaries	639,800	668,692	668,124	661,343	616,921
Goods and Services	333,790	370,760	306,255	280,007	273,313
Utilities	30,110	27,638	25,287	22,168	24,866
Subsidies and Transfers	753,100	876,161	842,897	868,480	627,959
Capital Investments	626,100	622,086	423,941	384,471	533,773
Interest expenditures	38,500	34,700	30,881	27,505	23,450
Return of principal/ sub-loan	160,100	118,500	80,312	88,208	51,182
Return of deposits	-	-	1,043	2,761	1,082
Reserves	32,800	3,498	-	0,00	
<b>TOTAL</b>	<b>2,614,300</b>	<b>2,722,035</b>	<b>2,378,740</b>	<b>2,334,943</b>	<b>2,152,546</b>

The following is a summary of the outturn by categories of expenditures and the main issues/shortcomings identified during individual audits of BOs in the respective categories.

**Wages and Salaries** – their share in the structure of overall budget expenditures is around 29.5% and presents one of the categories with the highest percentage of expenditures<sup>5</sup>. The budget for 2020 was €668,692,000, whilst expenditures by the

5. In calculating the percentage as a share in the total expenses for economic categories, payments for principal, sub-loans, interest and return of deposits have been excluded.

yearend were €668,124,000 or 99% of the budget. Expenditures on wages and salaries have increased as a result of implementation of the Government's decisions on the management of Covid-19 pandemic and payments of overtime work performed in the prevention of and fight against Covid-19.

A number of 199 employees hired in seven ministries under the Brussels Agreement of 2016 have been paid during 2021 as well. A total of €962,646 has been paid to them although not attending work at all.

These payments have been made based on the Brussels Agreement, namely Law no.04/L-199 on the Ratification of the first international agreement of principles governing the normalization of relations between the republic of Kosovo and the republic of Serbia. The Government of Kosovo, by decision no.06/39 dated 22.07.2015, approved the agreed conclusions for the disbandment of the so-called "Civil Defence", which has been operating in the northern municipalities of Kosovo, thus supporting the commitments defined by these conclusions.

However, the respective ministries have included this category of employees in the payroll prior to creating the work conditions for systemising, engaging and monitoring them, which makes these payments irregular.

**Table 8 – Payments made according to the Brussels Agreement**

No.	Budget Organisation	No. of staff paid	Payments during 2021
1	Ministry of Economy	18	93,435
2	Ministry of Culture, Youth and Sports	20	100,264
3	Ministry of Environment, Spatial Planning and Infrastructure	64	298,142
4	Ministry of Internal Affairs	20	97,099
5	Ministry of Education, Science and Technology	32	142,698
6	Ministry of Communities and Returns	20	104,000
7	Ministry of Industry, Entrepreneurship and Trade	25	127,008
	<b>Total</b>	<b>199</b>	<b>962,646</b>

Identified shortcomings presented in the individual audit reports under the category of Wages and Salaries are:

- Engagement of staff without conducting the recruitment procedures;
- Lack of evidence on work attendance;
- Holding of job positions not in line with the obtained grades;
- Engagement of health employees to regional hospitals without conducting any procedures;
- Assigning employees to job positions not in line with their academic specialization;
- Weaknesses in the recruitment of staff in the civil service;
- Lack of authorisations on overtime work;
- Failure to develop recruitment procedures through HRMIS and failure to publish the information thereon;
- Increased number of employees and failure to include them in the payroll;
- Payments through court decisions/enforcement;
- Failure to implement the decision on staff allowances;
- Lack of recruitment plan and unstaffed management positions; and
- Payments to EMA officers in absence of information on their file.

**Goods and Services** - their share in the structure of general budget expenditures is 13.5%. the final budget for goods and services was €370,760,000, whilst €306,239,000 or 83% of the budget was spent. An increase of €26,232,000 or 9% compared to last year.

The increase in expenditures for this category was as a result of purchase of books and works of art, medical equipment, computers, oil, etc.

The main items in this category constituting the largest share of expenditures are: other outsourcing services by €60,055,644, medical equipment by €59,973,211, books and works of art by €13,453,938, leasing of buildings by €10,480,146, payments based on court decisions by €9,221,695, and other expenditures.

Identified shortcomings presented in the individual audit reports under the category of Goods and Services are:

- Shortcomings related to engagements on special service agreements;
- Payments of rents for unused building/premises;
- Delayed closing of advance payments;



- Poor processing of payments, including delayed payment of invoices;
- Inadequate classification of expenditures;
- Payments made after contract termination and for services not outsourced;
- Setting of favouring criteria in the technical specifications;
- Use of inadequate contracts, unclear values, exceeded payments for public and framework contracts;
- Shortcomings and overlooked procurement procedures and selection of the ineligible bid;
- Poor assessment of bids and signing of contracts with not funds committed;
- Shortage and exceeded quantities of supplies set in the framework contract;
- Development of procurement procures not included in the procurement plan and without prior notification to CPA;
- Payments through court decisions/enforcement;
- Failure to impose penalties to EOs and failure to renew the performance security;
- Payments for luncheons with no evidence provided;
- Non adherence to the requirements of the Law on VAT;
- Inefficient management of the facilities rented by Diplomatic and Consular Missions;
- Exceeded banking limits by Diplomatic and Consular Missions; and
- Shortcomings in spending for abroad travels.

**Subsidies and Transfers** - their share in the structure of general budget expenditures is around 37%, which is also the category with the highest percentage of expenditures. The budget for 2021 was €876,160,793, whilst €842,897,191 or 96% of the budget was spent. A decrease of €25,583,000 or 3% compared to last year. This was reflected in the following economic categories: payments to individual beneficiaries; subsidies to public and non-public entities; basic pensions; payments for people with special needs, payments for agricultural crops, subsidies to employed and unemployed women after childbirth.

The main items in this category are: basic pensions by €198,196,982; basic contributory pensions by €134,340,679; subsidies to public entities by €101,979,653; payments to individual beneficiaries by €33,689,276; subsidies to non-public entities by €53,520,754; pensions to war veterans by €78,973,954; pensions to war invalids €41,590,921; pensions category-I by €53,395,050; payments for agricultural crops by €31,352,289, etc.

Payments for the management of the Covid-19 pandemic totalled to €234,026,687. Of these, the emergency package was €4,883,645, while the package for Economic Recovery was €229,143,042. The costs of the pandemic will be addressed in a separate paragraph.

Identified shortcomings presented in the individual audit reports under the category of Subsidies and Transfers are:

- Failure to prepare the annual plan for financial support;
- Subsidising, public call and monitoring of subsidies not in line with the regulation;
- Subsidising of farmers not in line with the criteria set in the public call;
- Subsidising of NGOs without a public call;
- Delayed justification of subsidies and beneficiaries not reporting on subsidies;
- Shortcomings in the subsidies assessment process;
- Inadequate classification of expenditures;
- Poor management of Ex-Post controls;
- Poor estimation of the value of damage compensation to farmers;
- Expired bank guarantee period for grants;
- Pensions and social benefits benefitted by employed persons and pensions paid posthumously; and
- Benefitting of more than one pension from the social schemes.

**Capital Investments** - their share in the structure of general budget expenditures is around 19%. The final budget for this category was €622,086,000, whilst €423,941,000 or 68% of the budget was spent. Compared to last year, the outturn of expenditures is higher. In it was €384,471,000.

Capital investment funds are designated to finance infrastructure, highways, rural roads, education, health, cultural and sports projects as well as other public services.

Capital projects are managed through the Public Investment Program (PIP). Project in PIP should be planned in detail and approved by the heads of organizations, based on their analysis and rationale. On the other hand, the MFLT approves these requests of BOs based on the documents submitted to the PIP regarding the reasonableness and ensuring that they are in their responsibility and competence.

Although the mitigated Covid-19 pandemic situation has led to an improved performance compared to 2019, it still remains at an unsatisfactory level. On a

number of planned contracts, procurement procedures have not been developed due to the requesting units' failure to initiate their request or the prolonged procurement procedures as a result of EOs complaints filed to PRB. Some of the contracts for works have been terminated due to EOs' failure to execute the works. In addition, unresolved ownership issues is a challenge that is being repeated every year, thus leading to the prolongation of the contracted works.

Low level of implementation of capital projects is found in the following budget organisations: Municipality of Prishtina with 34%, Municipality of Mitrovica North with 25%, Municipality of Fushë Kosova with 44%, Municipality of Shtërpca with 44%, Ministry of Foreign Affairs and Diaspora with 22%, Office of the Prime Minister with 27%, Ministry of Finance, Labour and Transfers with 27%, Ministry of Industry, Trade and Entrepreneurship with 27%, and the Ministry of Economy with 52%.

Identified shortcomings presented in the individual audit reports under the category of Capital Investments are:

- Projects paid from the budget of other projects;
- Unclear/unmeasurable technical specifications;
- Delayed execution of works;
- Contracts entered into through inadequate procurement procedures;
- Splitting of tenders for the same works;
- Acceptance of supplies in lack of documentation, as required in the contract;
- Inadequate classification of expenditures;
- Signed contracts exceeded the estimated budget;
- Public investments made in non-expropriated plots;
- Poor processing of payments and delayed payment of invoices;
- Overpayments resulting from acceptance of equipment other than those contracted;
- Changes in the bill-of-quantities in framework contracts without prior approval;
- Lack of and shortcomings in the executive projects on roads construction;
- Shortcomings in the implementation of capital projects;
- Invoices received prior to the commitment of funds;
- Shortcomings in the framework contracts, planned quantities not used;
- Selection of the ineligible economic operator;

- Shortcomings in cooperation agreements between municipalities and NGOs;
- Payments made for unexecuted works;
- Payments through court decisions/enforcement; and
- Public framework contracts exceeding the deadlines.

### Financing of capital projects from borrowing

The budget for 2021 for financing capital projects from borrowing was €126,097,868, whilst €24,975,368 or 20% of the budget was spent. Budget funds for Capital Investments are intended for financing infrastructure projects, road rehabilitation, supporting projects from the economic recovery program, water and waste, public infrastructure and health.

Of the 37 projects planned with the final budget from borrowing, in 7 projects amounting to €23,534,092 not spending was made, whilst in the largest projects the outturn was at a low level. Projects with poor outturn are the following:

- Ministry of Environment, Spatial Planning and Infrastructure – the final budget for road construction and rehabilitation projects, cadastre projects, and railways rehabilitation projects was €65,630,000, whilst €6,392,234 or 10% was spent;
- Ministry of Economy – the final budget for energy efficiency projects and monitoring of POEs was €12,784,598, whilst €4,914,403 or 38% was spent;
- Ministry of Health – the final budget for Covid-19 emergency response and management projects was €24,499,150, whilst €7,112,780 or 29% was spent; and
- Municipality of Shtime – the final budget for economic planning and development project was €793,562, whilst €56,810 or 7.2% was spent.

The challenges faced by BOs during the projects implementation are: problems with expropriations emerged during the execution of works; difficulties in the process of recruiting and retaining the staff of projects implementation units; budgeting of some projects the loans for which were not ratified in the Assembly; and prolonged procurement procedures.

While auditing the World Bank projects, we found that the same are registered in KFMIS as funds from borrowing under that programs of the respective ministries. For ministries having more than one project funded from the borrowing, the system does not have any criteria to distinguish the project payments have been made from in KFMIS. This hampers the monitoring of the balance of expenditures and the available funds to be used by the ministry on respective projects, which may lead to overspending by projects.

Such overspending has resulted in the Ministry of Health for Kosovo Health Project (only the loan item was exceeded, not the total) by €342,710. This has led to unfair reporting of expenditures in the AFS of MH and consequently in the AFS of BRK because the exceeded funds will not be refunded from borrowing and will be covered by the government grant while they are recorded in both AFS as spending from the borrowing fund.

### Other payments

The budget allocated for this category of expenditures was €154,900,000, whilst €112,238,000 have been spent. Of which: payments for debt repayment, sub-borrowings €80,312,000, interest €30,882,000, and return of deposits €1,044,000.

### Misclassification of expenditures

According to the Financial Rule no.01/2013 Spending of public funds, expenditures should incur under the adequate codes as set forth in the Chart of Accounts. In addition, the AI 19/2009 on the Chart of Accounts requires from the CAO and CFO to ensure that all the transactions are recorded in KFMIS according to the structure in the chart of account and classifications set forth in this AI.

During the year, we have identified misclassification of expenditures amounting to €13,150,923 in 41 budget organisations. Of these, €4,473,659 or 34% in 16 central level BOs and €8,677,264 or 66% in local level BOs.

The following table shows the misclassification by economic category. The category most affected by misclassification is the category of Capital Investments with €10,244,641 or 78% compared to the total of misclassification, followed by the category of Goods and Services with €2,072,144 or 16%, and the category of Subsidies and Transfers with €801,315 or 6%.

Table 9 – Misclassification by economic categories

Incorrect category	Right category	Influenced by OB	Wrongly budgeted	By court decisions	Total
Wages and Salaries	Subsidies and Transfers	0	32,823	0	32,823
<b>Total Wages and Salaries</b>		<b>0</b>	<b>32,823</b>	<b>0</b>	<b>32,823</b>
Goods and Services	Wages and Salaries	4,291	47,608	347,923	399,822
	Subsidies and Transfers	249,934	122,083	5,047	377,064
	Capital Investments	384,812	32,292	857,490	1,274,594
	Utilities	0	0	20,664	20,664
<b>Total Goods and Services</b>		<b>639,037</b>	<b>201,983</b>	<b>1,231,124</b>	<b>2,072,144</b>
Subsidies and Transfers	Wages and Salaries	0	0	112,942	112,942
	Goods and Services	27,756	424,446	3,130	455,332
	Capital Investments	0	46,082	186,959	233,041
<b>Total Subsidies and Transfers</b>		<b>27,756</b>	<b>470,528</b>	<b>303,031</b>	<b>801,315</b>
Capital Investments	Wages and Salaries	0	0	111,488	111,488
	Goods and Services	1,193,187	7,091,762	301,365	8,586,314
	Subsidies and Transfers	16,000	1,530,839	0	1,546,839
<b>Total Capital Investments</b>		<b>1,209,187</b>	<b>8,622,601</b>	<b>412,853</b>	<b>10,244,641</b>
<b>Total misclassifications for 2021</b>		<b>1,875,980</b>	<b>9,327,935</b>	<b>1,947,008</b>	<b>13,150,923</b>

A total of €10,244,641 was incorrectly paid from the category of Capital Investments – which were mainly budget - for expenditures that actually fall under the categories of Goods and Services, Subsidies, and Wages and Salaries.

A total of €2,072,144 was incorrectly paid from the category of Goods and Services for expenditures that actually fall under the categories of Capital Investments, Wages and Salaries, Subsidies and Transfers.

A total of €801,315 was incorrectly paid from the category of Subsidies and Transfers for expenditures that actually fall under the categories of Goods and Services, Capital Investments, Wages and Salaries.

A total of €32,823 was incorrectly paid from the category of Wages and Salaries for expenditures that actually fall under the category of Subsidies and Transfers.

The table above shows that misclassification of expenditures was mainly as a result of inadequate budgeting in the economic categories, spending from the wrong category by the BOs themselves, and payments made by Treasury due to court/enforcement decisions.

The total of misclassification consists of the inadequate budget planning in the amount of €9,327,935 or 71%, payments from Treasury based on the court/enforcement decisions in the amount of €1,947,008 or 15% (mainly of jubilee salaries) and expenditures misclassified by BOs themselves in the amount of €1,875,980 or 14%.

Compared to the previous year, the amount of misclassified expenditures has decreased by €4,657,257 or 35%. The decrease is mostly noted in the payments through court/enforcement decisions.

**Table 10 – Over/understatement of economic categories**

Economic Category	Wages and Salaries	Goods and Services	Subsidies and Transfers	Capital Investments
Overstatement	32,823	1,080,048	801,315	10,244,641
Understatement	(624,252)	(2,181,767)	(1,956,726)	(1,507,635)

When comparing the above information, we may conclude that the Capital Investments is the most overstated category and the Goods and Services is the most understated category.

The following table shows the BOs with the highest amount of misclassification.

Table 11 - Misclassifications with budget planning and court decisions

Entity	Incorrect category	Correct category	Financial amount	Nature of expenditure
Municipality of Prishtina	Capital Investments	Goods and Services	4,155,158	Payments for maintenance of public premises, deratization of basements, space disinsection, other contracting services, etc.
Ministry of Defence	Capital Investments	Goods and Services	1,129,999	Payment for ammunition and firearms
Ministry of Prizren	Capital Investments	Subsidies and Transfers	720,185	Co-payments with farmers for various agricultural projects.
Ministry of Environment, Spatial Planning and Infrastructure	Capital Investments	Goods and Services	485,295	Payment for summer and winter road maintenance
Ministry of Health	Capital Investments	Goods and Services	410,926	Payment for medical equipment
University Clinical Hospital Service of Kosovo	Capital Investments	Goods and Services	391,693	Purchase of oxygen cylinders, medical supplies, medical equipment, medical instruments, etc.
Ministry of Education, Science and Technology	Capital Investments	Goods and Services	352,040	Expenses for supply of inventory, equipment for sports halls, valuation of IT equipment, etc.

The Government, according to the regular budget process, had submitted to the Committee of Budget and Finance the Draft Budget for 2021. The Committee has afterwards submitted to the Assembly this draft law for approval with a large number of amendments of Parliamentary Committees, parliamentary groups and MPs, which were largely approved by the Assembly of the Republic of Kosovo in the final law. This has led to unfair classification of many of these expenditures planned in the budget appropriations.



**The Government is recommended:**

- To ensure that all necessary actions to engage employees are taken by providing work conditions and ensuring attendance at work as well as continuous monitoring as foreseen in the legal acts.

**The Minister of Finance, Labour and Transfers is recommended:**

- To ensure that, following the ratification of agreement in the Assembly of Kosovo and when transferring loan funds to KFMIS, the number of ratified loan matches the project's code in order to ensure that payments for the relevant project are distinct and to prevent overspending and unfair reporting in the AFS.
- To ensure that capital projects planning is subject to an analysis on the organization's capacity to manage projects in accordance with the initial plans. Controls over project planning and budget execution need to be strengthened in order to have the projects implemented in time and the objectives achieved. A harmonization of cash flow with project planning is necessary to address the low levels of financial outturn of capital projects; and
- In coordination with Ministers, to put in place oversight mechanisms to ensure that projects are implemented and reporting to MFLT is made in accordance with legal requirements regarding the progress of the implementation of projects financed by borrowing.

### 3.2 Statement of cash and balance sheets

Cash balance at the end of the year, includes unspent amounts of funds from the money in the main account, development trust fund, cash in transit, quota in IFI, accounts of Diplomatic Missions, cash (cash register), and open advance payments.

Funds for specific purposes consist of: designated donor grants, carried-forward own source revenues, development trust fund, designated revenues, other funds (mainly various types of deposits) and unspent funds from borrowing during 2021 and carried forward to 2022.

The Government manages the funds by using the Single Treasury Account (STA). Most accounts are held with the Central Bank of Kosovo (CBK). The total amount of cash in the budget account of the Republic of Kosovo on 31 December 2021 was €442,189,000.

**Table 12 – Statement of cash and balance sheet (in €'000)**

State Budget bank accounts	Year 2021	Year 2020	Year 2019
Central Bank of Kosovo	423,322	316,897	444,301
Quotes in IFI	3,734	1,741	1,741
Trust Development Fund	2,636	1,971	4,754
Money in transit	6,946	4,851	4,632
Money in accounts of DM	2,068	1,751	1,135
Cash (cash register)	3,484	2,744	1,687
<b>A. Total: financial assets in cash</b>	<b>442,189</b>	<b>329,955</b>	<b>458,251</b>
Balance of funds	Year 2021	Year 2020	Year 2019
Designated donor grants	15,818	9,752	8,866
OSR transferred to Central Level	1,436	1,765	5,741
OSR transferred to Local Level	79,442	55,994	49,477
Trust Development Fund	7,354	7,078	6,837
Dedicated revenues	467	52	803
Other revenues	19,812	15,894	17,504
Unspent funds from borrowing	5,131	3,941	7,000
<b>Funds for specific purposes</b>	<b>129,459</b>	<b>94,475</b>	<b>96,267</b>
<b>Undistributed</b>	<b>312,730</b>	<b>235,480</b>	<b>361,983</b>
<b>Total funds (A+B)</b>	<b>442,189</b>	<b>329,955</b>	<b>458,251</b>

The balance of current accounts held with the CBK for year 2021 has increased by €112,234,000 compared to the balance for year 2020. This was as a result of improved economic activities, which last year were affected by the Covid-19 pandemic.

Cash in the Central Bank of Kosovo is €423,322,000 or around 96% of the total of cash.

The table above shows that the amount of local level's OSR carried forward as unspent revenues is increasing every year. This year it has increased by €24,084,000 or around 42% compared to the previous year.

## 4. Analysis of Explanatory Notes

The government and BOs control and manage public funds, as well as use these resources to achieve the objectives of service delivery.

The International Public Sector Accounting Standards Boards encourages the disclosure of additional information, where possible, in order to increase financial transparency and accountability. Disclosure of appropriate information in the AFS regarding the overall activities of the Government can increase the transparency of financial reports and provide opportunities for a better understanding of the relationship between government activities and stakeholders.

The content of disclosures or annexes to the AFS should be clear and provide sufficient and quality information for all items of the statements, so that the users of the AFS better understand the reported areas, i.e. the annual budget trends and the reasons behind the changes.

In general, the AFS contain disclosures, which provide detailed information on the content of the figures in the three main statements. Our conclusion is that, despite the analytical disclosure of information, the presentation of figures solely in analytical manner – with no additional explanation given on the changes occurred during the year and the comparison with the previous years so that the users could easily understand - is not sufficient.

