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Zyra Kombëtare e Auditimit
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National Audit Office

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AUDIT REPORT

ON THE ANNUAL FINANCIAL REPORT FOR THE PROJECT
“KOSOVO ENVIROMENTAL PROGRAMME – PMK 2016 - 2020”
FOR THE YEAR ENDED 31 DECEMBER 2018

Audit based on agreement with SIDA

Prishtina, May 2019

The National Audit Office of the Republic of Kosovo is the highest institution of financial control, which for its work is accountable to the Assembly of Kosovo.

Our Mission is through quality audits to strengthen accountability in public administration for an effective, efficient and economic use of national resources.

The reports of the National Audit Office directly promote accountability of public institutions as they provide a base for holding managers' of individual budget organisations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability.

This audit is carried out in line with International Standards of Supreme Audit Institutions and good European practices.

The Auditor General has decided on the audit opinion on the Annual Financial Report of the Project "Kosovo Environmental Programme - PMK 2016 - 2020" in consultation with the Assistant Auditor General, Vlora Spanca, who supervised the audit.

The report is as a result of the audit carried out by Saranda Husaj Baraliu (Team Leader) and Jehona Krasniqi and Ramadan Gashi (team members), under the management of the Head of Audit Department, Samir Zymeri.

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Executive Summary

The report summarises key matters arising from the audit of the Annual Financial Report for the project “Kosovo Environmental Programme – PMK 2016 – 2020” for 2018, which includes the opinion of the Auditor General on the Annual Financial Report.

The project's development objective is to strengthen selected systems that contribute to improving the quality, accountability, and environmental efficiency in the Republic of Kosovo. The project aims to contribute to the improvement of environmental conditions in Kosovo. The objectives of the project are:

- capacity building of MESP, inter-ministerial counselling for water, municipalities, civil society and other stakeholders in monitoring and management of the environment;
- capacity building for implementation of environmental legislation, in line with EU directives;
- Increasing understanding on Kosovo's water resources and capacity building in management of transboundary protected areas.

MESP in accordance with the specific reporting framework and the requirements of the special agreement between the Government of Kosovo¹ and Sweden² for the funds spent by MESP should prepare a summary report and financial reporting in line with the applicable agreement.

Examination of financial report for 2018 was undertaken in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). Our approach included tests and procedures that were necessary to arrive at an opinion on the financial report. The applied audit approach is set out in the External Audit Plan for 2018.

The audit was focused on:



The level of work undertaken by the National Audit Office to carry out the audit of 2018 was determined depending on the expenditures incurred for this period.

¹ Represented by the Ministry of Environment and Spatial Planning (MESP)

² Represented by the Swedish Agency for International Cooperation and Development, SIDA (Sweden)

Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

The Annual Financial Report for 2018 *presents a true and fair view* in all material aspects.

Emphasis of Matter

The KEP financial report presents expenditures in the amount of €57,297, while according to the Treasury data these amount is not presented in 2018, since the payment was carried out in March 2019.

For more details see Section 2.1 of this report.

Annex I explains different types of Opinions in line with ISSAIs.

1 Audit Scope and Methodology

The National Audit Office (NAO) under the agreement/contract with the Swedish International Development Cooperation Agency (SIDA), is responsible for execution of a regularity audit which involves the examination and evaluation of financial reports and other financial records and expression the opinion includes examination and evaluation of financial statements and other financial data, as follows:

- Whether the financial report gives a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- Requirements of the special agreement between the Government of Kosovo, represented by the Ministry of Environment and Spatial Planning (MESP) and Sweden, represented by the Swedish International Development Cooperation Agency, SIDA (Sweden);
- Appropriateness of internal control functions; and
- For all matters arising from or relating to the audit.

MESP reports in accordance with the specific reporting framework and requirements of a special agreement between the Government of Kosovo, represented by the Ministry of Environment and Spatial Planning (MESP) and Sweden, represented by the Swedish Agency for International Cooperation and Development, SIDA (Sweden). Financial Reporting related to the expenditure of funds by MESP should provide Sweden with the quarterly financial reports and annual financial reports according to the established deadlines.

The audit methodology was focused on examination of financial data and transactions, including the supporting documentation. We have determined the level of detailed testing, which is required to obtain the evidence that supports the opinion of the AG.

The following sections provide a more detailed summary of our audit findings.

Audit findings should not be regarded as representing a comprehensive statement of all the weaknesses that may exist, or of all improvements that could be made to the systems and procedures operated.

In the report will be presented findings that are part of the opinion on the financial statements. While findings that relate to financial management, functioning of internal control and compliance issues will be summarised in the Letter to Management.

2 Annual financial statements and obligations for external reporting

Our audit of the annual financial report considers the compliance with the reporting framework and the quality and accuracy of the information presented in the financial report. We have also considered the comparison of expenditures incurred in relation to planned activities of the project.

2.1 Audit Opinion

Unmodified Opinion with Emphasis of Matter

We have audited the Annual Financial Report of the project funded by SIDA “Kosovo Environmental Programme – PMK 2016 – 2020”, for the year ended on 31st of December 2018 which comprise of the expenditures, a summary of comparison of budget to the current values, and Explanatory Notes.