### 4.1 Consolidation of data on disclosures in the AFR/BRK

The audit process of budget organizations has highlighted a number of discrepancies between the individual statements and their consolidation in the Government Financial Statements. This is because some of the BOs have not recorded and reflected correctly some items in their financial statements, which are mainly part of the disclosures. Discrepancies in the consolidated figures relate to the following issues:

- In the statement of disclosures, annex no.7 to the AFS/BRK for 2021, capital assets worth over €1,000 was presented in the amount of €9,130,085,941, whilst according to individual audits it has resulted to be in the amount of €9,044,466,976, an overstatement of €85,618,965. This difference remains after the breaks of the balances, because some organizations own more assets than they have presented;

- In the statement of disclosures/ annex no. 8 to the AFS/BRK for 2021, capital assets worth under €1,000 was presented in the amount of €54,800,072, whilst according to individual audits it has resulted to be in the amount of €56,911,631, an understatement of €2,111,559;
- Stocks in the Statement of disclosures in the AFR/BRK was presented in the amount of €34,837,700, whilst according to individual audits it has resulted to be in the amount of €34,738,702, an overstatement of €98,998€;
- Outstanding liabilities in the Statement of disclosures, annex no.12, was presented in the amount of €190,909,239, whilst according to individual audits it has resulted to be in the amount of €191,179,554, an understatement of €270,315;
- Contingent liabilities in the AFR/BRK was presented in the amount of €237,230,086, whilst according to individual audits it has resulted to be in the amount of €224,615,219, an overstatement of €12,614,867; and
- Accounts receivable in the AFR/BRK was presented in the amount of €773,205,357 whilst according to individual audits it has resulted to be in the amount of €777,698,602, an understatement of €4,493,245.

## 4.2 Public Debts (Internal and External) and State Guarantees, as well as State Debt Stocks

The general public/state debt consists of the domestic and foreign debts. The domestic debt is defined as the government debt that is subject to the laws of the Republic of Kosovo, whilst the foreign debt is defined as a government debt subject to the agreements with other international governments, governmental agencies, international financial organisations, or other international organisations or companies based on international agreements, treaties, conventions, or other similar agreements subject to the laws of a jurisdiction other than that of the Republic of Kosovo.

The Republic of Kosovo has received foreign debts since 2009, whilst since 2012 started to receive domestic debts by issuing securities.

The portfolio of the total state/public debt as of the end of 2021 consists of the domestic and foreign debts as well two state guarantees. State guarantees represent potential liabilities, which then become actual debts only when the public entity fails to pay the guaranteed contractual liabilities. As of today, the Republic of Kosovo has no municipal debt nor has it issued any municipal guarantees.

By the end of 2021, the total state debt amounted to €1,682,890,000, an increase of 13.12% compared to the previous year. The Law no.03/L-015 on Public Debts stipulates that in no event shall the outstanding principal amount of total debt exceed forty percent (40%) of the GDP. In 2021, the MFLT has fully adhered to the set statutory threshold on public debts. The total debt for this year was 21.92% compared to the GDP.

The following table shows the debt trend over the last three years.

**Table 13 – Domestic and foreign debts (in € millions)**

Description	Year 2021	Year 2020	Year 2019
Foreign debt	576.75	525.80	409.10
Domestic debt	1,106.14	961.90	791.94
<b>Total debt</b>	<b>1,682.89</b>	<b>1,487.69</b>	<b>1,201.05</b>
State guarantees	30.63	31.65	42.68
Total Debt (% compared to GDP) <sup>6</sup>	<b>21.92</b>	<b>22.44</b>	<b>17.63</b>
<b>GDP from KAS<sup>7</sup></b>	<b>7,816.58</b>	<b>6,771.60</b>	<b>7,056.17</b>

The table shows that the lion share of the total debt consists of domestic borrowing, 65.73%, whilst foreign debts' share is 34.27%. Compared to the previous year, the total debts has increased with €195,200,000, of which the foreign debt has increased with €50,950,000, whilst the domestic debt with €144,240,000. At present, the Government has state guarantees in the amount of €30,630,000<sup>8</sup>.

6. Foreign debt changes over the years also as a result of exchange rate changes.

7. GDP has been revised by KAS since there was a retroactive review of GDP, the change is reflected for the previous years as well. As a result, the amounts presented in the AAR 2020 for the GDP and % cannot be taken as reference.

8. The current guarantee for Urban Traffic - Pristina is €6.63 million and the Guarantee for the Second Credit Line for the Deposit Insurance Fund in Kosovo is €24 million.

## Domestic debt

The Republic of Kosovo started issuing securities from January 2012. Market development has turned out to be quite successful in terms of the investors' interest and the cost of borrowing. This type of borrowing has served as the main catalysts in financing the budget deficit.

In 2021, the domestic debt was €1,106,140,000, an increase of €144,250,000 compared to last year's as a result of the securities issued. The domestic debt constitutes 65.73% of the total state debt or 15.07% of the GDP.

**Table 14. Domestic debt in the last three years (in € millions)**

Domestic debt (net)	Year 2021	Year 2020	Year 2019
New emissions	144.25	169.95	115.32
Domestic Debt Stock	1,106.14	961.90	791.94

As the table shows, the trend of domestic debt has increased over the years.

## Foreign Debt

By the end of 2021, the foreign debt was €576,750,000, an increase of €50,950,000 or 9.69% compared to the previous year. The foreign debt share in the total debt is 34.27% or 7.86% of the GDP.

Budget organisations have continued to withdraw funds from loans for projects financed by international debt. The value of these withdrawals at the end of 2021 was €123,230,000. Public companies have continued to withdraw smaller amounts of funds from loans sub-borrowed from MFLT. The highest amounts were withdrawn from the EU, IDA, CEB and EBRD.

**Table 15. International debt (in €millions)**

Description	Year 2021	Year 2020	Year 2019
Foreign debt	576.75	525.80	409.10
Central level	532.30	479.50	359.45
Sub-borrowed debt	44.44	46.29	49.65
External debt (% of GDP)	7.86%	7.76%	5.80%
GDP from KAS	7,816.58	6,771.60	7,056.17

During 2021 five loans/financial agreements were ratified between the Government of Kosovo and creditors. The financial agreements ratified by the Assembly of Kosovo in 2021 are:

1. The financial agreement with EIB for the loan "Gjilan Wastewater Plant Project", in the amount of €11,000,000;
2. The financial agreement with CEB for the loan "Public Sector Financing Instrument for Emergency Covid-19 Response – Amendment no.1", in the amount of €25,000,000;
3. The financial agreement with IDA for the loan "Emergency Covid-19 Project for Kosovo – Additional Funding", in the amount of €15,000,000;
4. The financial agreement with EIB for the loan "Kosovo Response to Covid-19 Pandemic, for SMEs" in the amount of €40,000,000; and
5. The financial agreement with EBRD for the loan "Vital Infrastructure Emergency Liquidity Loan", in the amount of €30,000,000.

During 2021, six new loans have been negotiated and signed. These new financial agreements have been entered into for the purpose of funding water infrastructure projects, managing the Covid-19 pandemic, and reforming the social scheme system.

The agreements and their purpose are presented as the following:

1. The financial agreement between the Republic of Kosovo and CEB, the Amendment no.1 - Public Sector Financing Instrument for Emergency Covid-19 Response - has been approved in the total amount of €25,000,000 as part of the efforts to provide health services to those affected by the Covid-19 and help manage the pandemic situation;
2. The financial agreement with EIB for the loan "Kosovo Response to Covid-19 Pandemic, for SMEs" aims at providing the needed capital of €40,000,000 to the Kosovo Credit Guarantee Fund so that the later could be able to provide credit guarantee to the financial intermediaries to cover losses that might be caused by the financial intermediaries under the investment loans or working capital loans available to SMEs;
3. The financial agreement with IDA for the loan "Emergency Covid-19 Project for Kosovo - Additional Funding", in the amount of €15,000,000, aims at preventing, detecting, and responding to the threat pose by the Covid-19 pandemic as well as strengthening the national public health preparation systems;
4. The financial agreement with IDA for the loan "Reforming the Social Scheme System Project", in the amount of €47,000,000, aims at improving the equality and adequacy of the social security network of Kosovo;
5. The financial agreement with EIB for the loan "Wastewater Treatment Plant in Mitrovica", in the amount of €19,800,000, aims at disposing all waste water generated in the urban area of the district of Mitrovica and treating such waters in accordance with the standards defined in the Urban Wastewater Treatment Directive 91/271/EEC; and
6. The financial agreement with EBRD for the loan "Wastewater Treatment Plant in Mitrovica", in the amount of €13,500,000, aims at rehabilitating and expanding the wastewater network in the Municipalities of Mitrovica and Vushtrri as well as connecting the neighbouring communities.

These six (6) loans entered into in 2021 belong to the health sector 25%, social welfare 30%, water infrastructure with 20%, and financial support 25%.



Table 16. The foreign debt by creditors (in € millions)

Creditor	Year 2021	Year 2020	Year 2019
IBRD	112.97	124.31	135.64
IMF	63.09	111.44	132.60
IDA	163.37	132.20	60.53
IDB	15.32 <sup>9</sup>	14.27	8.83
OFID	0.63	0.57	1.24
SFD	1.66	1.23	2.08
EBRD	19.51	6.32	4.11
EIB	7.00	7.00	7.00
UniCredit	23.13	20.91	13.26
RBI-Austria	5.13	3.35	1.03
CEB	35.00	17.78	0.00
EU	100.00	50.00	0.00
KfW	29.93	36.41	42.79
<b>Total</b>	<b>576.75</b>	<b>525.80</b>	<b>409.10</b>

### Holders of Securities

According to MFLT-CBK Regulation no.01/2014 on the Primary and Secondary Market of Securities of the Government of the Republic of Kosovo, in addition to Primary Actors and Primary Participants, other natural and legal persons have the right to purchase Securities in the Primary and Secondary Market of Securities of the Government of Kosovo.

As a result, in addition to commercial banks that are Primary Actors and the Pension Trust as a Primary Participant, the Securities are held by other physical and legal investors (businesses and private individuals). The following table shows the situation by holders of securities for 2019-2021.

9. The debt also includes the future value of the disbursed amount.

**Table 17. Holders of Securities (nominal value in € millions)**

Instrument	Year 2021	Year 2020	Year 2019
Commercial Banks	327.39	272.48	283.03
Pension Funds	490.47	450.12	298.56
Public Institutions	228.37	198.86	181.02
Insurance Companies	41.42	33.8	26.04
Others	22.4	10.01	6.24
<b>Total</b>	<b>1,110.05</b>	<b>965.27</b>	<b>794.89</b>

## State Guarantees

By the end of 2021, the portfolio of the state guarantees of the Republic of Kosovo consists of two state guarantees issued.

The first international guarantee was issued by the Republic of Kosovo during 2016, which provides a guarantee for the POE Trafiku Urban on the loan offered by EBRD in the amount of €10,000,000. It is worth noting that this loan was initially guaranteed by the Kosovo institutions, the Municipal Assembly of Prishtina. This loan is aimed at upgrading Prishtina's Urban Traffic. The loan was fully disbursed in 2018 and started to be paid back the same year. By the end of 2021, the borrower has returned the €3,370,000 of the loan.

In the end of 2016, the Republic of Kosovo issued the second international guarantee in the amount of €24,000,000, which was made available to the Kosovo Deposit Insurance Fund for the second credit line offered by EBRD. This credit line is a continuation of the first one, which was made available in 2013, aiming the adequate coverage of guaranteed depositors proportionally to the gradual increase of coverage threshold stipulated by the law for each depositor.

**Table 18. Situation of state guarantees**

Description	Year 2021	Year 2020	Year 2019
<b>State Guarantees</b>	<b>30.63</b>	<b>31.65</b>	<b>42.68</b>
EBRD-guarantee for Prishtina's Urban Traffic	6.63	7.65	8.68
EBRD-guarantee for Second Credit Line Guarantee for DIFK	24.00	24.00	24.00
<b>State guarantees (% of GDP)</b>	<b>0.42</b>	<b>0.47</b>	<b>0.60</b>

### Delayed use of international loans

According to annex 21.1 of the AFS/BRK for the disclosure of the international debt, we find that the funds for ratified loans on five (5) earlier-years projects in a total of €230,500,000 have not been withdrawn at all. In addition, there are two (2) loans from 2021 in a total of €65,000,000 related to the management of the covid-19 pandemic, for which funds have been withdrawn. The unspent funds relate to the following projects:

1. The project of road 6 from Kieva to Peja in the amount of €80,000,0000, the project implementing entity was MESPI and the year of ratification is 2018;
2. The project for the Kieva-Zahaq Highway in the amount of €71,000,000, the project implementing entity was MESPI and the year of ratification is 2018;
3. Wastewater Treatment Project in Prishtina in the amount of €66,000,000, the project implementing entity was ME and the year of ratification is 2017;
4. Wastewater Development Project in Gjilan in the amount of €11,000,000, the project implementing entities were ME/Municipality of Gjilan/WRC Hidromorava and the year of ratification is 2020;
5. Energy Efficiency Measures Project in the amount of €2,500,000 in the Municipalities: Prishtina, Gjakova and Gjilan, the project implementing entities were the respective municipalities and the year of ratification is 2016;
6. Public Sector Financing Instrument for Emergency Covid-19 Response Project in the amount of €25,000,000, the project implementing entity was MFLT and the year of ratification is 2021; and
7. Kosovo Response to Covid-19 Pandemic, for SMEs Project in the amount of €40,000,000, the project implementing entity was MFLT/FKKG, and the year of ratification is 2021.

For the aforementioned projects, the implementing entities of the respective projects report every 3 months to the MFLT, and the later reports on the same ones to the Government every 6 months regarding the progress in the implementation of these projects. We have found that the reports are formal and not literal. They do not give details and causes behind the obstacles faced on site during the implementation of these projects, in order to reflect the concrete actions to eliminate them.

Entry into international loans agreements and delayed withdrawal of available funds was due to poor planning, expropriation process and the lack of Government's capacity to use the borrowed funds in a timely and effective manner. As a result, the Government is continuously paying commitment charges for these unused loans.

Due to the inconsistency of the time dynamics between the allocation of loans and the projects implementation, for 10 effective loans that cover the ratification years 2016-2021, for which commitment charges are foreseen for loan funds not withdrawn by borrowers, the Government has, in 2021, paid commitment charges in the amount of €435,890.

Due to the large delays to use the funds from these borrowings, the Government is expected to pay a much higher commitment charge in the future. We analysed the Kijevë - Zahaq Highway Project in the amount of €71,000,000, ratified in 2018, which has not become effective. This agreement foresees commitment charges<sup>10</sup> which, by becoming effective, obliges the Government to pay the commitment charge, including the period from the signing of the agreement to the withdrawal of the funds. The commitment charge value for the period 2018-2021 is expected to be around €1,400,000.

10. Pursuant to paragraph 2.02, Other Financial Terms of the Loan, section (g), the commitment charge rate shall be 0,5% per year, when the agreement becomes effective under section 3.05 of the Standard terms and Conditions, the commitment charge shall be paid on the first date of the payment once the loan becomes effective.

## We recommend the Government

To ensure that, prior to taking decisions on borrowing, detailed analyses are conducted as to whether all the prerequisites exist and proper preparations are made for initiating the borrowing process and for ensuring the most efficient use of these funds. In addition, the Government should review the MFLT's annual reports on public debts on a regular basis and use them in the comprehensive discussions when the process outcomes and obstacles are assessed.

To ensure that setbacks in and failure to initiate or implement the projects are subject to ongoing reviews with the respective projects implementing budget organisations and that the causes and reasons are analysed reflecting the undertaking of concrete actions to reduce/eliminate them so that they can be implemented and lead to benefits for the citizens.

## We recommend the Minister of Finance, Labour and Transfers

- To address all the challenges faced in the implementation of the projects funded by the borrowing, based on the Treasury quarterly reports and in cooperation with the line ministries. MFLT should, at any time and whenever convenient, suggest to the Government the proper measures to overcome these challenges; and
- TO provide clear instructions to the BOs on including the capital investments plans to be funded from the borrowing. The projects should not be approved unless all preparations are made and they do provide sufficient and documents assurance that they will be implemented at the right time and manner..

## 5. Assets

MF Regulation no. 02/2013 on Asset Management in Budget Organizations obliges all organizations to keep records of non-financial assets and to constantly update them, depending on new purchases/acquisitions or systematic review of their status of use.

Non-financial assets by accounting classification are divided into:

- Capital assets that have a useful life of more than one year and a financial value over €1,000, and the ownership and control of the benefits therefrom remains to the BO;
- Non-capital assets that have a useful life of more than one year and a financial value less than €1,000, and the ownership and control of the benefits therefrom remains to the BO; and
- Stocks or spare equipment and stationeries.

## 5.1 Capital and Non-capital Non-financial Assets

Assets are managed through two centralised systems: KFMIS Accounting Register, as an integrated system within the MFLT, where assets worth over €1,000 are recorded, maintained, valued and reported; and the E-assets system/application, which is an integrated asset management system within the MIA, where all budget organisations must record, manage and report on non-capital assets worth under €1,000 and stocks/spare equipment and stationeries.

But, not all the e-assets functions of the application has not been operational. The reason behind was the expiration of the maintenance contract with the economic operator. The maintenance contract expired in December 2020, and by the end of our audits for 2021, the ministry had not engaged any economic operator for the maintenance of this application, despite the fact that procurement procedures had been developed which, according to the responsible officers, had failed several times. MIA is in the process of signing a new contract for the maintenance of this application.

The audit results show that the disclosures on non-financial assets in 2021 did not provide sufficient assurance that BOs have complete controls over and monitor the assets and their management. Moreover, the information on financial assets in the KFMIS and e-assets is incomplete. The same asset management practices are still present at both the central and local level institutions, although recommendations on improving the non-financial assets management and increased controls thereon have been given for years. Incomplete functioning of the e-assets system has led to difficulties when it comes to the management of and reporting on non-capital assets and stocks. This was affected by the failure to name some of the products in the catalogue, thus making it impossible to record them into the system; delayed recording of items; and recording of items under the incorrect category.

Budget Organisations have reported different values of assets in their individual AFS. These amounts have then been consolidated in the AFR. When auditing the individual statements, we have found mismatches between the reported amounts and audited amounts.

**Table 19 - Capital and Non-capital Non-financial Assets**

Institutions	Capital and non-capital non-financial assets	The value of assets presented in the AFR/BRK from the MF	According to audits	Overstatement/ understatement
<b>Capital assets over €1,000</b>	Central level	2,968,583,804	2,894,482,719	74,101,085
	Local level	6,161,502,137	6,149,984,257	11,517,880
<b>Capital assets under €1,000</b>	Central level	33,125,216	34,024,034	-898,818
	Local level	21,674,856	22,887,597	-1,212,741
<b>Total of assets</b>		<b>9,184,886,013</b>	<b>9,101,378,607</b>	<b>83,507,406</b>

The table above shows that the non-financial assets were overstated by €83,507,406 in total (assets over €1,000 were overstated by €85,618,965, whilst assets under €1,000 were understated by € 2,111,559). Compared to last year, there is a slight improvement given the total of overstatement was decreased by €13,078,511 (in 2020 the overstatement was €96,585,918).

### Central level

According to individual audits, some BOs have recorded in their registers assets that did not meet the criteria to be considered as such. As a result, the net value of the capital assets presented in the AFR/BRK has been overstated by €74,101,085, whilst non-capital assets were understated by €898,817 as a result of failure to record in them in the registers.

The reasons behind such large discrepancies are the following:

- Recording of operating expenses (road maintenance) as asset;
- Recording of final assets as ongoing investments, although technically accepted;
- Incomplete recording of assets; and
- Poor application of depreciation rates, etc.

Identified errors or mismatches in the balance of capital and non-capital assets have resulted in the overstatement or understatement of assets in 24 central level organizations, which include 13 ministries, the Office of the Prime Minister, the University Hospital and Clinic Service, the Assembly of Kosovo, as well as eight independent agencies, i.e. 48% of the central level institutions have not made a true presentation of capital and non-capital assets.

Shortcomings in assets control and management most often encountered in individual audits are:

- 11 institutions have not reconciled the records between the annual stocktaking report and the assets register;
- In 10 institutions, the e-assets system has not been operating and all non-capital assets have either not been recorded or partly recorded in the e-assets system;
- Four institutions have either partly conducted the annual stocktaking process or completed it after the annual financial statements were submitted.
- Other shortcomings found in the central level, but to a smaller extent are: poor recording of ongoing assets, failure to establish the assets valuation commissions, and delayed assessment of assets.

### Local level

According to individual audits, some municipalities did not include all the assets in their registers. As a result, the net value of the capital assets presented in the AFR/BRK has been overstated by €11,517,879 whilst non-capital assets were understated by €1,212,741.

Of the total of 38 municipalities, 33 have either overstated or understated the assets presented in the AFR/BRK, i.e. 87% of the municipalities have not made a true presentation of capital and non-capital assets.

Other shortcomings in assets control and management most often encountered during individual audits of the statements of municipalities are:

- Municipalities of Zubin Potok and Leposaviq have not reported the capital assets;
- Municipalities of Ferizaj, Zveqan, Klokot, Leposaviq, Zubin Potok and Novobërda have not reported non-capital assets;
- 10 municipalities have failed to reconcile the information between the stocktaking report and the assets register;



- In 20 municipalities, either the e-assets system has not been operating or the assets have been partly recorded in the e-assets system;
- Nine municipalities have either not conducted the assets stocktaking or have conducted it partly; and
- Nine municipalities have not recorded municipal property (plots and buildings) in the accounting registers.

## 5.2 Stocks for the central and local level

Stocks or spare equipment and stationeries were €34,837,700 according to AFR/BRK and €34,738,702 according to individual audits, an overstatement of €98,998. It is worth noting that by the end of 2021, nine municipalities have not reported their stocks.

### We recommend the Government:

- To provide, through MFLT, sufficient trainings to the assets officers and the CFO regarding the assets recording process and their true presentation in the individual financial statements;
- To provide for, through MIA, continuous maintenance of the e-assets system in order to ensure that the system is operational and assets are completely and truly updated; and
- To provide for, through MFLT/Treasury, formal controls over capital and non-capital assets and ask for additional clarification from BOs regarding the significant differences.

## 6. Accounts receivable

Accounts receivable constitute a significant item of the short-term assets. They require more attention in terms of both audit purposes and along the whole budgeting process, all the more when the approach of collecting information outside the KFMIS leaves room for potential errors in their reporting and disclosure.

For year 2021, accounts receivable presented in the AFR were in the amount of €773,205,357, whilst according to audit they were in the amount of €777,698,602, an understatement of €4,493,245 (AR were understated with €4,857,177 and overstated with €363,932).

Untrue disclosure of AR was as a result of errors in their presentation in the AFS of BOs.

According to AFR 2021, the AR increased with €78,440,936 or 11.29% compared to last year. Compared to previous years, AR have increased to the Covid-19 pandemic.

**Table 20. Summary of accounts receivable over the last three years**

Accounts Receivable	According to audit 2021	According to AFR 2021			Comparison 2021-2020/ in%
		2021	2020	2019	
Central level	560,272,355	560,254,493	481,745,871	451,993,627	16.30%
Local level	217,426,247	212,950,864	213,018,550	180,968,026	-0.03%
Total	777,698,602	773,205,357	694,764,421	632,961,653	11.29%

### Central Level Accounts Receivable

AR of the central level presented in the 2021 AFR were in the amount of €560,254,493, whilst according to the 2021 audit, this amount was understated by €17,862. The lion share of the AR of the central level consists of the receipts from MFLT with €478,972,668, ICMC with €33,657,802, MIA with €25,526,791, RAEPD with €10,154,529, etc.

### Local Level Accounts Receivable

According to the consolidated financial report (AFR), the balance of accounts receivable in 36<sup>11</sup> municipalities is €212,950,864, whilst according to the audit they were in the amount of €217,426,247, an understatement of €4,475,383.

The understatement is mainly as a result of undue diligence in the reporting and reconciliation of information.

Municipalities with high amounts of understated AR (differences between the consolidated statements and the audit):

11. Municipality of Zubin Potokut and Mitrovica Niorth have not presented their accounts receivable

- AR of the Municipality of Gračanica were understated by €1,190,365. This happened because they have presented AR of 2021 only, without including the uncollected amounts from previous years;
- AR of the Municipality of Istog were understated by €40,324€. This was as a result of unfair presentation of AR from construction licences, use of municipal property, and property tax;
- AR of the Municipality of Peja were understated by €1,147,997. This was as a result of unfair presentation of AR from property tax, and of properties not owned by the Municipality;
- AR of the Municipality of Vushtrri were understated by €199,290. This was as a result of unfair presentation of AR from the waste tax and of the balances of AR from the use of public property;
- AR of the Municipality of Kamenica were understated by €147,989. This was as a result of unfair presentation of AR from construction licences, use of public property; and
- AR of the Municipality of Ferizaj were understated by €1,435,171.

### **Municipalities with overstated AR are the following:**

- AR of the Municipality of Prishtina were overstated by €64,727. This was as a result of unfair presentation of AR from property tax;
- AR of the Municipality of Prizren were overstated by €268,532. This was as a result of their unfair presentation in the AFS;
- AR of the Municipality of Klokot were overstated by €30,673. This was as a result of unfair presentation of waste collection tax.

Local level's accounts receivables consists of the receipts from the property tax, business tax, waste collection tax, rentals, etc. This lion share of this category is constituted by the property tax receivables, which include the current charges, the interest and the fines in case of failure to settle the previous obligations.

### **We recommend the Government**

To reconsider, in coordination with MFLT and MLGA, the current debts collecting mechanisms, their structure, age, and the chances for collecting such debts by creating effective mechanisms for their collection. In addition, it should provide for a complete and fair reporting and consolidation of accounts receivable.

## 7. Outstanding and Contingent Liabilities

### Outstanding liabilities

Outstanding liabilities represent invoices received for works/services completed by economic operators but which have not been paid. Due to the use of cash accounting, the balance of outstanding liabilities can only be disclosed in the financial statements, all the more when the approach of collecting information outside the KFMIS leaves room for potential errors in their reporting and disclosure.

The law on budget and the secondary legislation on spending the public money restricts BOs from entering into liabilities, given that they are obliged to make the purchase order for goods/services only when the funds are available. But, this requirement has not always been adhered to.

The total outstanding liabilities were in the amount of €191,179,554 according to our audit and €190,909,239 according to the AFR, an understatement of €270,315. Compared to the previous year, liabilities have decreased by €127,077,819 or 40%, according to 2021 AFR.

The largest amount of €65,825,781 of liabilities has been paid for the expropriations of the previous years (the largest amounts were paid to the Ministry of Environment, Spatial Planning and Infrastructure in the amount of €33,909,538), whilst liabilities paid from the OB themselves were in the amount of €61,252,042. This reduction occurred due to the fact that the Government had prioritized the payment of liabilities.

**Table 21 – Outstanding liabilities in the last three years**

Outstanding liabilities	According to audit 2021	According to AFR 2021			Comparison 2021 - 2020/ in %
		2021	2020	2019	
Central Level	159,315,069	160,143,780	283,901,529	334,271,052	-44
Local Level	31,864,484	30,765,459	34,085,529	23,365,219	-10
<b>Total</b>	<b>191,179,554</b>	<b>190,909,239</b>	<b>317,987,058</b>	<b>357,636,271</b>	<b>-40</b>

## Central level outstanding liabilities

The most significant discrepancies were found in the Ministry of Environment, Spatial Planning and Infrastructure, which had understated the liabilities by €1,548,738€ - they declared less liabilities in the AFS and these shortcomings/information was carried over to the AFR – and the Ministry of Agriculture, Forestry and Rural Development, which had overstated the liabilities by €2,313,000 – they declared more liabilities in the AFS and these shortcomings/information was carried over to the AFR.

## Local level outstanding liabilities

Reporting errors, at the local level, were mainly found in the Municipality of Ferizaj with an understatement €1,158,783 in the AFR/BRK and the Municipality of Prizren with an overstatement of €126,158 in the AFR/BRK. This was as a result of the rectifications made in the AFS which were not reflected in the AFR as well. The Municipality of Graçanica did not present the amount of €46,304 in the AFR/BRK.

The municipalities with the highest amounts of liabilities compared to the total of debts at local level are Gjilan with €11,034,956 or 35%, Ferizaj with €6,654,378 or 21%, and Prishtina with €2,566,567 or 8%.

Untrue disclosure of liabilities do not give a fair presentation of the balance sheet of the BOs and the Government, which may lead to inadequate decision-making during the budgeting process. Poor controls over the reconciliation of data may undermine the correct and complete identification and reporting of liabilities, this putting the reliability of the statements to question.

### We recommend the Government

To ensure that MFLT has put in place controls by monitoring the BO's reports on outstanding liabilities, and that measures are taken when statutory deadlines are not adhered to.

## Contingent liabilities

Contingent liabilities are disclosed under the liabilities. They represent different claims by the plaintiffs, which are likely to create liabilities for the organizations in the future, depending on the court decisions which might be in favour of the plaintiffs. These relate to compensations on expropriation, debts, material damage, wages and other related financial implications.

Contingent liabilities for 2021 were €237,230,086 in total, according to the consolidated report, whilst, according to the audit, they were in the amount of €224,615,219. Based on these analyses, contingent liabilities were overstated with €12,614,867. This category as such is subject to potential errors in disclosure. But, the differences also relate to some errors omitted by the central level and the local level during the consolidation of the records. The positive trend of these liabilities and lack of due diligence in their reporting is concerning.

**Table 22 – Summary of contingent liabilities**

Contingent liabilities	According to audit 2021	According to AFR 2021			Comparison 2021 – 2020 / in %
		2021	2020	2019	
Central level	157,629,778	180,450,668	131,054,401	68,513,132	38
Local level	66,985,441	56,779,418	80,336,826	73,557,684	-30
<b>Total</b>	<b>224,615,219</b>	<b>237,230,086</b>	<b>211,391,227</b>	<b>142,070,816</b>	<b>12</b>

### Central level contingent liabilities

Contingent liabilities of the central level were in the amount of €180,450,668, according to 2021 AFR/BRK, whilst according to the audit they were €157,629,778, an overstatement of €22,820,890. The reason for this is the poor quality of data collection, consolidation and reporting from BOs to MF. Some of the error were:

- Ministry of Environment, Spatial Planning and Infrastructure (MESPI) has reported contingent liabilities of €86,169,601 in its AFR, whilst according to our audit they were in the amount of €60,061,827, an overstatement of €26,107,774. This was as a result of technical errors reported in the AFS and undue diligence in internal control;
- Ministry of Internal Affairs has reported contingent liabilities of €8,094,899 in its AFR, whilst according to our audit they were in the amount of €10,921,430, an understatement of €2,826,532. This was as a result of technical errors in reporting the liabilities and lack of internal control;
- Ministry of Agriculture, Forestry, and Rural Development has understated the contingent liabilities by €454,473. The reason behind this understatement was that AAD had only presented the contingent liabilities for year 2021 only and not those of 2020 as well.
- The Health Insurance Fund has understated the contingent liabilities by €117,326 as a result of having not presented the contingent liabilities of the previous years, but only presented those of 2021; and

- Office of the Prime Minister has overstated the contingent liabilities by €104,751€. This amount was presented in the AFS regardless of the decision by the Court of Appeals.

### Local level contingent liabilities

Local level contingent liabilities are significantly lower compared to those at the central level. Lawsuits against municipalities are of various natures, ranging from claims for jubilee salaries to lawsuits for expropriation. Due to the un-structured and informal approach to data harmonization, the audit has highlighted a series of errors. The amount of contingent liabilities reported was €56,779,418, according to the AFR, whilst according to the audit it was €66,985,441, an understatement of €10,206,023.

Some of the most significant differences are the following:

- Contingent liabilities of the Municipality of Prizren were understated by €9,439,626. These contingent liabilities were not reported in the AFR and the AFS for year 2021;
- Municipality of Deçan has understated the contingent liabilities in the amount of €1,260,823;
- Municipality of Istog has overstated the contingent liabilities in the amount of €396,234;
- Municipality of Gjilan has overstated the contingent liabilities in the amount of €301,299;
- Municipality of Kaçanik has understated the contingent liabilities in the amount of €414,546€.

Untrue disclosure of contingent liabilities has led to unfair and incomplete presentation of their balance. This may cause that the information disclosed about these liabilities to be misleading to stakeholders.

### We recommend the Government

To ensure, through the Ministry of Justice (State Advocacy) and in coordination with BOs legal offices, that the complete and true value of the contingent liabilities is verified, in order to provide true disclosures in the AFR. When discrepancies of records exist, the reasons behind these discrepancies should be identified and the same should be rectified..

## 8. Payments under Article 39.2 of the LPFMA

Pursuant to the authorizations given by LPFMA, Article 39, paragraph 2, Kosovo Treasury has during the year handled the EO's requests for payment of outstanding invoices (60 days past due) based on this law, of which the expenditures has been approved and transferred from the budget of the respective budget organization for the settlement of the created liabilities.

The amount of payments made by Treasury for year 2021 was €83,149. Compared to the previous year 2020, when the value of executed payments was €190,698, there is a decrease of 56% or €107,549. The following table shows the significantly decreasing trend in the total of these payments for the last three years.

In analysing the economic categories, we may observe that the amount of payments in the category of investments has significantly decreased over the years, whilst in goods and services has increased. Taking into account the opposite trend of increase/decrease by economic categories of the payments through court decisions as shown in the next table, a part of the payments under Article 39.2 are left to be paid as court decisions.

**Table 23 – Payments under Article 39.2 of LPFMA by economic categories for three years<sup>12</sup> (in €)**

Payments by economic categories	2021	2020	2019
Good and Services/Utilities	75,719	67,283	52,066
Capital Investments	7,430	123,415	1,507,626
<b>Total</b>	<b>83,149</b>	<b>190,698</b>	<b>1,559,692</b>

In view of the share of these expenses by budget organizations, the lion share is constituted by the municipalities. Expenditures under Article 39.2 of the LPFMA by budget organisations are presented as the following:

12. The amounts in the above table are given according to KFMIS, whilst there are small differences in 2021 AFR/BRK.



Based on the audit reports of BOs for 2021, while reviewing the process of these payments, we have not found any irregularities and the procedure for handling suppliers' claims for overdue and outstanding payments under Article 39.2 of the LPFMA has been consistently implemented by the Treasury.

## 8.1 Payments According to Court and Enforcement Decisions

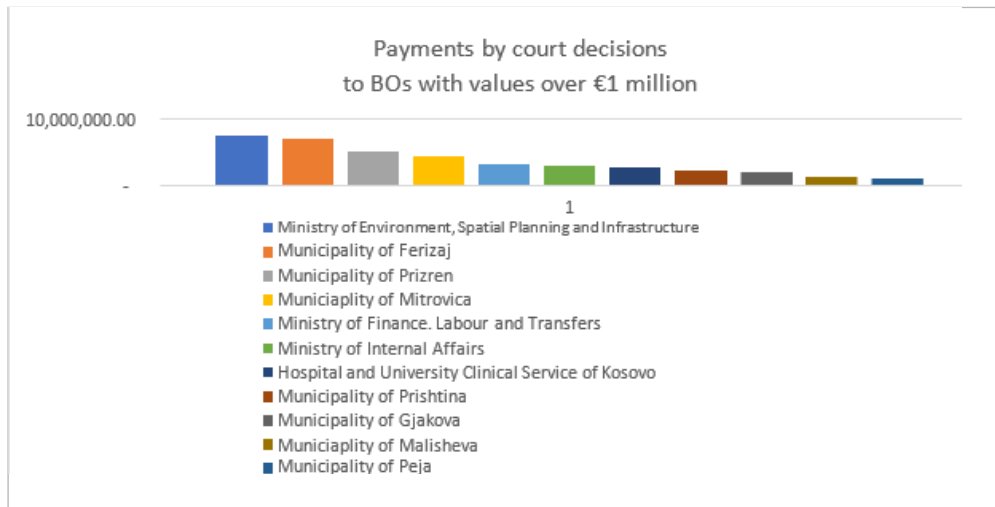
Pursuant to LPFMA, Article 40.1, whenever a court issues an order or judgment requiring a public authority to pay any type of monetary compensation to a person, and the order or judgment is not subject to appeal by the public authority or the public authority has not properly or timely exercised its right to appeal, the court shall immediately provide a copy of such order or judgment to the Ministry of Justice and the respective Ministry for the execution of the said payment.

Payments by court decisions and private bailiffs for year 2021 were in the amount of €51,917,629. Compared to 2020, they have increased by €21,952,318 or 73%, whilst compared to 2019 they have increased by €26,083,391 or 101%. While the causes behind this situation are the same as those of the previous years, we may say that addressing of such causes by the responsible persons has been at inadequate level.

**Table 24 – Payments by court and enforcement decisions in the last three years (in €)**

Payments by categories	2021	2020	2019
Wages and Salaries	19,998,545	73,976	819,679
Good and Services/Utilities	10,697,725	12,881,930	7,088,607
Subsidies and Transfers	1,237,288	259,151	603,395
Capital Investments	19,984,071	16,750,254	17,322,557
<b>Total</b>	<b>51,917,629</b>	<b>29,965,311</b>	<b>25,834,238</b>

Payments for central level organizations were €20,010,276 or 39% of the total, whilst payments at the local level were in the amount of €31,907,353 or 61% of the total court decisions. The following chart shows 11 BOs which amounts larger than €1,000,000 have been paid to and constitute over 76% of the amount of payments made by court decisions, over €39,500,000.

**Chart 1. Payments made by court decisions to BOs with the highest amounts**

BOs' failure to pay the liabilities in time has resulted in additional costs for the state budget due to the costs of court proceedings (enforcement) and interest costs. Such additional costs have damaged the budgets of these BOs and consequently the objectives intended to be achieved therewith. Given the fact that capital investments constitute the lion share of these expenses, it turns out that many projects have remained unimplemented as a result of these costs..

Most of the court decisions were related to: remuneration of employees for jubilee and farewell salaries, which were governed in the Collective Contract but were not budget from the category of Salaries; payments for expropriations, as a result of complaints of owners being part of the expropriation process; and delayed payment of invoices by the BOs, either due to responsible officers' neglect or lack of budget.

In analysing expenses based on court decisions in KFMIS and based on individual audits of BOs, we found that for most of these payments, Treasury has not separated the expenses on the principal debt from those on court enforcement procedures, as foreseen in the Chart of Accounts. The findings reported in the individual reports and notes provided by the BOs show that of the amount of €31,259,076 as payments through court decisions, the additional costs were €5,346,800 or 17%, whilst according to the information received from Treasury, of the amount of €40,467,967 as payments executed directly by Treasury, the additional costs were €8,937,159.

Expenses incurred based on court decisions have been misclassified in economic categories as well, thus leading to overstatement/understatement of economic categories in the AFS for the same amount.

### **We recommend the Government**

- To examine, through relevant institutions, obligations and responsibilities of BOs arising from valid collective agreements and take appropriate action. Depending on these obligations and budget capacities, it should ensure that budget organizations do adequate budget planning, in order to avoid unnecessary expenses from eventual litigation as a result of non-fulfilment of eventual obligations arising from these agreements.

### **We recommend the Ministry of Finance, Labour and Transfers**

- In coordination with the Treasury Director, the Minister should ensure that, when executing payments based on court/enforcement decisions, expenses on the principal debt is separated from those on court enforcement procedures, as foreseen in the Chart of Accounts.

## 9. Employment data

According to Law no. 08/L-016 on Budget Appropriations for the Budget of the Republic of Kosovo for year 2021, the allowed number of employees for the central level (Ministries and Independent Institutions), and the local level was 86,188<sup>13</sup>, whilst the current number employees according to AFR/BRK was 81,527<sup>14</sup>. It should be noted that the number of employees presented in the AFS of budget organisations was 80,677<sup>15</sup>, i.e. 850 less than the number presented in the AFR/BRK.

The difference is mainly influenced by the data from the local level, the current number of which presented in the AFR/BRK included the assembly members of the municipal assemblies and the same have not been presented by the AFS of the municipalities. It should also be noted that the Municipality of Mitrovica North presented 875 current employees (according to the revised budget), whilst according to the AFR/BRK this number was 524. University of Pristina's number of employees was presented as 1,578, whilst according to its AFS and audit team confirmations it was 1,728.

When comparing the number of current employees for year 2021 with the actual number of employees for year (81,690), we see a decline by 163. Budget organisations did not manage to staff all the jobs positions approved in the budget law for year 2021. The difference between the approved number and the current number was for 4,661.

Failure to meet the approved number of employees according to the budget law for 2021 leads to poor performance at organisation level and failure to achieve the intended objectives and plans. The mismatch of the information in the AFS of BOs with that in the AFR/BRK leads to untrue and unfair presentation of the number of employees at public administration level, which may result in misinformation to external parties

### 9.1 Employees outside the payroll

According to AFR/BRK for year 2021, the total number of employees outside the payroll was 1,784: at the central level (Ministries and IIs) there were 1,576; and at the local level there were 208 employees outside the payroll. Compared to last year, the

13. Of which 41,884 were approve employees at central level and II and 44,304 approved employees at local level.

14. 38,533 the actual number of employees at the central level and independent institutions (including the National Audit Office (159 employees) and the Kosovo Intelligence Agency (98 employees) and 42,994 actual employees at the local level.

15. Not including employees of NAO and KIA.

number has increased by 1,141 (in 2020 the number was 643). However, it should be noted that the number of employees outside the payroll presented in the AFS of BOs was 1,952<sup>16</sup>, namely 168 more than the number presented in the AFR/BRK. The reason behind the differences was that AFR/BRK did not include the staff of 169 employees engaged by MESTI and, on the other hand, included on person engaged by the Ombudsperson while there was no staff outside from payroll in this institution, according to the audit team (although one person was presented in the AFS of the organisation). BOs with the largest number of employees outside the payroll are the following:

- Ministry of Health - 1,460 persons were engaged upon Government's decision for the management of Covid-19 pandemic;
- MESTI - 169 persons were engaged for the preparation of the curricula for online learning;
- Municipality of Mitrovica North - 62 persons were engaged without conducting the recruitment procedures;
- Municipality of Fushë Kosova - 53 persons were engaged, thus exceeding the budgeted number planned in the Education Directorate for the replacement of education employees;
- Municipality of Drenas - 32 persons were engaged in education sector for the replacement of staff in maternity leave.

## 9.2 Employees with Special Service Agreements

According to AFR/BRK for year 2021, the total number of employees through Special Services Agreements (SSA) was 63,841, a number confirmed by the AFS of BOs as well. Of these, 62,417 were engaged by CEC for the parliamentary elections held on 14 February 2021 and the local elections held in October and November 2021.

Except for the staff engaged by CEC, even in 2021 there was a number of these employees who were either inherited over the years or engaged without any procedure during 2021 for regular work positions.

However, when analysing the number of employees engaged with SSAs over the three years (excluding the staff with SSA in CEC), there is a downward<sup>17</sup> trend in the number of employees engaged through SSAs.

16. Not including NAO and KIA

17. In 2021 there were 1,424, in 2020 there were 2,232 and in 2019 there were 2,744 (these numbers do not include those engaged in CEC)









## 10. Audit Opinions on Individual Reports 2021

NAO for 2021 has completed 90 financial and compliance audits for the budget organisations' central and local level<sup>18</sup>. The audits were performed based on the updated manual and methodology on financial and compliance audits, in order to be in line with the updated Auditing Standards (ISSAIs). Based on this methodology we have given audit opinions on the Financial Statements, in accordance with ISSAIs, and we have given audit conclusions to each BO regarding their compliance with authorities.

### 10.1 Audit opinions regarding BOs' AFS are presented in the table below.

**Tabela 25 - Lloji dhe numri i opinioneve për PFV-të individuale të OB-ve për vitin 2021**

Auditees	Unmodified opinion	Qualified opinion	Adverse opinion	Total
Central Level Institutions <sup>19</sup>	8	14	1	23
Local Level	13	24	1	38
Independent Institutions	25	4	0	29
<b>Total</b>	<b>46</b>	<b>42</b>	<b>2</b>	<b>90</b>

Out of 90 individual AFS of BOs, 46 have resulted in unmodified opinion and 44 in modified opinion (42 qualified opinions and 2 adverse opinions). Compared to 2020, modified opinions have increased by 17 once (27 in 2020) indicating that the number of BOs with errors in reporting and disclosing the required information in the AFS have increased and such change has been mainly noticed at the local level.

The main reasons for modifying the audit opinions were unfair and untrue presentations of information in the AFS. Misclassification of expenses (as a result of poor planning, payments through court/enforcement decisions and by OBs), untrue reporting of capital and non-capital assets, payments for workers who did not attend

18. These audits did not include Public Enterprises, for which the issues are presented in a separate section in this report.

19. Central Level Institutions include: 15 Ministries, OPM, Office of the President, Assembly of Kosovo, Health Insurance Fund, UCHSK, TAK, Customs and RTK.

work (in Ministries-for former members of the civil defence), untrue disclosure of Accounts Receivable and Contingent Liabilities<sup>20</sup> in individual AFS, etc. led to the modification of opinions.

In some cases, modification of opinion occurred due to BOs external impacts for which the BOs have not had the opportunity to rectify. This was as a result of inadequate appropriations in the Law on Budget, Government decisions, despite that some BOs<sup>21</sup> had made the budget requests in the adequate categories or reallocation of budget by the MFLT. Moreover, there were similar cases of misclassification in the Municipality of Rahovec and Suhareka, which did not manage to reallocate the funds budgeted for capital transfers to the relevant category for Subsidies. Whilst identified misclassifications in 14 Municipalities related to the payment of jubilee salaries, based on the collective contract, relate to payments executed by the Treasury through court/enforcement decisions, for which the Municipalities had scarce budget for payment due to failure to allocate a budget for this purpose. This year, two adverse opinions were given for the Radio Television of Kosovo and the Municipality of Istog. The adverse opinion of RTK was as a result of its recognition of the revenues contrary to the international standard of financial reporting in lack of balance sheet's confirmations by the suppliers, failure to fairly present the liabilities to the suppliers etc. Whilst in the Municipality of Istog, due to the non-preparation of AFS in accordance with the legal requirements and errors in the presentation and disclosure of values.

## 10.2. Summary of Compliance Conclusions

In addition to the financial audit, which aims to give an answer to the question whether the Financial Statements present transactions and events fairly, we have also audited the compliance aspect whether the processes and underlying transactions are in compliance with the audit set criteria. For 2021, the NAO has given compliance conclusions for all audited BOs. Compliance conclusions regarding the BOs are presented in the table below.

**Table 26 – Type and number of BOs' conclusions for 2021**

Auditees	Unmodified conclusion	Qualified conclusion	Adverse conclusion	Total
Central Level	10	12	1	23
Local level	1	32	5	38
Independent Institutions	24	5	0	29
<b>Total</b>	<b>35</b>	<b>49</b>	<b>6</b>	<b>90</b>

20. In money value this is more noticeable in the Municipality of Prishtina for 23 mil and Municipality of Prizren for 10 mil.

21. MEST, MH and MD

Out of 90 audited BOs, 35 are unmodified conclusions and 55 modified conclusions (49 qualified and 6 adverse). According to the table, it can be seen that 61% of the BOs have a modified conclusion which shows that they have problems regarding the compliance with the authorities, or financial transactions are not in compliance with the legal requirements.

The main reasons for a qualified and adverse conclusion were mainly related to: the engagement of officials with special services agreements without conducting procurement procedures, failure to verify 20% of taxable properties as required by law, failure to comply with procurement procedures in the tendering process, the lack of annual plans for subsidizing NGOs, the use of inadequate contracts that caused their value to exceed the estimated value, etc.

At Radio Television of Kosovo, the qualified conclusion was related to the payments for allowances for its employees, despite the Board's recommendation to cease the payment of allowances.

### 10.3 Recommendations given in the individual reports for 2021

In the BOs individual reports for 2021, we have given 695 recommendations for improving each area with identified errors and shortcomings. In the following table we have presented the recommendations given in the last three years.

**Table 27 - Number of recommendations in individual BO reports**

Auditees	Year 2021	Year 2020	Year 2019
Central Level Institutions	204	244	263
Local Level	438	367	488
Independent Institutions	53	43	52
<b>Total</b>	<b>695</b>	<b>654</b>	<b>803</b>

The data presented in the table show an increase in the number of recommendations compared to the previous year. The largest increase in the number of recommendations this year is observed in the Municipalities, whilst there is an increase in the independent institutions and a decrease in central level institutions.

## 11. Internal Audit System

Internal Audit (IA) is an important function of the system which ensures senior management that internal control mechanisms are designed and operate effectively. The Audit Committee (AC) is an advisory body to the senior management of Public Sector Entities (PSEs), and supportive for internal auditors by ensuring their independence, assessing the adequacy of resources and ensuring the implementation of recommendations.

Within the objectives of the Public Internal Financial Control Strategy is the advancement of IA through the implementation of the professional development program, quality assurance for compliance and updating the legal framework.

The Central Harmonization Unit for Internal Audit is the coordinator of the entire internal audit process which, among other things, monitors public sector entities for the internal control of public finances.

Although 95% of the IAU annual plan was implemented from the individual audits for the internal audit system, we have identified the following shortcomings:

- The actions undertaken by the BOs' management in the implementation of the internal audit recommendations were not satisfactory due to the fact that 59% of the given recommendations were not implemented or under implementation;
- Regulation 01/2019 on the establishment and implementation of the internal audit function sets out the criteria to be met for the establishment of the IAU and sets out the minimum number of auditors that the BOs must have. Based on these criteria we have identified that out of 63 BOs, despite meeting the criterion, the Municipality of North Mitrovica and Leposaviq had not established the IAU. While in terms of sufficient staff with auditors out of 61 BOs that have the IAU (33) of them or 54% had fewer auditors than the regulation provides.
- Of the 61 BOs that had the IAU, four (4)<sup>22</sup> of them had not established the AC in 2021. Further, out of 57 BOs where the AC operated it was noted that in 13 of them the AC had held less than four (4) meetings or did not comply with the AI 01/2019. Also, 25 ACs had not submitted the annual report as required by Article 10 of the AI 01/2019. This indicates that the ACs are still not effective enough to fully support the work of the IAU.

22. Municipality of Ferizaj, Shterpca, Ranilluga, and Constitutional Court

Internal audits continue to remain compliance-oriented and less focused on performance and systems audits.

The internal control system, despite the improvements from last year, is still not at a satisfactory level, so that IAs act as an advisor and mechanisms for preventing errors and mistakes.

### **We recommend the Government**

- to ensure, through MFLT (CHU/IA), that all BOs which are obliged to establish the IAU according to GRK Regulation no. 01/2019 to establish it as soon as possible, through which the efficient and effective functioning of the internal control system will be ensured. BOs that are not obliged to have the IAU, to exercise the internal audit function through other ways provided by this regulation; and
- to ensure, through MFLT (CHUIA) all BOs establish Audit Committees to support the achievement of IAU objectives and that these Committees are effective in holding meetings, annual reports as required by IA and contribute to increasing accountability and strengthening the role of IA.

## **12. Procurement**

Through public procurement, in 2021, 160 CA concluded 9,892 contracts in the amount of over €429, 6 million, of which 7,175 procurement contracts were by the BOs or 73% and 2,712 contracts by Publicly Owned Enterprises or 27%, which compared to the previous year represents a decrease in the amount of 14% (€499,3 million)

The main source of funding for public tenders was the Kosovo budget with 80%, then own source revenues with 19% and 0.4% were financed by donations.

The Central Procurement Agency (CPA) is mandated to operate as the contracting authority on behalf of all BOs, but has not initiated any procurement activity during 2021 due to the lack of a decision by the Government of Kosovo on the list of items for mutual use.

However, CPA has concluded three centralized contracts in the amount of €9.5 million for procurement activities initiated in 2020. In addition, CPA has conducted 82 procurement activities (for 16 IIs) and has concluded the same number of contracts for BOs that do not have the procurement function incorporated within their organization (independent agencies with fewer than 50 employees). The value of these contracts is over €1.6 million or 6.6% higher than in the previous year.

Procurement Review Body (PRB) whose mandate is to review complaints from stakeholders regarding alleged violations of the Public Procurement Law has been non-operational since April 2021 due to the Board's absence. According to the 2021 PRB annual report, a total of 881 complaints were received during the year, of which 255 complaints submitted until April 2021 were reviewed, whilst 626 other complaints or 71% of them remained unaddressed.

The PRB has decided in favour of EO for 43% of cases or 110 procurement activities which have been returned for re-evaluation, 79 decisions have been approved in favour of CA that make up 31% of the total number of reviewed complaints, and 26 others.

The number of submitted complaints during 2021 had a decrease of more than 25% compared to the previous year. However, the activity report in relation to procurement activities remains 1 complaint for every 11<sup>th</sup> tender published. During 2021, the PRB has not imposed any fines for CAs or EOs.

The most common issue that has been observed in public tenders is the entry into contractual obligations without sufficient budget as well as the conduct of procurement activity and the conclusion of contracts (construction) in the absence of major projects).

The National Audit Office has conducted the audit of the Annual Financial Statements of BOs for 2021 which has resulted in various findings related to the planning and tendering phase and that of contract management in the procurement area.

## **Irregularities in Public Procurement**

In the individual audit reports, a total of 92 issues related to procurement were reported, in all phases of the procurement activity, from planning to the management of public contracts. The issues related to the drafting of the tender dossier are a total of 33, shortcomings during tenders' evaluation are 11 and 48 reported issues related to shortcomings in the contracts' management.

These issues are presented in a total of 40 audited entities, 28 of which are for municipalities, eight (8) are for ministries and four (4) are for agencies (independent or executive).

**Table 28 - Repeated weaknesses in public procurement**

Issue	Impact	Actions required by contracting authorities
Entering into contractual obligations without sufficient budget for the implementation of contracts.	Entering into contractual obligations without sufficient funds has resulted in delays in the implementation of contracts or payment of contractual obligations, at once an increase of outstanding liabilities which will be a burden for the following periods.	Strengthen controls by ensuring that prior to the initiation of procurement procedures sufficient funds are budgeted for the implementation of the contracted projects.
The conduct of procurement activity for employment contracts in lack of the main project.	Initiation of the procurement activity in lack of the main project has resulted in an overlook of the legal requirement and may result in additional costs or poor project implementation which in turn may result in poor value for money spent.	To ensure through the procurement manager that no work-related procurement activity is initiated without making sure that the main project exists. Proper preparation for a project by the requesting unit will have a direct effect on the drafting of clear specifications, eliminating the obstacles of both delays and additional costs.
Application of inadequate procurement procedures (price quotation/minimal value procedure/negotiated procedure without publication of the contract notice).	Application of such procurement procedures reduces competition and transparency, makes the contracting authority inefficient and increases the risk of purchasing products at more expensive prices than the market ones.	To ensure that the procurement procedure is in line with the type of purchase. Conduct an open procedure when requests are aggregated in order to avoid minimal value procedures and price quotation. Moreover, ensure to make use of the negotiated procedure only in exceptional cases as provided by law.
Awarding contracts to ineligible economic operators/tender evaluation commissions have overlooked the requirements set in the tender dossier.	Awarding the contract to economic operators who do not meet the requirements of the tender dossier represents discrimination. This may result in complaints from economic operators and consequently prolong the conclusion of the procurement activity. It may also lead to awarded operators not delivering the goods/complete the works according to the quality required.	To ensure that the evaluation commissions comply with the requirements presented in the contract notice/tender dossier, so that only the operators who have met all the conditions are awarded with a contract.

Inadequate commission for acceptance of construction works/projects.	The acceptance of projects in the absence of competent members of the respective commission leads to the risk of accepting works/projects of the lowest quality or not in compliance with the terms of the contract.	To ensure that competent people for the acceptance of works/projects are appointed so that their acceptance is done according to the terms of the contract and the foreseen quality.
Exceeding quantities over 30% in framework contracts	Exceeding of the allowed ceiling may result in contracts not being awarded to the cheapest bidder which can be witnessed only after the contract is executed. This does not make the procurement activity cost-effective. Exceeding of quantities of the set items leads the contracting authority to non-forecasted liabilities.	To ensure that contracts do not exceed the allowed rate of 30%, both in the total price of the contract and also for individual positions within the contract. Contracts that have already exceeded the allowed limits shall be terminated immediately.
Annex contracts up to 10% of the value of the basic contract.	Overlooking the open procedures in cases when additional quantities exceed 10% of the contract value undermines the competition. Moreover, change of the contracted bill-of-quantities and estimates highlights contract weaknesses and controls exercised by the management.	N To ensure that the technical specifications are drafted in harmony with the executive projects and changes shall be approved only for cases allowed by law. Should the need for additional work arise, a detailed analysis of the necessary quantities shall be done. In cases where the needs of the contracting authority cannot be met without making substantial changes to the contract, an open procurement procedure shall be applied in accordance with the legal requirements of the LPP.
Postponement of deadlines/ delays in contract execution.	Delays in the execution of contracts result in inefficiency in the delivery of projects to citizens.	Take all measures to prevent delays, take into account the actions to be taken in the pre-tendering phase (expropriations/ drafting of main projects) as well as the actions after the award of the contract (effective management of contracts, active involvement of contracted authority managers to ensure that contracts are executed as intended).



### We recommend the Assembly

To ensure, through supervisory mechanisms, that procurement activities provide competition and transparency among bidders according to legal requirements and use of adequate procurement procedures to provide more cost-effective contracts.

## 13. Issues related to Covid-19 pandemic management expenditures

In 2021, the budgeted expenditures for the management of the Covid-19 pandemic were €254,291,807, out of which €234,026,687 or 92% were spent. These relate to funds allocated by Government decisions according to the authorisations of the Budget Law of 2021 for: the implementation of the economic recovery program for supporting those who have lost their jobs during the pandemic to return to work; support to formal employees; supporting women's employment; maternity allowance; child support allowances; supporting families for the loss of a relative from Covid-19; loan interest financing; for supporting farmers; supporting the POEs and subsidizing the overcoming of the energy crisis; medical supplies; staff salary remuneration, etc.

**Table 29 - Total of payments for Covid-19 pandemic management**

Description	Budget	Payments	Progress %
Economic Recovery Package (code 00098)	242,036,090€	229,143,042€	95%
Emergency Package ( code 00099)	12,255,718€	4,883,645€	40%
<b>Total</b>	<b>254,291,808€</b>	<b>234,026,687€</b>	<b>92%</b>

The budget and payments for the Covid-19 pandemic management were from the Emergency Package which are presented according to the respective categories in divided as follows:

**Table 30 - Payments for Covid-19 pandemic management- Economic Recovery Package (00098)**

Economic category	Budget	Payments	Progress %
Wages and Salaries	22,750,147€	22,750,147€	100%
Goods and Services	24,691,620€	17,134,297€	69%
Utilities	47,000€	23,894€	51%
Subsidies and Transfers	194,547,323€	189,234,704€	97%
<b>Total</b>	<b>242,036,090€</b>	<b>229,143,042€</b>	<b>95%</b>

**Table 31 - Payments for Covid-19 pandemic management- Economic Package (00099)**

Economic category	Budget	Payments	Progress %
Wages and Salaries	85,539€	68,740€	80%
Goods and Services	10,288,672€	3,693,413€	36%
Subsidies and Transfers	749,013€	695,812€	93%
Capital Investments	1,132,494€	425,680€	38%
<b>Total</b>	<b>12,255,718€</b>	<b>4,883,645€</b>	<b>40%</b>

As shown in the tables above (in both packages), the largest part or 81% of the expenditures were spent in the category for subsidies and transfers, 10% for wages and salaries, about 9% for the category of goods and services and 0.2 % for capital investments.

The Ministry of Finance, the Treasury respectively on 10.12.2020 had issued a circular on the processes and deadlines for the preparation of annual financial statements 2021. In this circular it was requested that the financial statements should contain a separate section (annex), which reports and discloses expenses related to pandemic management (Covid-19), with the necessary explanations for budget transparency. Based on this, BOs disclosed expenditures for pandemic management, with the exception of OPM in the amount of €850,414 and MAFRD in the amount of €19,343,924.

The National Audit Office in December 2021 has published the performance audit report for the supply of medical equipment to respond to the needs of patients with Covid-19. The audit has concluded that public health institutions, despite the challenges, have managed to reorganize and establish some appropriate processes that have helped in providing health services to patients with Covid-19 based on the possibilities and technical capacities and human resources available for treatment of patients.

**We recommend the Ministry of Finance, Labour and Transfers/Treasury**

To ensure that BOs comply with all rules when preparing the AFS and include expenses for the COVID-19 pandemic management.





### III

## Performance and Publicly Owned Enterprises Audits



## 14. Performance, procurement and IT audits

National Audit Office continues to put special focus on performance audits as an important factor in changing and improving citizens' lives. Performance audits assess how efficiently and effectively public funds are being used and to the citizens' benefit. The Assembly and citizens will be able to hold accountable public funds managers through audit results. For the audit season 2021-2022, areas of economic importance, environmental, health, safety as well as public procurement and projects by donors have been covered. Through these audits the NAO aimed to promote efficiency, accountability, effectiveness and public administration transparency.

In recent years, the NAO has given special importance to Information Technology audits. These audits are an examination and review of Information Technology systems and related controls in order to provide assurance on the principles of legality, efficiency, economy, and effectiveness of information systems. This season, information systems with an impact on public institutions and services to citizens are included. During the reporting season, 14 performance audit reports were conducted, including procurement and information technology. Following, the content of these reports is briefly presented, including the audit scope, findings and messages.

### *Subject 1: Hydropower plants licensing system and monitoring of their impact on the environment and water*

Renewable Energy Sources (RES) are an important element of the energy sector in Kosovo and is one of the important forms for the maximum use of natural resources for electricity generation. The responsible institutions, the Energy Regulatory Office, the Ministry of Economy, the Ministry of Environment, Spatial Planning and Infrastructure, shall assure the citizens that the use of water from hydropower plants for electricity generation is carried out in the right way according to permits and licenses and that the protection of the environment and water from this activity is ensured. The audit also included the local level, the Municipalities: Deçan, Mitrovica, Dragash and Shtërpçë.

**Audit message:** *The audit results indicate that the responsible institutions have not managed to protect the environment and water during electricity generation utilising water by economic operators, thus enabling Hydropower plants to operate without implementing the required criteria. The system established by the Energy Regulatory Office has not provided sufficient assurance that all required criteria during the licensing process have been met.*

There is no coordination between the parties for the achievement of voluntary targets for the generation of electricity from water. There is no River Basin Management Plan and no implementation of the concession process during the granting of the right

to use water. There was also a lack of generation licenses for Hydropower plants that had started operating, and they were not equipped with environmental permits and water permits during electricity generation activities. Their construction was not carried out according to the criteria, being built close to the river thus endangering the waters and the environment. Failures and weaknesses in their inspection and follow-up by the inspectorate were evident. These shortcomings have a direct negative impact on water and the environment from hydropower plants and also have a negative financial effect on the well-being of citizens.

### *Subject 2: Management of public funds at Radio Television of Kosovo*

Radio Television of Kosovo (RTK) is the only public broadcaster that offers services to the public in the field of radio and television. It operates with four television channels and two radio stations that broadcast a wide range of programs 24 hours a day on terrestrial and satellite networks. The founder of RTK public institution is the Assembly of Kosovo, whose duty is to/which shall protect the institutional autonomy and provide adequate funding for the execution of the public service mission of RTK. The purpose of the audit was to assess whether Radio Television of Kosovo has properly managed public funds.

**Audit message:** *Radio Television of Kosovo has not properly managed public funds dedicated to human resources and local programs. Shortcomings are identified from the planning, contracting, management and monitoring of human resources work, including regular staff, the engagement of external partners as well as the contracting of local programs. Poor control over the regular staff management, not complying with the Board's decisions by the management, has led RTK to bad financial management totalling to €806,898 for the three years (2019, 2020, and 2021).*

The report states that the engagement of the regular staff was not conducted according to budget appropriations and the recruitment procedures were not complied to. Over 70% of the employee engagements have been concluded for regular job positions, without a transparent and competitive process, by not announcing public competition, on the other hand, these people have not enjoyed the rights of regular employees such as annual leave, meals, etc. The systematization and advancement of the RTK's staff has been accompanied by numerous shortcomings, in certain cases disregarding the decisions of the Board and causing additional costs. In addition, a detailed assessment of the needs of external programs has not been made by the program directors and some of the criteria for the selection of these programs have not been taken into account.



### *Topic 3: Students' assessment in national and international tests*

Primary education is of great importance to the entire community and is a powerful mechanism for sustainable economic growth. To compete and succeed in a highly demanding job market and an ever-growing global economy, it is necessary to invest in students' social skills to learn, solve problems and communicate. To benefit from education, a government puts in place educational mechanisms that help students become part of the world with their skills and knowledge.

The audit purpose was to assess whether the Ministry of Education, Science, Technology and Innovation, the Municipal Directorates of Education (MDE) and schools have taken the necessary measures to improve the current state of student results.

***Audit message:** There are shortcomings in students' assessment methodology and failure to implement the curriculum's requirements. MESTI, Municipal Directorates of Education and schools have not been able to improve the teaching and assessment methods in line with curriculum requirements and best practices issued by European Quality Assurance Agency. Consequently, students continue to partake in classes listening to teachers lecture all class hours and only become active at the end if they have any questions and being evaluated by using multiple questions with alternative response.*

The results of international tests that Kosovo has partaken in show that we are scoring very low compared to other countries (ranking third from the bottom, amongst 77 participating countries), which is an indicator that the results' aim per subjects in the curriculum is not being implemented as intended. On the other hand, Kosovo students have scored relatively well in national tests, but in international tests, such as PISA, they have scored much lower than the OECD average, and the lowest in the region. National achievement test results are relatively high and differ a lot with annual assessment conducted by teachers. Some students with grade of 2 managed to score more than 84 out of 100 points. The Ministry of Education, Science, Technology and Innovation and Municipal Education Directorates have not taken any steps to analyse these differences between international and national tests.

### *Topic 4: Supply with medicines and medical supplies to meet the demands of patients with COVID-19*

The world-wide spread of the novel coronavirus, which first appeared in China and then spread to become a global pandemic, has made the countries of the world facing a serious health challenge causing the loss of many human lives. Because of alarming levels of spread, in March 2020, the WHO declared COVID-19 a pandemic - the spread of the disease over a wide geographical area infecting most of the population. The COVID-19 pandemic has rapidly spread in Kosovo as well. Accompanied by

many obscurities, it caused a never-experienced-before burden on the health system of our country.

The purpose of this audit was to assess the process of supply with medicines and medical supplies to meet the demands of patients with COVID-19. The scope of this audit included the Ministry of Health, the Hospital and University Clinical Service, the University Clinical Centre of Kosovo, Regional Hospital of Prizren, and Regional Hospital of Peja.

**Audit message:** *The supply with medicines and medical supplies has been carried out by public health institutions, partially responding to the needs in addition to the number and needs of patients infected with COVID-19. In spite of these, shortcomings which are largely influenced by the non-functionalization of the Health Information System (HIS) have been identified.*

The report states that health institutions have not provided all the medicines and medical supplies necessary for the treatment of patients with COVID-19. Planning on the quantity or type of medicines and medical supplies necessary for the treatment of patients with COVID-19 is not carried out based on the medicines administered to patients. The Central Pharmacy has not systematically coordinated with subordinate pharmacies when it comes to the quantity of available medicine stockpiles and time projections regarding coverage with those medicines.

#### **Topic 5: Optimizing human resources and medical technical equipment to respond to the needs of COVID-19 patients**

In order to manage the pandemic situation in the country, the Government of Kosovo established the Committee for the Coordination and Evaluation of the COVID-19 Emergency Situation and based on its recommendations, measures for the prevention and treatment of the pandemic have been applied.

The purpose of the audit was to evaluate the optimization process of human resources and medical technical equipment to respond to the needs of COVID-19 patients.

**Audit message:** *The optimization of human resources and technical medical equipment to respond to the needs of COVID-19 patients has been carried out by public health institutions partially responding to the needs in addition to the number of infected patients and being continuously updated with the instructions of international health institutions.*

The report states that health institutions have not provided sufficient health staff to deal with the COVID-19 pandemic. Likewise, health institutions from the audited regional hospitals, except for the Prizren Hospital, did not have an action plan for the management of hospital facilities for the treatment of COVID-19 patients, while

the HUCSK had drafted an action plan in January 2021. HUCSK did not have an action plan for the management of medical equipment necessary to treat COVID-19 patients.

### *Topic 6: Decision-making related to the organizational structure and Alplex branch in Kosovo - System, Transmission and Market Operator - KOSTT*

The Transmission, System and Market Operator (KOSTT j.s.c), operates as an independent entity, the main activity is the management and operation of the transmission and energy system of Kosovo, as well as is responsible for the transmission of energy to high voltage electrical networks. The focus of the audit was to assess whether the decisions related to the organizational structure of KOSTT are according to the criteria established in the legislation and whether the decisions of the APLEX branch in Kosovo were in accordance with its acts. This audit has been completed based on the request of the Assembly of Kosovo.

**Audit message:** *KOSTT has an organizational structure through which it describes the hierarchical levels, the functions of the organizational units and the activities of the company. However, there are some shortcomings during decision-making related to the organizational structure and its follow-up processes.*

In particular, the shortcomings are related to the establishment of new positions outside the organizational structure, the lack of a real analysis and reasonableness regarding the need for changes, as well as the advancement to different positions in KOSTT, bypassing the procedures foreseen for covering these positions. Regarding the decisions of APLEX branch in Kosovo, decision-making was generally based on harmony with the agreement of the shareholders of KOSTT j.s.c. and TSO j.s.c. and in accordance with the Statute of APLEX j.s.c. However, the lack of a formal procedure for the selection and appointment of various representatives and officials has led to certain cases where the selection of candidates for managerial positions is done without transparent and competitive processes.

### *Topic 7: Procurement in the Kosovo Energy Corporation (2018-2020)*

Kosovo Energy Corporation is a joint stock company, with 100% of shares held by the Government of the Republic of Kosovo. Its main activity is electricity generation as well as mining. It is the company with the largest share in the public procurement in Kosovo. During 2018-2020, the Kosovo Energy Corporation has concluded 1,060 contracts at an aggregate value of €181.5 million through procurement.

The National Audit Office has carried out the audit of some of the procurement activities conducted by the Kosovo Energy Corporation during 2018-2020 period. The

audit has covered activities starting from the identification of needs, development of procurement procedures over to the contracts implementation.

**Audit message** - *The Kosovo Energy Corporation has not managed to make effective and efficient use of the public money; there was lack of transparency; and the competition was limited. This has caused some of the objectives set through public procurement not to be achieved. Lack of cost-benefits analysis on the procurement activities/concluded contracts has resulted in KEK continuing to conduct procurement activities that did not contribute to the achievement of objectives.*

Procurement activities were mainly conducted by using the price negotiation procedure, which did not provide transparency in procurement. The negotiated contracts resulted in higher prices than the previous or subsequent contracts concluded through the open tendering procedure. The total extra spending resulting from the negotiated procurements was around €739 thousand.

The requesting units and the procurement office did neither identify the needs nor conduct a market analysis, which resulted in unclear and unmeasurable procurement objectives. Therefore, contracts, the effects of which were unknown when it comes to the achievement of objectives, have been concluded year after year. Out of a total of €377,140 invested on media promotion during the years 2018-2020, KEK only managed to have €59,113 euros returned through the vocational training centre.

Failure to aggregate the needs for buying bearings has resulted in a large number of procurement activities. A total of 34 procurement activities were conducted during 2018-2020 for this type of purchase only.

Projects/contracts managers have failed to actively manage the contracts they were assigned to such as failure to actively supervise the contract implementation, failure to timely update the agreed deadlines, and failure to apply penalties on the occurred delays. The requesting units have faced difficulties at work due to the delays in contracts implementation.

### **Topic 8: Centralized contracts - Air transport services**

This audit covered the period 2016-2019 and aims to assess whether the supply of tickets for air transport services was carried out in accordance with the contracts.

For this purpose, we audited a significant number of these supplies in institutions such as the Office of the Prime Minister, the Ministry of Foreign Affairs, Ministry of Internal Affairs, Ministry of Justice, Ministry of Environment and Spatial Planning and Infrastructure, municipalities of Gjilan, Gjakova, Vushtrri and Suhareka.

**Audit message:** *Some of the budget organizations had incurred more expenditures than originally projected due to the purchase of large numbers of tickets of higher classes than economy class of travel, which were two to six times more expensive than the economy class tickets.*

This audit results show that expenditures for travel in higher classes than the economy class constitute a significant part of the expenditures for air transport services.

The three main factors that impacted the increase in the value of costs for air transport services are business class travel, travel postponements and travel cancellations. The reimbursed amount for cancelled tickets was on average about 59% of the purchase price. This means that about 41% of the value of cancelled tickets are expenses for tickets that have not been used, which contributed to the increase of the total costs of the contracts for air transport services, leading to their early expiration.

### **Topic 9: Management of the project “Union of the city of Ferizaj”**

It is the largest project carried out in the last 20 years in Ferizaj and connects the two sides of the city separated by the railway, making alternative solutions in terms of car and pedestrian traffic around the railway. It includes cars and pedestrians’ underpass. The project amounts to over €5.5 million. The project “Union of the city of Ferizaj” has been available for citizens since July 2021.

**Audit message:** *The Municipality of Ferizaj did not plan and manage effectively the “City Union” project because it took longer and cost more than planned. Likewise, the Municipality has not measured/documented the achievement of the project’s construction objectives and has no information on how the investment has improved the citizens’ lives.*

Weaknesses in the management of the “Union of the city of Ferizaj” project have been identified in all stages starting from planning, procurement procedures, management and achievement of project objectives.

The Municipality had not included the project in the strategic documents, thus diminishing the transparency towards the citizens. The project was not completed on time due to sufficient funds not being budgeted for the execution of the project. Moreover, the Municipality had not taken all the measures to ensure smooth implementation of the project. In addition, it had contracted services/ works at a much higher price than the estimated value of the contracts, limiting competition between economic operators. The Municipality paid the economic operator for uncompleted works whilst the economic operator has completed unpaid works.

Moreover, the Municipality is not informed whether it has achieved the project objectives due to failure to draft a measuring method on the project's impact on the improvement of citizens' lives.

### *Topic 10: Projects funded by DEMOS grants*

In 2017, the Ministry of Local Government Administration and the Swiss Agency for Development and Cooperation (SDC) agreed on establishing and funding a performance grant system for municipalities. The purpose of the Municipal Performance Grant is to encourage municipalities to improve their governance processes, which together with an improved policy framework lead to the provision of better services to citizens. 23 municipalities have benefited from this Grant in the amount of €2.4 million in 2020.

**Audit message:** *The Municipal Performance Grant has generally helped municipalities achieve their strategic objectives and the aim of providing better municipal infrastructure services to citizens has been achieved. The audited municipalities have generally applied the rules and followed the applicable procurement procedures as provided by the Grant requirements.*

However, projects and funds' management by the Grant needs to be paid more attention, starting by setting of priorities, the projects' implementation and the achieved results. We noticed that the procurement process needs improvements in some aspects such as: the inclusion of the project in the public procurement plan, the estimated amount of the contract, the identification of changed positions and the fair treatment of Economic Operators in the tender processes.

Half of the audited projects were not completed on time and were not fully utilized by citizens. Delays in projects' implementation are related to the non-expropriation of private properties and obstacles on time due to the conduct of two other projects at the same time and area.

### *Topic 11: Capital Projects of the System Operator, Transmission and Electricity Market of Kosovo (2015-2021)*

Kosovo's energy sector and the energy transmission system within it, is of particular importance, therefore significant investments have been made, with an effort to achieve long-term development objectives and goals. Since 2008, KOSTT has made capital investments worth about €255 million, of which 78.7 million (over 31%) during 2015-2021. Out of which, €63.8 million, (81%) are from external funding, whilst €14.9 million were funded from the own budget.

**Audit message** –*although there are visible advances in the electro-energetic operating system, KOSTT had not attained some of the set objectives. In addition to the good operation effects, these activities have been accompanied by lack of effectiveness, economy and efficiency. In order to improve the processes of prioritization of capital projects, procurement activities, including contract management, some recommendations have been given to the Board of Directors and the Chief Executive Officer of KOSTT.*

KOSTT has established processes for prioritizing projects that are in line with international practices, but there are shortcomings in the implementation of priorities. This was because some projects assessed as having a high priority, have not been implemented after five years either, while projects of lower priority have been implemented. As a result, at times of high energy consumptions, there may be blackouts in power supply in some regions of the country, when energy consumption is high.

KOSTT failed to properly manage some of the procurement processes due to failure to conduct a good market research prior to compiling the technical specifications, poor segregation of duties and management of public contracts, thus leading in failure to implement the procurement objectives.

According to KOSTT's reports, the contracts' implementation has resulted in reduced loss of energy and undistributed energy, but the lack of inspection of equipment and electro-energy plants of electrical substations may result in unidentified defects in these equipment thus resulting in ineffective investment and the goal of good and safe supply not being achieved.

## Information technology audits

### *Topic 12: Civil Status Information System in the Civil Registry Agency*

The primary purpose of civil registration is to establish the legal documents required by law. Civil registration generates documentation that supports an individual's right to recognition as a person before the law and acknowledges their formal relationship with the state. The Civil Registry Agency (CRA) is responsible for managing the processes related to the application, civil registration, and issuance of documents for citizens of the Republic of Kosovo, foreign citizens and stateless persons, with temporary or permanent residence in the Republic of Kosovo. The audit has assessed whether the administration and information security of the civil status information system of the Republic of Kosovo is maintaining the security and privacy of the data, the integrity and availability of the data.

**Audit message** –*The audit results show that the responsible institutions have not undertaken sufficient actions to establish appropriate and functional information technology governance*



*mechanisms. The system for the protection and security of information does not sufficiently guarantee the continuity of the system and the integrity of the data at all times, and the application controls implemented in CSS do not ensure that only correct and valid data are entered and updated in the system.*

CRA has not established adequate and functional information technology governance mechanisms. The structure and controls in IT operations are not well defined, exposing the organization to the risk of achieving objectives, ensuring the continuity of operation of information systems and the use of electronic equipment. The information protection and security system implemented in CRA does not guarantee system continuity and data integrity at all times. Also, the consulates within the Ministry of Foreign Affairs and Diaspora and the Municipality of Prishtina, as system users, do not guarantee that they have properly preserved the integrity and confidentiality of the data in the information system. The application controls implemented in CSS do not ensure that only correct and valid data are entered and updated in the system. As a result, there are citizens who are registered twice and are equipped with two personal numbers, as well as different citizens registered with the same book number. There is also a lack of coordination between CSS and the Cadastral Agency's database for address registration.

### **Topic 13: Payroll Management System**

In 2004 Kosovo's Government has put into operation the Payroll System which since 2015 is managed by the Kosovo's Treasury within the Ministry of Finance, Labour and Transfers. All employees in the public sector in the Republic of Kosovo are paid through this system. An average of eighty-three thousand (83,000) salaries are administered every month and about 30% of state budget expenditures are managed within this system. The Treasury of Kosovo is responsible to provide the payroll system's effectiveness and that the calculation and execution of salaries is done according to the applicable legislation. The Treasury of Kosovo within the Ministry of Finance, Labour and Transfers was included in the audit.

**Audit message** – *The audit results have highlighted that the salary execution process as well as the system for its management needs improvement, in order to increase data effectiveness and accuracy. There is no proper organizational structure, no documentation of the processes and no sufficient controls for the changes made in this system. Shortcomings have also been identified in the application controls from input data entry, salary processing, and information security in this system.*

The Kosovo's Treasury does not have an adequate organizational structure for proper functioning of the payroll system, and the work process was not based on strategic objectives, leading to the risk of not fulfilling the objective for payroll management



for the public sector. The payroll management system has no documentation of the processes and there are no sufficient controls for the changes made in this system. This increases the risk of errors, unapproved or accidental changes in the system, as well as increases the dependence on an individual, risking that the system will not continue to support Treasury operations. There were shortcomings in application controls from the input data placement, payroll processing as well as information security in this system. This increases the risk of possible errors during payroll processing, affects work efficiency and risks data integrity.

#### *Topic 14: Follow-up of the implementation of the recommendations for the Kosovo Financial Management Information System - KFMIS*

The Kosovo's Treasury manages the electronic system "Informative System for the Management of Finances of Kosovo (KFMIS)", which is a centralized system for all public finance processes of the Kosovo's Government and is used by all budget organizations at all levels, central as well as local. This system provides a detailed chart of accounts for public finances in the Republic of Kosovo, which enables the codification and control of all financial transactions. This follow-up audit aims to assess the level of implementation of the recommendations given in the 2020 Annual Audit Report related to KFMIS. The Ministry of Finance, Labour and Transfers and the Treasury, as well as the Municipality of Obiliq and the Ministry of Internal Affairs, end users, were included in this audit.

**Audit message** -*The audit results show that the responsible institutions have made progress, however insufficient, in implementing the recommendations. Out of thirteen given recommendations, six of them have been implemented, one is in the process, whilst six other recommendations are still unimplemented although actions have been taken according to the time frame.*

The Treasury and the Ministry of Finance, Labour and Transfers have shortcomings in providing information security mechanisms. IT positions have not yet been harmonized in relation to their privileges and access to IT systems. The administration of databases through contractual obligation has not been provided yet. There is no IT officer for the continuous security and monitoring of information and audit trails. Cyber security test (Penetration test) for protection against system vulnerabilities in the network of the Ministry of Finance, Labour and Transfers has not been carried out on a regular basis. The application controls implemented in KFMIS are not sufficient to ensure that only correct and valid data is entered into the system. The Treasury has not yet managed to implement the recommendation for the validity of the fields during the recording of input data. In KFMIS, the Regulation on the Management of Non-Financial Assets is not implementable, so that an expense on capital asset could be registered in the respective registers as added value to the capital asset.

The Treasury has not managed to assess the users' needs and ensure that this system provides complete and sufficient reports for its efficient use.

In 14 performance audit reports, the National Audit Office has given 144 recommendations on the improvement of various aspects in the public administration.

### **We recommend the Assembly of Kosovo**

To review the performance, procurement and information technology audit reports, through COPE, and to hold the heads of public institutions to account for the implementation of performance audit recommendations.

### **We recommend the Government and municipalities**

To analyse the recommendations resulting from performance and IT audits, as well as prepare and monitor action plans for their implementation. Monitoring of implementation of recommendations shall be established by assigning and holding accountable the relevant functions in the organization through regular reporting on corrective actions.

## **15. Publicly Owned Enterprises**

In addition to budget organizations, the National Audit Office for 2021 has also audited the Annual Financial Statements of 12 Public Enterprises (POEs). Out of which, five (5) were subject to audit for the first time by NAO, whilst another seven (7) were subject to audit in previous years. Selection criteria for the audit of these enterprises were: budget/revenues size, number of employees, complexity of the service activity, poor financial condition, public interest, etc. Of which, five POEs are of central level, five POEs of regional level and two POEs of local level.

The audit of these public enterprises revealed that the Financial Management and Control system needs significant improvements. Modified opinions were provided for all public enterprises. The modified opinions given for the financial statements indicate the poor quality of information and shortcomings in the reporting field. Meanwhile, the findings in the field of performance and the implementation of legality, are indicators that changes and improvements in management should be subject to deep reforms. The existing processes for preparing the annual financial statements were not effective. This, because the results of the asset registration were either incomplete, or the accounting inventory reports were lately submitted, and

the transfer of other accounting data in the Financial Statements were incorrectly reported and lacked information. Due to this, modified audit opinions were given, the financial statements had material errors, pervasive in many areas, and they did not give a true and fair view of accounts in any of the audited enterprises.

On the other hand, the negative financial trend noted in recent years in these enterprises, indicated the need for a comprehensive analysis on the part of the management, but also of the shareholders. The government and the municipalities in which these public enterprises operate should work closely with the respective heads in the analysis of the situation and the proposal of measures for the rehabilitation of the existing situation, prior to their operational continuity and existence being questioned.

It is worth noting that in 2021 some improvement measures have already been taken by the Government by appointing enterprises' board of directors. New boards with a full mandate have been appointed in some of them. However, temporary board appointments were also done until the election of new boards according to legal procedures. There have been changes and new appointments of senior management. However, whether there will be improvements as a result of these changes is expected to be seen in the near future.

In order to improve the existing processes of preparing financial statements and the current management practices of Public Enterprises, we have given a considerable number of recommendations, which have been presented in individual audit reports and addressed to the people in charge of the governance of POEs, as well as to their shareholders. The Unit for Monitoring Public Enterprises also monitors their operational activity during the year, but also the aspect of financial reporting and on a regular basis informs the Government of their general situation.

A more detailed analysis on the key indicators of the activity of these enterprises is presented in the following chapters of this report, while the quality of financial reporting is provided through the opinions given below.

## 15.1 Obligations of POEs for annual financial reporting

During this audit season, we found that 8 of the 12 audited public enterprises did not prepare their annual financial statements on time, or did not have the statements approved by their management boards within the legal deadline of March 15. Delays beyond the legal deadlines in submitting the final financial statements to NAO were from 6 to 43 days<sup>23</sup>.

23. Ibër - Lepenc" sh.a - Pristina 6 days, Kosovo Railways - InfraKos, s.a 27 days, Posta e Kosova. sh.a 28 days, Public Enterprise Housing - Prishtina 28 days, Public Enterprise "Termokos" - Prishtina 35 days, KRM "Unity" sh.a - Mitrovica 35 days, Telecom of Kosovo, sh.a 37 days, KRU "Prishtina" sh.a - Pristina 43 days.

In addition to delays, in two cases the Financial Statements were not approved by the Board, because until the reporting date, the Board of Directors of these two companies was not yet established (HEE “Ibër - Lepenc” j.s.c, and RWC “Prishtina”<sup>24</sup>).

Regarding the abovementioned delays in submitting the statements, the management’s explanations were that boards of directors were incomplete in certain cases, board meetings were rarely held (once a month) and they neglected to meet the legal obligation due to various reasons. Due to these delays, the NAO had to revise its work plans, and no audit could be carried out as originally planned. We have reported these delays in all individual reports and we believe that in the following years the reporting will be done according to the defined legal framework.

## 15.2 Audit opinions on the Financial Statements for the last two years

The following table provides an overview of the opinions given for the AFS for 2021 and 2020 audited by NAO.

**Table 32 - Opinions given on financial statements for Public Enterprises**

No.	Audited entities	Audit opinion for 2021 and 2020	
		2021	2020
1	Post of Kosovo J.S.C.	Qualified	Adverse
2	Public Housing Enterprise - Prishtina	Qualified	Unmodified
3	RWC “Hidromorava” J.S.C. - Gjilan	Adverse	Adverse
4	RWC “Hidroregioni Jugor”, J.S.C. - Prizren	Adverse	Qualified
5	Public Enterprise “Termokos” J.S.C. - Prishtina	Adverse	Unmodified
6	Kosovo Railways - InfraKos, J.S.C.	Adverse	Qualified
7	HEE “Ibër - Lepenc” J.S.C. - Prishtina	Adverse	Qualified
8	RWC “Uniteti” J.S.C. - Mitrovica	Adverse	Disclaimer of opinion
9	RWC “Prishtina” J.S.C. - Prishtina	Adverse	Adverse
10	Kosovo Railways - TrainKos, J.S.C.	Adverse	Qualified
11	Kosovo Telecom, J.S.C.	Adverse	Adverse
12	RWC “Pastrimi”, J.S.C. - Prishtina	Adverse	Adverse

As shown in the table above, compared to 2020, there were improvements in the quality of reporting only in the Post of Kosovo j.s.c. and RWC “Uniteti” j.s.c. -

24. The Board of Directors of these two companies were established while we were conducting the audit (June 2022).

Mitrovica, while in all other cases the audit opinions were the same or worse than in the previous year. This is an indicator that in terms of reporting quality, the financial statements do not present the true balance of accounts and performance. The other issue that had an impact on this negative trend of opinions is the fact that in some of these enterprises the audit was carried out by private firms, which used different audit methodologies and approaches than the one applied by the National Audit Office. This happened in the following, HEE "Ibër - Lepenc"; Termokos; and PHE.

In addition to the financial audit, which aims to give an answer to the question whether the Financial Statements present transactions and events fairly, we have also audited the compliance aspect whether the processes and underlined transactions are in compliance with the audit set criteria. When it comes to the extent publicly owned enterprises have complied to with laws and regulations, we have given the audit conclusion in each individual report, which is otherwise handled as a compliance opinion.

The following table presents the conclusion/opinion of compliance for the last two years.

**Table 33 – Compliance conclusions given to POEs**

No.	Audited entities	Compliance Conclusion	
		2021	2020
1	RWC "Hidroregjioni Jugor", J.S.C. - Prizren	Unmodified	Qualified
2	RWC "Hidromorava" J.S.C.- Gjilan	Unmodified	Unmodified
3	Public Housing Enterprise - Prishtina	Qualified	Not applicable
4	Post of Kosovo J.S.C.	Qualified	Unmodified
5	Kosovo Railways - InfraKos, J.S.C.	Qualified	Not applicable
6	HEE "Ibër - Lepenc" J.S.C. - Prishtina	Qualified	Not applicable
7	RWC "Uniteti" J.S.C. - Mitrovica	Qualified	Not applicable
8	Kosovo Railways - TrainKos, J.S.C.	Qualified	Qualified
9	Kosovo Telecom, J.S.C.	Adverse	Adverse
10	RWC "Pastrimi", J.S.C. - Prishtina	Adverse	Adverse
11	Public Enterprise "Termokos" J.S.C. - Prishtina	Adverse	Not applicable
12	RWC "Prishtina" J.S.C. - Prishtina	Adverse	Adverse

As seen in the data comparison in the above table, only RWC “Hidroregjioni Jugor”, J.S.C. - Prizren has made positive progress in improving legal irregularities, receiving an Unmodified Conclusion. RWC “Hidromorava” J.S.C-Gjilan has maintained the same status, receiving an Unmodified Conclusion two years in a row, whilst all others have a Qualified or Adverse conclusion.

The phrase “not applicable” means that during 2020 these organizations were audited by private firms and they did not provide compliance opinions, but only financial statement opinions.

Referring to compliance opinions, the audit’s conclusion is that most of the public enterprises had numerous legal irregularities during 2021, in particular four of them listed in the lower part of the table. The situation remained almost the same during 2020.

#### **We recommend the POEs’ Boards of Directors and Shareholders:**

- Boards of Directors and the management should strictly adhere to Law no. 03/L-87 for Public Enterprises, Article 31.3 which stipulates that the POE’s Board of Directors shall review, modify as may be deemed necessary and approve within 30 days after receipt of annual report. The annual reports, including the financial one, should be approved by the Board by March 15, and on the same day the financial statements should be complete for audit by the external auditor;
- The Boards of Directors shall review in detail the financial statements’ information when scrutinising the financial statements and make sure that they are free from errors, supported by accounting evidence and that they meet all the requirements of the financial reporting framework; and
- The respective shareholder commissions shall strengthen the Boards of Directors and the management’s accountability and provide answers as to why financial statements have not been prepared and approved timely and why financial reporting was not in compliance with the respective standards. The shareholders’ commissions should without further ado fill the positions of the temporary Boards members and senior managers in order to avoid all gaps in the enterprises’ structures.

### 15.3 Previous year recommendations and level of implementation

The table below shows the number of given recommendations and the level of their implementation for 2020 for public enterprises.

**Table 34 - Implementation of the recommendations given during 2020**

No.	Auditees	Total recommendations (a)	Implemented (b)	Partially implemented (c)	Not implemented (d)	Closed (e)
1	RWC "Hidroregjioni Jugor", J.S.C. - Prizren	3	3	-	-	0
2	Public Enterprise "Termokos" J.S.C. - Prishtina	7	3	-	4	0
3	Post of Kosovo J.S.C.	8	4	1	2	1
4	Public Housing Enterprise - Prishtina	4	3	-	-	1
5	Kosovo Railways - InfraKos, J.S.C.	12	5	-	-	7
6	RWC "Hidromorava" J.S.C. - Gjilan	17	13	-	4	0
7	HEE "Ibër - Lepenc" J.S.C. - Prishtina	7	6	-	1	0
8	RWC "Uniteti" J.S.C. - Mitrovica	17	12	1	4	0
9	RWC "Prishtina" J.S.C. - Prishtina	28	5	-	16	7
10	Kosovo Railways - TrainKos, J.S.C.	9	5	-	2	2
11	Kosovo Telecom, J.S.C.	17	4	3	9	1
12	RWC "Pastrimi", J.S.C. - Prishtina	23	7	1	15	0
<b>Total recommendations</b>		<b>152</b>	<b>70</b>	<b>6</b>	<b>57</b>	<b>19</b>
<b>Total recommendations for implementation (a-e)</b>		<b>133</b>	<b>53%</b>	<b>4%</b>	<b>43%</b>	

As seen in the table above, 19 recommendations are closed (of which 12 recommendations given in 2020 for Kosovo Telecom regarding the audit of the information system have not been tested during 2021 because the company was given a longer period of time to address them and their testing will be done in the following years audits. The rest of the closed recommendations are due to the issues merging/recommendations). Out of the remaining recommendations for implementation, 70 of them were implemented, 6 partially implemented and 57 of them were not implemented at all.

Regarding the implementation of the recommendations, numerous discussions have been held with all the managers of public enterprises on how to make the implementation of these recommendations easier, and an increased commitment has been observed from all of them to address the issues arising from the audit. In particular, it has been discussed on how to prepare qualitative Action Plans.

According to an analysis carried out for the years 2018 and 2019, it was found that the number of recommendations implemented in 2019 was significantly higher than in 2018. The implementation rate had increased from 42% in 2018 to 54% in 2019. This is an indication that Public Enterprises are increasingly understanding the importance of auditing and have increased their commitment in dealing with recommendations.

**Table 35: Status of recommendations given during 2021**

No.	Company name	Total recommendations given	New recommendations	Repeated recommendations	Partially repeated recommendations
1	RWC "Hidroregjioni Jugor", J.S.C. - Pz	8	8	-	-
2	Public Housing Enterprise, J.S.C.	13	13	-	-
3	Kosovo Railways - InfraKos, J.S.C.	15	15	-	-
4	RWC "Hidromorava" J.S.C.-Gjilan	12	8	4	-
5	Kosovo Railways - InfraKos, J.S.C.	10	8	2	-
6	RWC "Prishtina" J.S.C. - Prishtina	19	3	16	-
7	Public Enterprise "Termokos" J.S.C. - Prishtina	31	27	4	-
8	HEE "Ibër - Lepenc" J.S.C. - Prishtina	12	11	1	-
9	RWC "Uniteti" J.S.C. - Mitrovica	26	21	4	1
10	RWC "Prishtina" J.S.C. - Prishtina	23	7	15	1
11	Post of Kosovo J.S.C.	9	6	2	1
12	Kosovo Telecom, J.S.C.	29	17	9	3
	<b>Total recommendations given</b>	<b>207</b>	<b>144</b>	<b>57</b>	<b>6</b>



The number of recommendations given for 2021 has increased significantly compared to 2020, from 152 to 207 or by 36%. This mainly occurred due to some of the enterprises being audited by private firms last year, which have not conducted a compliance audit. Most of the recommendations were given for the Financial Statements and less for the compliance aspect, which means that the reporting needs substantial improvements.

## Analysis of the Financial Situation in POEs

Although more details on the public enterprises' financial situation can be obtained from the statements attached to the individual reports, this chapter summarizes the main indicators of their financial performance and situation at the end of 2021. For analysis purposes, revenues, expenses, financial result, long-term and short-term liabilities and the history of profit and losses carried over from previous years have been examined.

**Table 36 - The main financial indicators of audited POEs for 2021**

No.	Audited entities	Revenues	Expenses	Profit/ Loss	Short term liabilities	Long term liabilities	Accumulated profit/loss
1	RWC "Hidroregjioni Jugor", J.S.C. - Prizren	5,568,559	5,375,381	193,178	2,728,862	21,322,924	(4,568,108)
2	Public Enterprise "Termokos" J.S.C. -	9,588,862	7,716,147	1,872,715	2,408,730	32,144,207	4,949,311
3	Post of Kosovo J.S.C.	10,516,609	12,446,099	(1,929,490)	2,995,995	0	(22,537,762)
4	Public Housing Enterprise, J.S.C.	5,039,518	4,026,446	1,013,073	241,771	910,887	4,797,605
5	Kosovo Railways - InfraKos, J.S.C.	3,157,012	3,316,143	(159,131)	21,217,679	15,200,294	(3,408,913)
6	RWC "Hidromorava" J.S.C.- Gjilan	2,243,597	2,283,690	(40,093)	323,260	5,005,652	(602,207)
7	HEE "Ibër - Lepenc" J.S.C. - Prishtina	6,372,090	9,333,803	(2,961,713)	2,407,116	3,612,712	(56,340,835)
8	RWC "Uniteti" J.S.C. - Mitrovica	2,175,042	2,109,923	65,119	2,513,310	0	(40,656)
9	RWC "Prishtina" J.S.C. - Prishtina	16,572,658	17,724,684	(1,152,026)	5,923,473	37,823,034	(11,833,288)
10	Kosovo Railways - TrainKos, J.S.C.	4,031,508	4,288,796	(257,288)	1,473,095	695,019	(2,232,262)
11	Kosovo Telecom, J.S.C.	58,903,000	69,732,000	(10,829,000)	70,353,000	7,673,000	(76,264,000)
12	RWC "Pastrimi" J.S.C. - Prishtina	8,225,174	7,953,020	272,154	1,250,380	0	7,079,524

**Financial result (profit/loss)** - From the table above, it can be seen that out of 12 analysed organizations, seven (7) of them have operated with a total loss of €17.3 million, while the other five (5) have shown a profit of €3.3 million.

Kosovo Telecom had the biggest loss in the amount of €10.8 million or 62% of the total loss, whilst Termokos had the biggest profit in the amount of €1.9 million or about 49% of the total profit.

**Accumulated loss**- represent the company's consistent loss accumulated during previous years. From the data in the last column of the table, it can be seen that the accumulated loss of these 12 POEs amounts to €177.8 million, with a lion share of €76.3 million or about 43%, belonging to Telekom; HEE "Ibër - Lepenc" with €56.3 million or 32%; Post of Kosovo with €22.5 million or 12%; while all others with €22.7 million or 13%. Unlike them, POE "Termokos"; Public Housing Enterprise; and RWC "Pastrimi" had carried-forward profits.

Accumulated loss may adversely affect equity reduction. These also affect the reduction of dividends, reduce the company's ability to pay debts and the ability for new investments and expansion of the material basis. This is an indication that the company is financially unstable due to having a funds deficit and not being able to generate money for regular activity financing. This also causes difficulties in getting loans because creditors or banks are not sure on loans repayment.

**Short-term liabilities**- are financial obligations that should be paid within one year and are classified as current liabilities. Short-term liabilities are: accounts payable, accrual expenses, tax payable, short-term debts, short-term loans, customer deposits and other obligations with a payment term within one year.

The short-term liabilities for the 12 audited companies amount to €114 million, which as such should be paid within the year 2022. Three companies comprise most of these liabilities (84%): Telekom with €70.3 million or 61%; Infracos with €21.2 million or 18%, and RWC Prishtina with €5.9 million or 5%. Whilst the remaining part of €18.1 million or 16% consists the short-term liabilities of nine (9) other POEs. The liquidation of these liabilities, especially from Telekom and HK Infracos, is almost impossible, because their annual revenues are significantly smaller than the total liabilities, but RWC Prishtina does not stand in a better position either.

According to the figures presented in the table, except for the Public Housing Enterprise and RWC "Hidromorava" J.S.C - Gjilan, which seem to have a higher liquidity, all other companies will face serious challenges in the liquidation of short-term liabilities.

**Long-term liabilities-** are financial obligations or non-current liabilities which are listed in the balance sheet as liabilities whose payment term is longer than one year. This includes loans for fixed assets, liabilities to securities, liabilities to commitments or mortgages and other obligations that should be paid in a term longer than one year.

Long-term liabilities for the 12 POEs at the end of 2021 were circa €124 million, or about 9% higher than short-term liabilities. Since the disclosure statement contains many information gaps, we were not able to provide any analytical data within how many years these liabilities should be returned, what amount should be returned during 2022, and other information about the timing of their depreciation.

## Conclusions

Based on the results of individual audits, it results that the problems of publicly owned enterprises are numerous and their financial situation is extremely difficult. The main issues for attention and that require special addressing are:

- **Failure to comply with legal deadlines for financial reporting-** Delays in the preparation and timely submission of financial statements by the management and their approval by the Boards of Directors, where most of these enterprises have had significant delays in fulfilling this legal obligation. This has also impacted the review of audit plans;
- **Poor Quality of Financial Statements-** The financial statements were untrue and had a poor information quality. This is indicated in the given audit opinions, where all of them have qualified or adverse opinions, and none of them has unmodified opinion. The compliance conclusions situation stands better, where two of them (Hidroregion - Prizren and Hidromorava - Gjilan) have unmodified conclusions, whilst others have qualified or adverse conclusions. This is also characterized by the increased number of findings and given recommendations, especially during 2021. Modified audit opinions reduce to a critical degree the credibility of creditors, banks and investors in the enterprises' financial reports and the opportunities for getting new loans and investments are quite uncertain;
- **Insufficient level of implementation of recommendations in previous years-** For 2020, only 53% of the recommendations were implemented, 6% were partially addressed, while 43% were not implemented. During 2021, the number of given recommendations compared to 2020, has increased from 152 to 207 or about 36%;
- **Unfavourable financial results-** Seven (7) publicly owned enterprises had

a negative financial result, respectively a €17.3 million loss, while five (5) achieved a positive financial result with a profit of €3.3 million. The reported profits are more a result of adjusting the statements at the yearend than of any stable financial business. Accumulated loss over the years represents an alarming figure of around €178 million, and this best describes the business trends in this sector over the last few years.

- **High amounts of unpaid liabilities-** The total unpaid liabilities of these enterprises amount to more than €238 million, of which €114 million short-term liabilities that should be paid within a year. Considering the fact that the total revenues were around €132 million, the eventual payment of these short-term liabilities seems quite difficult, even impossible. When the instalments of long-term loans and other liabilities created during 2022 are added to this, the situation becomes even more complicated.
- **Unfavourable structure of accounts receivable -** Total accounts receivable at the end of 2021 was about 50 million euros provided that had they been fully collected, they would have covered the payment of short-term liabilities up to 44% only. However, the structure of these accounts is quite unstable, due to most of them being aggregated accounts since the post-war period until today, the probability of their collection is minimal, and the majority of them are time-barred requirements. Taking into account the fact that the Law on Obligational Relationships determines that the requirements for the supply of electricity, thermal energy, gas, water, cleaning services, radio and television, the requirements of the post office and telecom companies, water supply services for household consumers are requirements that are time-barred after one year, it turns out that the majority of accounts receivable are doubtful, and unless companies undertake actions to collect at least the 2021 invoices within a year, they will be time-barred and collected never.
- **Failure to timely record, stocktake, and revalue assets -** Most POEs have numerous problems with assets. Some of them do not recorded their own assets in the accounting registers, some conduct the stocktaking of assets at the yearend, but do not reconcile the inventory reports with the accounting books and the yearend rectifications are not made, which should also be reflected in the financial statements.

Assets revaluation is a common issue identified in all POEs. According to standards, assets should be revalued every five years at least. The assets reported in the financial statements have not been revalued for more than ten (10) to fifteen (15) years, and their book value and market value have large differences, so that the depreciation calculation is not even approximately

correct, nor their net worth kept in the books. This affects both, the presentation of assets in the balance sheet and the Statement of Income when it comes to depreciation expenses, which leads to untrue presentation of the profit or loss of the company. Senior management of these enterprises justified the failure to revalue the assets with the lack of funds, as this process has a very high cost which these companies cannot afford.

- **Low liquidity of payments** - The total of short-term liabilities amounts to €114 million euros, not including another €124 million that must be paid in periods longer than a year. Taking into account that the total annual revenues of all enterprises are about €132 million, it turns out that more than 86% of the revenues that can be generated during the year should be spent to liquidate these liabilities. This is certainly a big burden for the enterprises, as they need to start the business year by paying off these liabilities while having high budget deficits and poor cash flow.

### **We recommend the Government, Board of Directors and the Shareholders Committee to:**

- apply more measures of accountability on the management regarding the implementation of audit recommendations, particularly those of high priority;
- analyse the financial performance and the reasons behind the losses suffered so far and to propose remedial policies and measures depending on the factors identified;
- analyse the structure of outstanding liabilities and prioritise the payments by the aging of liabilities, the importance strategic suppliers have for the company, and the need to enter into new liabilities. The Government and other shareholders (municipalities) need to intervene and grant more subsidies to prevent these enterprises from bankrupting, as they deliver public services that are vital to the citizens;
- scrutinise the structure of accounts receivable, the age of accounts, the actions taken for collection, and the clients solvency as well as to clean up the doubtful accounts kept in the journals for many years and having no change to be collected. However, priority should be given to the collection of invoices within the last 12 months, because if enforcement procedures have not been initiated earlier, then the chances to collect the debts older than one year are minimal and, as such, they might become time-barred or never be collected; and
- undertake measures so that the revaluation process is carried out within an optimal timeframe. Given that the reason behind failure to carry out the valuation was lack of funds, the Government and municipalities should provide financial support to this process.





## IV

### Implementation of recommendations





## 16. Implementation of recommendations

The importance of audit reports lies in identifying weaknesses in governance systems, especially financial ones, while the implementation of audit recommendations serves as a mechanism for remedying these weaknesses and making systems more efficient and effective in achieving objectives. Analyses in this area have shown that the current level of implementation of audit recommendations is not satisfactory.

Having received the AAR for 2020, the Government prepared an action plan for the implementation of the recommendations.

At the level of individual audits, most budget organizations do not implement a systematic process for monitoring the implementation of recommendations. Compared to 2020, the number of recommendations given to budget organisations has increased, yet the level of implementation of recommendations remains almost the same. The number of fully implemented recommendations is at the level of 50%, whilst the rest of the recommendations are under implementation or not implemented yet, including recommendations from previous years. In addition, a number of recommendations have been handle recommendations no longer applicable because of the amendments to the legal basis, structural changes of ministries and the consolidation/merging of similar recommendations.

Setbacks in fully implementing the recommendations leads to repetition of controls weaknesses and shortcomings and the systematic recurrence of irregularities from year to year. The causes and reasons behind poor progress are various, which will be explained below.

The audit impact is measures with the level of implementation of recommendations and is the best indicator to show as to whether the management is improving the existing process and controls over the areas shortcomings have been identified in. NAO, through individual audits, conducts an assessment of implementation of the recommendations given in the previous year and earlier years, clearly reflecting the areas in which remedial measures and actions have been taken as well as the areas where more actions need to be taken to improve further.

In the AAR on AFR/BRK for year 2021, we have given a total of 35 recommendations, of which 5 to the Assembly of the Republic of Kosovo, 22 to the Government, and 8 to the Government/ Boards of Directors/ Committees of Shareholders.

Annex I of the report provides complete information on the progress of the recommendations given in the AAR, while Tables 37 and 38 show the recommendation statistics for individual organizations.

## 16.1 Implementation of recommendations given in the 2020 AAR

In the AAR for year 2020, the Auditor General recommended that the Assembly request a report from the Government regarding the recommendations given and prepare and prepare an action plan for the implementation of the recommendations given in the 2020 AAR, as well as reports regarding the progress of this plan on a six-monthly basis.

In September 2021, the Government of Kosovo approved the Action Plan on implementation of the recommendations, which obliges all BOs to implement it. The same was sent to the Assembly of Kosovo/COPF to review the progress on recommendations.

Based on the information collected during the audit process of the budget statements as well as from individual audits, we may conclude that the actions taken by the Assembly of Kosovo, the Government and other institutions, have not been sufficient to ensure a satisfactory level of implementation of recommendations.

Of a total of 54 recommendations given in the 2020 AAR, 12 have been fully implemented, 10 were under implementation and 32 were not addressed yet. Annex I shows detailed data on the recommendations given in the 2020 AAR.

Failure to implement the recommendations has led to the recurrence of certain weaknesses and irregularities, especially in areas such as:

- Poor preparation of the AFS;
- Shortcomings in the procurement procedures;
- Shortcomings in assets management;
- Poor management of revenues, expenditures, contingent liabilities;
- Shortcomings in subsidies procedures; and
- Poor functioning of audit committees and IAUs.

## 16.2 Implementation of recommendations given in the individual reports 2020

Assessing the implementation of recommendations is a constituent part of the audit process. The assessment of how and to what extent they have been implemented is made for each budget organization during the regular audit, and the results for the previous year are presented in the audit reports for the following year.

The following table presents data on the state of recommendations for 2020 and 2019, which are categorized by auditees.

Auditees have been divided into: Central level institutions<sup>25</sup>, Independent Institutions<sup>26</sup> and Local level institutions (38 municipalities).

The following tables show the number of recommendations given and the percentages of their implementation.

**Table 37 – Implementation of AG recommendations for year 2020<sup>27</sup>**

Auditees	Total no. of recommendations in 2020	Recommendations no longer applicable <sup>28</sup>	To be implemented	Implemented		Partly implemented		Not implemented	
	Nr.	Nr.	Nr.	Nr.	%	Nr.	%	Nr.	%
Central level institutions	237	28	<b>209</b>	123	59%	14	7%	72	34%
Independent institutions	46	2	<b>44</b>	31	71%	1	2%	12	27%
Local level institutions	371	8	<b>363</b>	152	42%	15	4%	196	54%
<b>Total of recommendations</b>	<b>654</b>	<b>38</b>	<b>616</b>	<b>306</b>	<b>50%</b>	<b>30</b>	<b>5%</b>	<b>280</b>	<b>45%</b>

25. Assembly of Kosovo, Office of the President, Office of the Prime Minister,, 15 ministries, Health Insurance Fund, Tax Administration of Kosovo, KC and HUCSK.

26. Independent institutions include the University of Prishtina and 28 institutions.

27. The total of recommendations does not include the number of recommendations no longer applicable, based on which the % of their implementation has been calculated.

28. Recommendations that are no longer applicable result from the merger of Ministries, changes in legal acts or the merging of two recommendations into one.

Table 38 - Implementation of AG recommendations for year 2019

Auditees	Total no. of recommendations	Implemented		Partly implemented		Not implemented		No longer applicable	
		No.	%	No.	%	No.	%	No.	%
Central level institutions	266	138	52%	10	4%	71	27%	47	18%
Independent institutions	54	30	56%	0	0%	16	30%	8	13%
Local level institutions	483	197	41%	43	9%	183	38%	60	12%
<b>Total recommendations</b>	<b>803</b>	<b>365</b>	<b>45%</b>	<b>53</b>	<b>7%</b>	<b>271</b>	<b>34%</b>	<b>114</b>	<b>14%</b>

As seen from the tables above, the total number of recommendations given for the years 2019/2020 is declining. However, the level of unimplemented recommendations or that implementation has not started, is still not satisfactory.

In general, BOs prepare the action plans for implementation of recommendations, but they do not follow any formal process of monitoring, evaluating or reporting on the degree of progress. This reflects the lack of responsibility to ensure that recommendations are implemented in a timely manner and obstacles to action are identified and addressed.

In order to have the situation improved, there is a need for increased commitment and accountability from those responsible and regular monitoring of the implementation of recommendations by all BOs.

### 16.3 Implementation of recommendations given in the performance audit reports

The purpose of the recommendations given in the performance audits is to improve the process of implementation and effective functioning of government systems, programs and operations. Recommendations are addressed to the auditees to improve their approach in relation to the spending of public funds.

Through audits performance, NAO has provided the Assembly and the auditees with useful recommendations to improve and increase economy, efficiency and effectiveness in important sectors such as: judicial system, health, environment,

information technology systems, public procurement. Performance audit recommendations have included both central and local government levels.

The monitoring of the implementation of the recommendations given in the individual performance audit reports is done through special audits, also known as the “follow-up phase”. After this process, the results of the implementation of the recommendations were issued.

The AAR for year 2020 gives two recommendations, which have been partly implemented. Annex I of this report shows the situation on the implementation of these recommendations.

### Reasons behind low implementation of recommendations

Lack of formal processes for proper and systematic monitoring of action plans for implementation of recommendations, as well as lack of proper commitment to address them are amongst the main reasons for the low level of implementation of recommendations. The lack of effective oversight by the Government and oversight bodies has also led budget organizations to avoid full and consistent implementation of financial management guidelines, thus resulting in repetition of recommendations.

To increase the recommendations’ implementation level, the Government needs to take additional measures against BOs and the Assembly of Kosovo needs to strengthen the accountability measures.

#### **We recommend the Assembly of Kosovo**

To ensure that the action plan for the implementation of recommendations prepared by the Government is reviewed by the COPF. These plans should set out the actions, deadlines and persons responsible for the implementation of the recommendations and their monitoring. In addition, to ensure that COPF has reviewed the progress made on the recommendations given at least twice a year.

#### **We recommend the Government**

To put in place an effective recommendations’ implementation monitoring process and discuss with BOs all effective measures that can improve the process, in particular those strengthening the accountability and preventing the setbacks in implementation of recommendations.

## ANNEX I: Progress in implementing the recommendations in AAR 2020

Responsible institution	Recommendations given in AAR 2020	Progress in implementation of recommendations Describe what measures have been taken to implement the recommendations		
		Implemented	Partly implemented	Not implemented
	Should strengthen oversight controls over the Government, before the Law on Annual budget Appropriations for the following year is adopted, in order to ensure that all expenses are planned under adequate economic categories, as required by the financial reporting requirements.			According to individual audit reports, cases have been reduced. However, there are still cases of misclassification due to inadequate planning of expenditures.
MFLT / Treasury of Kosovo	Should ensure that requirements for true and fair reporting in the statements of disclosures are met.			Compared to the previous year, the reporting of financial information has improved. However this year there is also a discrepancy between the values presented in the statements of disclosure and the audited individual statements of budget organisations.

MFLT / Treasury of Kosovo	Continue strengthening budgetary controls, in order to prevent budget misclassifications from occurring;			Compared to last year, the value of misclassifications is lower. But, misclassifications in organizations have occurred again. It is worth noting that at the beginning of 2021, there was an increased control over the approval of commitments by the CFO with and without procurement as well as over acceptance of goods, which has to a certain extent prevented budget misclassifications.
MFLT / Treasury of Kosovo	Treasury should ask from the municipalities to send the cash flow plan for carried-forward own source revenues as well, in order to enable a balanced budget funding, always respecting the municipalities' right to allocate these funds on certain projects and time.	In 2021, all BOs have sent their cash flow plans for carried-forward own source revenues to Treasury, based on which allocations and sub-allocations have been allowed in KFMIS.		
<b>Allowed budget deficit threshold</b>				
Assembly of Kosovo	Should ensure that the Government adheres to the budget deficit ceiling during preparation of the budget law.	This recommendation is implemented given that the budget deficit threshold for 2021 has been adhered to.		

## Information Security in KFMIS

<b>Ministry of Finance, Labour and Transfers</b>	<p>Should harmonize IT positions and the Regulation on internal organization and systematization of jobs in relation to their privileges and access to IT systems and procedures by reviewing this Regulation and organizing the IT department in Treasury; In addition to provide for administration of databases only through database administrators who have the duty and responsibility to administer the database through a contractual obligation;</p>			<p>Treasury has taken two decisions and established two working groups which, within the set deadlines, would produce two documents. The first group has finished its work within the deadline on 30.09.2021 and produced the document proposing the Treasury's new organisation structure. The other working group is in the process of producing the regulation on internal organisation and systematisation of job positions, but have not managed to finalise and approve it yet.</p> <p>Actions have also been taken to address the rest of the recommendation. Treasury has sent a request to the EO it had entered into the contract for KFMIS maintenance with, requiring amendments to the contract regarding the database administration. Amending this part of the contract, would enable possible to enable the administration of KFMIS database through contractual obligations. However, by the time of our audit, EO did not respond to this request.</p>
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<p><b>Ministry of Finance, Labour and Transfers</b></p>	<p>In organisational structure of MFLT and Treasury, to foresee and designate the information security officer by reviewing and approving internal regulations, IT and information security policies, in order to determine also their privileges and approaches respectively to the responsibilities of the position to which they belong. Through IT policies and procedures to foresee the implementation of the penetration test for protection against intrusions for systems located in the MFLT network on a regular time basis</p>			<p>Treasury has established the commission, which has prepared the structure which determines the Information Security Officer. It has also established the commission for drafting the regulation for the internal organization, which will draft the regulation as of 30.06.2022, referring to the report dated 30.09.2021 of the working group for the drafting of the structure.</p> <p>The Ministry of Finance, Labour and Transfers has prepared a draft of the new structure wherewith IT Agency for MFLT is established to provide IT services to MFLT and its agencies. This structure is foreseen to include the information security officer and department for MFLT and its agencies.</p> <p>However, due to failure to organise the information security structure and consequent lack of information security budget, they have not managed to define a policy and procedure that foresees the application of cybersecurity testing (penetration testing) to check for exploitable vulnerabilities in MFLT network on a regular basis.</p>
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<b>Ministry of Finance, Labour and Transfers</b>	<p>In addition to network configurations, to carry out network documentation to ensure the continuity of systems (IT Department in MFLT);</p>	<p>In order to implement the NAO's recommendation, the IT Department of MFLT has carried out the network documentation, including the configuration of connection devices for the intranet and internet.</p>		
<b>Ministry of Finance, Labour and Transfers</b>	<p>To continuously organize trainings and campaigns for their employees and all users of KFMIS on the importance and awareness of information security; and to implement the policy of password complexity for user accounts (MFLT and Treasury) in Active Directory (IT Department in MFLT);</p>	<p>Awareness campaigns have been taken for their employees. Users manuals have been prepared and distributed by e-mail and information systems. Treasury of Kosovo has also included in the KFMIS training materials a special part concerning the awareness of KFMIS users on information security.</p>		

<p><b>Ministry of Finance, Labour and Trasnfers</b></p>	<p>To ensure that administrative access to information systems is done through accounts that identify the user and any changes he makes; To store the administrator password in a secure environment.</p>		<p>Treasury produced a passwords management procedure and started implementing it. Based on physical verification of how to store passwords in secured spaces, we conclude that this part of the recommendation has been fully implemented.</p> <p>For administrative access, customised accounts have been created for the KFMIS database. The IT Department in is now using customised accounts to access to network interfacing. This part of recommendation has been implemented as well.</p> <p>Treasury has secured the application for continuous monitoring of audit trails, which is in the testing period. Testing of the servers in use has resulted successful. But, testing of the database has not been completed because they had not yet managed to implement this system for monitoring the activities of accounts with administrative access to KFMIS database. However, the authorised persons with full access to the database have a reserved IP and leave trails of their activities. In addition, officers in charge of monitoring these activities were the same ones appointed as system administrators as well. Thus, this part of the recommendation has been partly implemented. Treasury had not yet appointed the appropriate officer for monitoring the users activities because it was amending the regulation for internal organization, the tasks for this part had not yet been determined.</p>	
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Ministry of Finance, Labour and Transfers	To establish the necessary mechanisms for implementation management procedure of users access to KFMIS. To ensure that users have only one KFMIS account, duplicate accounts must be closed. And ensure that the system is deactivate users who do not use KFMIS. To continuously implement the procedures for access to network for teleworking (Treasury);	Treasury has standardised all user accounts in KFMIS. As a result, it has removed users with two accounts each. It has disabled users who do not use KFMIS. It has also taken the necessary steps to ensure that the KFMIS users access management procedure was implemented continuously, including the procedure for users access to the network when teleworking.		
Ministry of Finance, Labour and Transfers	In KFMIS, to check for the validity of the field of personal identification number, unique identification number and bank account, as well as to connect the system with the information systems of ARC, KBRA and CBK (Treasury)			During the testing, we found that in these fields it is possible to enter the number with more or fewer characters/ numbers than set, personal number (10 characters), NUI (9 characters), bank account (16 characters), and the system accepted the bank account which did not belong to the respective bank. Likewise, in its interfaces, the fields dedicated to certain information are used for other information that does not correspond to that field..

<p><b>Ministry of Finance, Labour and Transfers</b></p>	<p>To review the procedure for registration of suppliers in KFMIS in case the new bank account must be added to the registered supplier, as well as in the KFMIS application a supplier to be registered only once and each new supplier bank account to be added in its existing code (Treasury);</p>	<p>Treasury has reviewed and approved the procedure for the suppliers registration in KFMIS. As of the beginning of 2022, this procedure has been implemented in KFMIS, by registering the supplier into the system only once. When a supplier has more than one bank account, the system field that enables adding the bank account for the same supplier code can be used. When registering the voucher in KFMIS, the list of beneficiary's bank accounts, if there is more than one, is displayed.</p>		
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<b>Ministry of Finance, Labour and Transfers</b>	<p>To create the possibility in KFMIS that the costs of improving non-financial capital assets to be recorded in the relevant registers as an increase in the value of assets (Treasury)</p>			<p>The Regulation 02/2013 on the Management of Non-Financial Assets is not applicable in KFMIS, so that an expense on capital asset could be registered in the respective registers as added value to the capital asset. As a result, budget organisations register the expense made on improving a capital asset to change or upgrade, which extend the useful life of the item or improve its functionality, as a new assets. Treasury applied the option of adding value to the assets in the KFMIS testing system. At present, they are in the system testing stage to implement the improvement expenses to enable the registration as an added value to the asset in the respective assets registers. However, Treasury has not yet determined a methodology, in terms of accounting, as to how to increase the value of the asset, and the depreciation rates for these assets have not been determined.</p>
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<b>Ministry of Finance, Labour and Transfers</b>	<p>To record all published asset class codes in KFMIS, to enable budget organizations to accurately classify assets during registration according to the Chart of Accounts (Treasury)</p>			<p>Treasury has not yet registered all the codes of classes of assets into the system in accordance with the list published on the webpage. As a result, BOs, while registering non-financial assets in KFMIS, and the adequate code of the class of asset is not in the list, are obliged to classify that asset either under the code with the most suitable name or under the “other assets” class of assets. Treasury has identified the chart of accounts’ classes of assets which are lacking in the KFMIS, but the depreciation rate for these classes has not been defined.</p>
<b>Ministry of Finance, Labour and Transfers</b>	<p>To implement in KFMIS the control function for the identification and rejection of transactions with identical data (Treasury)</p>	<p>Treasury has put in place the function that rejects the registration of a voucher with the same data for more than once. When creating the voucher, which is created manually to record the expense and automatically through the mass payment import function, the system performs the verification to identify and reject the data on the expenses made by the organization.</p>		

<b>Ministry of Finance, Labour and Transfers</b>	To review the opportunities offered by KFMIS and use its advantages in order to further increase the efficiency of users' work (Treasury)	Treasury had carried out activities to regulate many fields in the system, which lead to increased efficiency at work. The system offers options that have been adapted to the needs and limits the possibility of errors occurring as a result of the issues identified in the system and for which recommendations have been given.		Treasury started changing some of the reports and renaming some of the application fields. But, while testing these reports, we found that data which would have completed the
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				<p>required information was scarce. In addition, users' needs for these reports or for improving the existing reports have not been assessed either. Reports on assets valuation lack the assets depreciation starting date. Reports do not contain the contract number of a procurement procedure, although the contract number is registered in the purchase orders, it is not presented in the reports.</p> <p>When exporting data to Excel spreadsheet, they are not divided into columns, which leads to additional work for each report that will be used for further calculations.</p> <p>When choosing to use the Albanian/Serbian language in KFMIS, there are cases that report columns and application modules fields are still in English instead of the Albanian/Serbian language. The application lacks the users report, wherefrom their status could be monitored easily. It was also lacking the option of generating a report through the system / application showing all the suppliers registered in this application.</p>
	<p>To make an assessment of users' needs for reports and ensure that it provides various reports based on their needs. Deficiencies identified in reports/modules to be corrected (Treasury).</p>			

State Budget Analysis				
<b>Government</b>	Should ensure that all conditions are in place for staff employed under the Brussels Agreement to continue the normal work process. Employees that do not perform in the interest of the employer should not be remunerated;			No concrete actions have been taken to implement this recommendation. The situation was the same in 2021 as well.
<b>Government</b>	Should review the MFLT's periodic reports on public debt and analyse the identified setbacks. It should also periodically analyse the conditions and criteria for the selection of projects for financing, budgeting and monitoring the use of borrowing funds, as well as to review possible delays in the withdrawal of these funds.			Government has reviewed the public debt reports approved with the Decision no.09/14, dated 28.05.2021, and Decision no.17/47, dated 10.12.2021. But this recommendation is considered as unimplemented because the use of funds from borrowing have not been effectively monitored.
<b>MFLT / Budget Department &amp; Treasury of Kosovo</b>	MFLT, when preparing the initial budget, should clarify all budget items so that the transfer of data from Table 1 to the Financial Statements is clear, consistent and fair;	This issue has been regulated for year 2021. We have not found any mismatched between the tables of the Law no.07/L-041 on Budget Allocations for year 2021 when it comes to the presentation of planned revenues from property tax and non-tax revenues and other charges at the local level.		

<b>MFLT / Budget Department &amp; Treasury of Kosovo</b>	<p>MFLT should ensure that capital project planning is subject to an analysis on the organization's capacity to manage projects in accordance with the initial plans. Controls in project planning and budget execution need to be strengthened to overcome the identified challenges in order to have the projects implemented in time and achieve the objectives. A harmonization of cash flow with project planning is necessary to address the low levels of financial outturn of capital projects</p>			<p>No concrete actions have been taken to implement this recommendation. Implementation of capital projects has been at a low level still, although at a slightly better performance compared to last year as a result of the improved pandemic situation.</p>
<b>MFLT/ Treasury of Kosovo</b>	<p>MFLT, in coordination with Ministers, should put in place oversight mechanisms to ensure that projects are implemented and reporting to MFLT is made in accordance with legal requirements regarding the progress of the implementation of projects financed by borrowing.</p>		<p>Yet, there are setbacks in projects implementation, but there is an improvement when it comes to reporting on implementation progress for projects funded from borrowing. During 2021, only two of all the projects funded from borrowing had not managed to report in accordance with the legal requirements.</p>	

## Analysis of explanatory notes

<b>Government</b>	Should review MFLT's annual reports on public debt on a regular basis, and use them in comprehensive deliberations when assessing the need for borrowing, the results and obstacles in the process. Also it needs to strengthen management and controls over efficient and effective use of these funds..			Government has reviewed the public debt reports approved with the Decision no.09/14, dated 28.05.2021, and Decision no.17/47, dated 10.12.2021. But this recommendation is considered as unimplemented because the use of funds from borrowing have not been effectively monitored, again.
<b>MFLT/Division for International Financial Cooperation / Budget Department / Treasury of Kosovo &amp; OPM</b>	MFLT in cooperation with the Government and the beneficiaries of the funds should ensure that before the start of negotiation of loan agreements for certain projects, all conditions are met that ensure their full and efficient implementation.			Projects have not been effectively implemented because of the failure to meet all the conditions that provide for the project implementation such as resolving of expropriation problems.
<b>MFLT/ Treasury of Kosovo</b>	Based on Treasury's quarterly reports, MFLT, in cooperation with other line ministries, should address all the challenges identified by the line Ministries, in the implementation of projects financed by borrowing. At all times and in all cases where it is deemed necessary, MFLT should suggest appropriate measures to the Government to overcome the difficulties.		Treasury has prepared six-monthly reports with: challenges for the most problematic projects, a summary of the challenges accompanying all projects and recommendations for addressing them. MFLT has submitted the reports to the Government for information and consideration. However, the implementation of projects funded from borrowings continues to be challenging and at unsatisfactory level.	

<b>MFLT / Budget Department, Treasury of Kosovo</b>	MFLT should provide clear guidance to budget organizations on the inclusion of capital investment plans to be financed by borrowing. Approval of projects should be done only if they have completed all the preparations and provide sufficient assurance and documented that the implementation of these projects will be done in a the right time and manner.			Necessary actions for implementing this recommendation have not been taken, therefore the situation was the same in 2021 as well.
<b>Assets</b>				
<b>Government</b>	<p>should play an active role in addressing all issues related to asset management by building accountability mechanisms so that:</p> <ul style="list-style-type: none"> <li>• All budget organisations meet legal obligations by accurately recording and reporting all owned non-financial assets;</li> </ul>			No concrete actions have been taken to address this recommendation. From the individual audits, we found that some budget organisations did not include a part of the assets in their books. As a result, the net value presented in the AFR/ BRK was overstated for capital assets and understated for non-capital assets.
<b>Government</b>	<p>should play an active role in addressing all issues related to asset management by building accountability mechanisms so that:</p> <ul style="list-style-type: none"> <li>• Analyse the causes behind incomplete functioning of the e-assets system, as a problem inherited for years, and take measures to make it fully operational.</li> </ul>			This recommendation remained unimplemented for year 2021, due to lack of a contract for the maintenance and upgrading of e-assets. It is worth noting that in July, this year, MIA signed the contract for the maintenance of this application.

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<b>MFLT / Treasury of Kosovo</b>	MFLT through end-of-year training on the preparation of AFS, should strengthen the requirement that all budget organizations establish timely inventory and evaluation commissions, and inventory results to be reflected in the AFS of the fiscal year;			No concrete actions have been taken to address this recommendation, as individual audits have shown that in 21 budget organizations, data reconciliation between the annual stocktaking report and the assets ledger was not carried out; in 13 BOs the annual stocktaking was partly carried out or not carried out at all.
<b>MFLT / Treasury of Kosovo</b>	MFLT upon receipt of AFS from budget organizations, to establish formal controls in particular regarding the reporting of non-financial assets and stocks with zero status, and in such cases to seek clarification, because in the reports of the last three years there were significant differences.			Based on individual audits, by the end of 2021, nine municipalities have not reported their stocks.
<b>Accounts receivable</b>				
<b>Assembly of Kosovo / Government / MFLT</b>	in coordination with revenue generating budget organizations should carry out an in-depth analysis of the structure of these accounts, age, and the changes to collect these debts inherited for years. As a result, it should establish appropriate mechanisms to collect these debts, and provide for complete and true reporting and consolidation of accounts receivable both at the central and local level.			The necessary actions for the implementation of this recommendation have not been taken, therefore the shortcomings related to the debts collection and reporting of accounts receivable have been repeated during 2021.

Outstanding and Contingent Liabilities				
MFLT	During budget appropriations, priority should be given to allocation of funds for the payment of outstanding liabilities in order to avoid additional interest and other administrative expenses. In addition, special attention should be paid to their reporting and consolidation so that a true and fair presentation is made in the AFR/BRK.		Liabilities have significantly decreased compared to the previous year.	
MFLT	In coordination with budget organisations and other relevant stakeholders, should ensure that a more accurate assessment of contingent liabilities is made so that the disclosures in the AFR are true. Where entries have not been transferred to the AFR or where discrepancies in the entries exist, the reasons behind these errors should be identified and the same should be corrected the following year.			The necessary actions for the implementation of this recommendation have not been taken, therefore the same issues have been repeated during 2021.

Payments under Article 39.2 of the LPFMA				
<b>MFLT</b>	When preparing the AFR of BRK, to ensure the accuracy of the presented value of these payments, based on the latest corrected records of KFMIS and through comparison/reconciliation with individual AFS of BOs that have had such costs.	The values of these payments under Article 39.2 have been truly presented.		
<b>Government</b>	To examine the eventual obligations and responsibilities of BOs arising from valid collective agreements and take appropriate action. Depending on these obligations and budgetary possibilities, to ensure that budget organizations do adequate budget planning, in order to avoid unnecessary expenses from eventual litigation as a result of non-fulfilment of eventual obligations arising from these agreements.			The necessary actions for the implementation of this recommendation have not been taken, therefore the same issues have been repeated during 2021.



MFLT	When preparing the AFR of BRK, to ensure the accuracy of the presented value of these payments, based on the latest corrected records of KFMIS and through comparison/reconciliation with individual AFS of BOs that have had such costs.	We found no differences while analysing the records of year 2021.		
Implementation of recommendations				
Assembly of Kosovo	To ensure that the action plan for the implementation of recommendations prepared by the Government is reviewed by the COPF. These plans should set out the actions, deadlines and persons responsible for the implementation of the recommendations and their monitoring. In addition, to ensure that COPF has reviewed the progress made on the recommendations given at least twice a year.		While reviewing the Annual Audit Report for year 2020, Government's representatives presented the action plan on implementation of recommendations in a meeting of COPF, approved by the Government of Kosovo on 13 October 2021. COPF has included the oversight on implementation of recommendations in its operation plan for 2022.	

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Government	Should establish an effective process of monitoring the recommendations implementation and discuss with BOs all effective measures that can improve the process, in particular those strengthening the accountability and preventing the setbacks in recommendations implementation			MFLT has enquired BOs regarding the measures taken on the implementation of recommendation, but no concrete actions have been taken to monitor the implementation of recommendations.
Internal Audit System				
Government	Management of BOs which are obliged to establish the IAU according to regulation GRK no. 01/2019 should establish this unit as soon as possible, through which the efficient and effective functioning of the internal control system will be ensured. BOs that are not obliged to have the IAU, to exercise the internal audit function through other ways provided by this regulation;		Individual audits have revealed there are repeated cases, but at a lower level. A year ago there were three and this year two cases.	
Government	All BOs should establish Audit Committees to support the achievement of IAU objectives. These Committees should produce an annual report as required in the AI, increase efficiency and contribute to increasing accountability in BOs and strengthening the role of IA		This recommendation has been partly implemented since last year there were six cases, while this year four cases were identified.	

Procurement				
Budget organisations	To ensure that there are sufficient funds for each contract, approved in the budget law, to cover the cost of the project and have it implemented as planned;			The needed actions have not been taken, as cases of entry into contractual obligations with no sufficient funds for the implementation of contracts have been identified in the individual reports.
Budget organisations	To use procurement procedures which ensure that competitiveness is not limited and provide value for money spent.			The needed actions have not been taken, as cases of application of the wrong procurement procedures (price quotation / minimum value procedure / negotiated procedure without publication of contract notice) have been identified in the individual reports.
Budget organisations	Ensure that procurement activities for employment contracts are not initiated unless the main project exists.			The needed actions have not been taken, as cases of initiation of procurement procedures in lack of the main projects have been identified in the individual reports.

Applicability of laws and legal challenges				
Government/MFLT	To initiate amendments to the legal framework on financial reporting and auditing of POEs in order to provide for harmonisation of laws governing this area.			The needed actions have not been taken, as no harmonisation of laws has been made when it comes to dates for financial reporting of POEs.
Government/MFLT	When issuing decisions for expropriation of properties to analyse and make an assessment of the financial effects/costs for the respective projects. In addition, to allocate budget funds and timely execute payments in order to prevent additional spending by BOs on land expropriations.			This recommendation is no longer applicable.
Government/MFLT Municipalities of Mitrovica North, Zvečan and Zubin Potok	To provide for the implementation of revenue collection laws, and ensure that internal regulations on respective fees and taxes are drafted and approved. Collection of these revenues would enable the implementation of many projects, and improvement of citizens welfare.			No action have been taken to implement this recommendation, therefore the same have been repeated this year as well. Municipality of Zubin Potok has not approved any regulation on collection of revenues, taxes and fees.

Issues related to Covid-19 pandemic management costs				
MFLT	The Minister of Finance and the Director General of Treasury should ensure that budget organizations in the preparation of the AFS will comply with all legal requirements regarding disclosures, including expenses for the management of COVID-19 pandemic..		BOs had disclosed the expenditures on the pandemic management, except for the OPM and MAFRD which had not disclosed the expenditures on Covid-19 in the annual financial statements.	
Performance Audits				
Assembly of Kosovo	Through the Public Finance Oversight Committee, the Budget and Finance Committee and other relevant standing committees to review the performance audit reports and take the needed actions to hold the heads of public institutions to account for the implementation of performance audit recommendations.		The Assembly of the Republic of Kosovo, through the relevant commissions, has undertaken actions to deliberate the performance and information technology audit reports, demanding accountability by the heads of the auditees. Thus, in April-June 2021, seven 7 performance and information technology audit reports were discussed in COPF (5 performance reports, 1 IT audit report and 1 procurement audit report); 4 reports have not been discussed yet (2 procurement audits, 1 IT audit and 1 follow-up report on implementation of recommendations). To deliberate on each audit report, COPF has invited the heads of organizations and, in some cases, the Assembly Commissions of the relevant fields as well. COPF issued its own recommendations and has also recommended for 2 reports to be discussed in the plenary session of the Assembly of the Republic of Kosovo.	

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<b>Government, Municipal Assemblies, Auditee's bodies charged with governance</b>	To ensure that action plans for the implementation of the recommendations arising from performance audits are prepared and mechanisms for continuous monitoring of implementation of these plans are established, by assigning and holding accountable the relevant functions in the organization and by ensuring regular reporting.		According to OPM and MFLT, this process will be finalised during June-July 2022. In analysing the plans sent to NAO, we found that of 12 out of the 38 organisations have prepared and submitted the actions plans on implementation of recommendations given in the performance and IT audit reports during the period September 2020 – July 2021, whilst 26 others did not prepare them.	
<b>Publicly Owned Enterprises</b>				
<b>Boards of Directors and Shareholders of POEs</b>	The Boards of Directors of the respective POEs should analyse the causes that led to Modification of the Opinion and take all necessary actions to correct and prevent them. They should ensure that effective processes and controls are in place to confirm that the drafting of the AFS addresses the shortcomings identified in the previous year.			Based on the individual audit reports of the POEs, the situation with the opinions is almost the same compared to the previous year.
<b>Boards of Directors and Shareholders of POEs</b>	Shareholders to hold the Boards of Directors of the respective POEs to account in order to ensure a true and fair preparation of AFS, which would have resulted in Unmodified Opinions to respective enterprises.			Based on the individual audit reports of the POEs, for year 2021, the preparation of the AFS has been accompanied by shortcomings which have led to the situation with the opinions being almost the same compared to the previous year.

<b>Shareholders</b>	<p>Shareholders should ensure that the Boards of Directors of audited POEs prepare quality action plans and ensure that they are fully implemented in order to increase the level of implementation of audit recommendations. Shareholders should also ensure that BDs submit progress reports on the implementation of audit recommendations at least twice a year.</p>			<p>Preliminary analysis show that the level of implementation of the recommendations of 2020 is lower than that of 2019.</p>
<b>Government, Ministry of Economy and Municipalities</b>	<p>To ensure that the Boards of Directors have analysed the financial results of POEs, have drafted and provided for the implementation of business plans for the purpose of improving the financial and business situation of these enterprises..</p>			<p>The needed actions have not been taken to implement this recommendation, therefore the financial indicators show the same situation as in the previous year.</p>

## Annex II: Explanation regarding different types of opinion and conclusions applied by NAO

(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 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.

### Audit conclusions

- **Unmodified Conclusion** presents the auditor’s opinion that the processes and underlying transactions are fully in compliance with the established audit criteria;
- **Qualified Conclusion** presents the auditor’s opinion that the processes and underlying transactions are fully in compliance with the established audit criteria, except for any specific matter, which is described under the Basis for Compliance Conclusion;

- **Adverse Conclusion** presents the auditor's opinion that the processes and underlying transactions are not fully in compliance with the established audit criteria; and
- **Disclaimer of Conclusion** presents the auditor's inability to draw a compliance conclusion because of not having been able to obtain sufficient evidence or because of incompliances being pervasive in many areas.

***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.

## Annex III: Letter of Confirmation

REPUBLIKA E KOSOVËS - REPUBLIC OF KOSOVO ZYRË KOMBËTARE E AUDITIMIT NACIONALNA RAČUNARNA REVIZIJE / NATIONAL AUDIT OFFICE			
DOKUMENTI Dokumenti Dokumenti			
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03	47	1634	1



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PRISTINE/A	

**Republika e Kosovës**  
 Republika Kosova - Republic of Kosovo  
 Qeveria - Vlada - Government  
 Ministria e Financave, Punës dhe Transfereve -  
 Ministarstvo za Finansije, Rada i Transfera - Ministry of Finance, Labour and Transfers

### LETËR E KONFIRMIMIT 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 Vjetor Financiare të Buxhetit të Republikës së Kosovës, për vitin e përfunduar më 31.12.2021 (në tekstin e mëtejshme "Raporti");
- Nuk pajtohem me disa nga gjetjet dhe rekomandimet në përmbajtjen e Raportit. Gjetjet për disa pjesë janë jo-materiale kurse për disa të tjera janë probleme historike e të cilat nuk janë pasqyruar si të tilla. Detajet lidhur me këto mospajtime janë bërë të ditura përmes komenteve me shkrim të dërguara nga Ministria;
- 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 institucionet përgjegjëse për zbatimin e tyre.



Hesuran Murati

Ministër i Financave, Punës dhe Transfereve

Data: 19 gusht 2022, Prishtinë

## Annex IV: Annual Financial Statements of the Government

### Pasqyra e pranimeve dhe pagesave në para të gatshme për Qeverinë e Përgjithshme

Për vitin që përfundon më 31 dhjetor 2021

		2021	2020	2019
		Llogaria e Vetme e Thesarit '000 €	Llogaria e Vetme e Thesarit '000 €	Llogaria e Vetme e Thesarit '000 €
Shënim				
<b>PRANIMET</b>				
Tatimet Direkte				
Tatimi në të ardhura të korporatave	2	113,946	85,279	94,593
Tatimi në të ardhura personale	3	189,521	157,966	165,616
Tatimi në pronë	4	36,258	22,707	27,277
Tatime tjera direkte	5	2,440	1,294	4,773
		342,165	267,247	292,259
Tatimet Indiekte				
Tatimi mbi vlerën e shtuar	6	1,038,218	770,145	845,647
Detyrimi doganor	7	124,606	101,618	130,325
Akiza	8	501,295	398,072	435,496
Tatime tjera indirekte	9	565	2,900	3,822
		1,664,685	1,272,735	1,415,291
Kthimet tatimore				
Kthimet tatimore	10	-58,912	-32,999	-45,507
		-58,912	-32,999	-45,507
Të hyrat jo-tatimore				
Taksa, ngarkesa dhe tjera nga OB-të Qeveria Qendrore	11	129,563	103,486	121,405
Taksa, ngarkesa dhe tjera nga OB-të Qeveria Lokale	12	57,271	42,716	50,050
Taksa koncesionare	13	16,972	2,651	11,083
Renta minerare	14	19,235	29,362	29,385
Të hyrat nga interesi (kreditë për NP)	15	3,074	2,986	2,691
Të hyrat nga dividendat	16	10,000	-	-
		236,116	181,201	214,614
Huamarrja				
Huamarrja e jashtme shtetërore	17	117,334	211,389	35,040
Pranimet për shërbimin e nën-huazimeve	18	8,005	7,688	7,901
Huamarrja e brendshme shtetërore	19	144,247	169,955	115,322
		269,586	389,031	158,264
Grantet dhe ndihmat				
Grantet e përcaktuara të donatorëve	20	16,800	9,048	7,987
Grantet për mbështetje buxhetore	21	0	34,030	11,500
		16,801	43,078	19,487
Pranimet tjera				
Fondi i depozitave	22	4,462	1,018	2,081
Kthimet e kredive nga ndërmarrjet publike	23	11,387	11,387	10,876
Të hyrat e dedikuara	24	4,645	2,473	5,555
Financimi i njëhershëm i AKP-së	25	39	71,476	150,002
<b>Gjithsej Pranimet</b>		<b>2,490,973</b>	<b>2,206,647</b>	<b>2,222,922</b>
<b>PAGESAT</b>				
Operacionet				
Paga dhe shtesa	26	668,124	661,343	616,921
Mallra dhe shërbime	27	306,255	280,007	273,313
Shërbime komunale	28	25,287	22,168	24,866
		999,666	963,518	915,099
Transferet				
Subvencione dhe transferet	29	842,897	868,480	627,959
Shpenzimet kapitale				
Prona, impiantet, pajisjet, transferet	30	423,941	384,471	533,773
Pagesat tjera				
Pagesat e borxhit publik	31	111,192	115,713	74,633
Kthimet nga fondet e depozitave	32	1,044	2,761	1,082
<b>Gjithsej Pagesat</b>		<b>2,378,740<sup>1</sup></b>	<b>2,334,943</b>	<b>2,152,546</b>
<b>Rritje/(Zbritje) në para të gatshme</b>		<b>112,233</b>	<b>(128,295)</b>	<b>70,376</b>
<b>Para të gatshme në fillim të vitit</b>	<b>33</b>	<b>329,955</b>	<b>458,251</b>	<b>387,874</b>
<b>Para të gatshme në fund të vitit</b>	<b>33</b>	<b>442,189</b>	<b>329,955</b>	<b>458,251</b>

## Pasqyra e konsoliduar e krahasimit të buxhetit me realizimin për Qeverinë e Përgjithshme

Për vitin që përfundon më 31 dhjetor 2021

Shënim	2021				2020	2019
	Realizimi	Buxheti	Buxheti	Ndryshimet	Realizimi	Realizimi
	A	përfundimtar	filestar	buxhetore		
	'000 €	B	C	D=B-A	'000 €	'000 €
		'000 €	'000 €	'000 €		
<b>RRJEDHA HYRËSE E PARASË SË GATSHME</b>						
Tatimet direkte	342,165	326,400	304,000	(15,765)	267,247	292,259
Tatimet indirekte	1,664,685	1,512,930	1,419,200	(151,755)	1,272,735	1,415,291
Kthimet tatimore	(58,912)	(48,000)	(45,500)	10,912	(32,999)	(45,507)
Të hyrat jo-tatimore	236,116	241,400	199,800	5,284	181,201	214,614
Grantet dhe ndihmat <sup>2</sup>	16,801	22,500	22,500	5,699	43,078	19,487
Huamarrja	269,586	607,000	610,200	337,414	389,031	158,264
Pranimet tjera <sup>3</sup>	20,533	35,400	45,400	14,867	86,355	168,514
<b>Gjithsej Pranimet</b>	<b>2,490,973</b>	<b>2,697,630</b>	<b>2,555,600</b>	<b>206,657</b>	<b>2,206,647</b>	<b>2,222,922</b>
<b>RRJEDHA DALËSE E PARASË SË GATSHME</b>						
Paga dhe shtesa	668,124	668,692	639,800	568	661,343	616,921
Mallra dhe shërbime <sup>4</sup>	306,255	370,760	333,790	64,505	280,007	273,313
Shpenzime komunale	25,287	27,638	30,110	2,351	22,168	24,866
Subvencione dhe transfere	842,897	876,161	753,100	33,264	868,480	627,959
Shpenzime kapitale	423,941	622,086	626,100	198,145	384,471	533,773
Rezerva	-	3,498	32,800	3,498	-	-
Interesi	30,881	34,700	38,500	3,819	27,505	23,450
Të tjera <sup>5</sup>	81,354	118,500	172,100 <sup>6</sup>	37,146	90,969	52,264
<b>Gjithsej Pagesat</b>	<b>2,378,740</b>	<b>2,722,035</b>	<b>2,626,300</b>	<b>343,295</b>	<b>2,334,943</b>	<b>2,152,546</b>
<b>Deficiti/Suficiti</b>	<b>112,233</b>	<b>(24,405)</b>	<b>(70,700)</b>	<b>(136,638)</b>	<b>(128,295)</b>	<b>70,376</b>

<sup>2</sup> Te planifikimi buxhetor (kolona B dhe C) përfshihen grantet e përcaktuara të donatorëve (12 milionë euro) si dhe grantet për mbështetje buxhetore (10.5 milionë euro), si fonde të planifikuara për pranim në vitin 2021.

<sup>3</sup> Përfshihen, të hyrat e dedikuara, kthimet e kredive nga ndërmarrjet publike, financimi i njëhershëm nga AKP dhe pranimet nga depozitat.

<sup>4</sup> Përfshihet shuma e shpenzuar nga MSH prej 342,710.27 Euro nga kredia IDA-64420, Projekti i shëndetësisë kosovare Nr. P147402. Ministria e Shëndetësisë për këtë vlerë në SIMFK ka mbivlerësuar huamarrja (04) dhe nënvlerësuar granti qeveritar (10).

<sup>5</sup> Përfshihen, pagesa e principalit, nen-huazimi, diskonti i letrave me vlerë, pagesat për antarësim në IFN dhe kthimet nga fondet e depozitave (neto). Nuk përfshihen GPD, meqe ato janë të shpërndara në kategori ekonomike perkatëse.

<sup>6</sup> Në kuadër të buxhetit fillestar (kolona C) - "Te tjera" janë prezantuar edhe GPD në shumë prej 12 milionë euro, për efekte të neutralitetit të bilancit të pashpërndarë bankar, për shkak të përfshirjes tek pranimet e sqaruar në fusnotën 2.

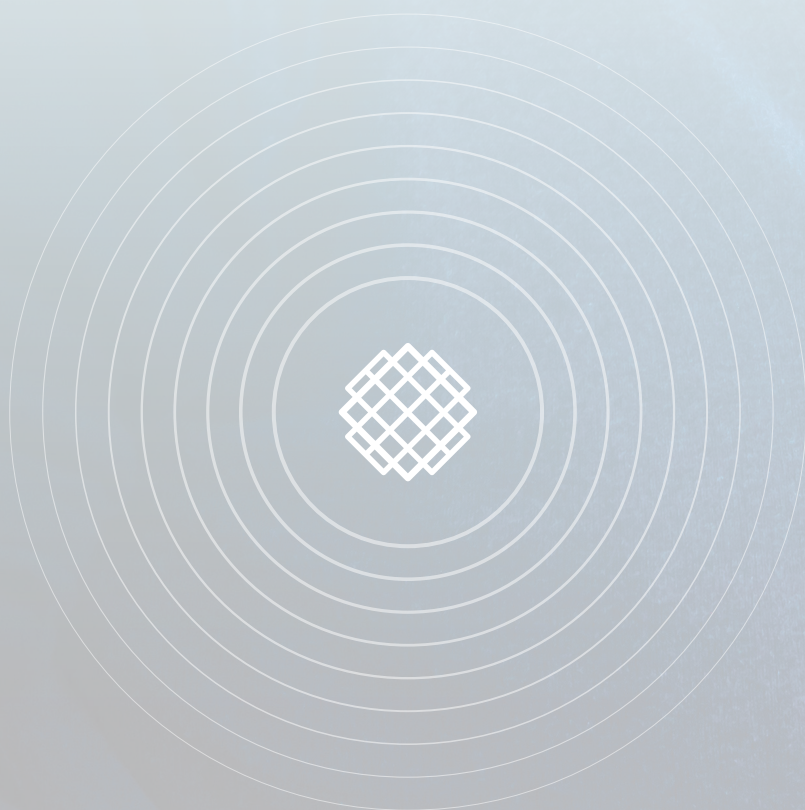


## Pasqyra e konsoliduar e pasurive financiare dhe balanceve të fondeve për Qeverinë e Përgjithshme

Për vitin që përfundon më 31 dhjetor 2021

		2021 Llogaria e Vetme e Thesarit '000 €	2020 Llogaria e Vetme e Thesarit '000 €	2019 Llogaria e Vetme e Thesarit '000 €
	Shënim			
<b>Pasuritë financiare - para e gatshme</b>				
Banka Qendrore e Kosovës	35	423,322	316,897	444,301
Kuotat në IFN	36	3,734	1,741	1,741
Fondi në mirëbesim për zhvillim	37	2,636	1,971	4,754
Paratë e gatshme në transit	38	6,946	4,851	4,632
Llogaritë e Ambasadave të Republikës së Kosovës	39	2,068	1,751	1,135
Paratë e gatshme në dorë (arka) dhe avance te hapura	40	3,484	2,744	1,687
<b>Gjithsej pasuritë financiare dhe para të gatshme</b>		<b>442,189</b>	<b>329,955</b>	<b>458,251</b>
<b>Qëllimet specifike</b>				
Të përcaktuara nga donatorët	41	15,818	9,752	8,865
Të hyrat vetanake të bartura - niveli qendror	42	1,436	1,765	5,741
Të hyrat vetanake të bartura - niveli lokal	43	80,078	55,994	49,477
Fondi në mirëbesim për zhvillim	44	7,354	7,078	6,837
Të hyrat e dedikuara	45	467	52	803
Të tjera	46	19,812	15,894	17,504
Fondet e pashpenzuara nga huamarrja	47	5,131	3,941	7,040
		130,095	94,475	96,267
<b>Bilanci bankar i shfrytëzueshëm (i pashpërndarë)</b>		<b>312,093</b>	<b>235,480</b>	<b>361,983</b>
<b>Gjithsej Bilanci i Fondeve</b>	33	<b>442,189</b>	<b>329,955</b>	<b>458,251</b>





**Adress:**

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**Arbëria District,**  
**St. Ahmet Krasniqi, 210**  
**10000 Prishtina**  
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