In our opinion, the Annual Financial Report for the year ended on 31st of December 2018 present a true and fair view in all material respects, in accordance with reporting requirements between the parties involved in the agreement, in line with accounting principles.

Basis for Opinion

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

Emphasis of Matter

In the row listed as procurement of services in the KEP report are presented expenditures incurred in the last quarter of 2018 for the services provided by the Contracted Services Operator (CAO) in the amount of €57,297, whereas in the Treasury data this sum is not presented for the year 2018. Since the payment was executed in March 2019 and the difference in the project accounting/logbook.

Our opinion is not modified in relation to the Emphasis of Matter.

Basis for Accounting

We want to draw attention to the financial report, which is prepared on the basis of the agreement/request between parties, including accounting database, which is not in full harmonization with national/Government system. As a result, the financial report may not be applicable for any other purpose.

Key audit issues

Except for the issues described in the basis for opinion, we conclude that there are no key audit issues to be reported.

Responsibility of Management for AFS/AFR

The Ministry of Environment and Spatial Planning (MESP) is responsible for project implementation and management of SIDA's financial funds, SIDA's financial contribution is made of two parts: direct disbursements to the Government (Treasury) as well as payments directly to the provider of technical assistance for incurred expenses. MESP is responsible for keeping of the accounting books and for preparation and fair presentation of the annual financial report.

Chief Administrative Officer is responsible to ensure the oversight the financial reporting process.

Auditor General's Responsibility for the Audit of the AFS

Our responsibility is to express an opinion on the AFS based on our audit. We conducted our audit in accordance with ISSAIs. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will detect any material misstatement that might exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

An audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the entity's circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the presentation of the financial statements.

2.2 Compliance with the requirements of the AFS and other reporting requirements

MESP is required to report in accordance with the specified reporting framework and reporting requirements. We considered:

- Requirements of the special agreement between the Government of Kosovo, represented by the Ministry of Environment and Spatial Planning (MESP) and Sweden, represented by SIDA;
- Requirements of the LPFMA no. 03/L-048, (with amendments and supplements); and
- Compliance with Financial Rule No.01/2013 on expenditure of public money.

In the context of reporting we have no issues to raise. Financial reporting was done in accordance with the agreement, and was prepared a narrative report which contains an analysis on the progress of project activities and results.

In the context of reporting, we have no issues to raise.

3 Financial management and control

Our work on Financial Management and Control (FMC) reflects the detailed work undertaken for expenditure systems in budget organizations. As part of this, we consider the budget management, planning, procurement issues, process payments and liabilities.

Conclusion on financial management and control

The financial system and controls over expenditures are generally good. Systems and financial transactions are in accordance with applicable laws and regulations, and requirements of the agreement. Under the agreement, plan and reporting is done according to the project plan and project reporting requirements. There are discrepancies found between KFMIS data and the report prepared based on the project plan.

Some shortcomings in terms of reporting and budget implementation are presented below, and some other deficiencies without material impact have been disclosed in the letter to management.

3.1 Budget planning and execution

We have reviewed planning based on budget lines of SIDA and their spending.

According to the Treasury the budget is €1,075,082, of them carried forward from 2017 are €498,755, while €576,327 have been transferred. While according to the SIDA planned budget lines are €689,515. This is due to the lack of attention by officials to the reconciliation and adaptation of the SIDA reporting format to the local reporting form.

The 2018 procurement plan was initially approved by the Steering Committee on 01.03.2018, and subsequently revised on 12.04.2018 and 30.10.2018 for adjustment of budget lines. The change in budget has occurred between the lines for services and work, but within the total budget lines.

The table below presents the approved initial budget and its execution in 2018.

Table 2. Spending by budget lines of SIDA (in €)

Description	Planned budget ³	2018 Outturn	2017 Outturn
Types of expenses/total⁴	689,515	502,854	119,506
Procurement of Services	273,516	185,178	94,906
Supply of equipment	97,428	25,068	24,560
Work	318,571	292,607	-

Financial report of KEP presents expenditures for 2018 in the amount of €502,854 while according to the Treasury data expenditures were in the amount of €445,557. There is a difference by the amount of €57,297 which occurred due to the basis of KEP reporting in relation to the data from Treasury⁵.

Budget execution remains unsatisfactory, 73% of the initial budget or €502,854 was spent during 2018. There is improvement in budget execution compared to 2017.

The above table shows that three budget lines were not implemented as planned by the budget, and explanations are given below:

- The budget line for the delivery of services is implemented at 67%. Some sub-categories have been exceeded mainly due to the underestimation of the expenditures for study visit in

³ The procurement of 2018 was revised on 01.03.2018, 12.04.2018 and 30.10.2018 for adjustment of the budget lines.

⁴ Technical Assistance Services are implemented by the Framework Service Provider (FSP), respectively FCG (initially ORGUT), and are regulated by a signed contract between FSP and the Swedish Embassy (SE). While, procurement of equipment and works is managed directly by MESP assisted by the CSO, in accordance with the specific agreement signed between MESP and SE.

⁵ Detailed explanations for this finding are presented in the Letter to Management.

Sweden and Romania, and understatement of budgeted expenditures for translation, especially for translation of publications. While, most of the deferred (unimplemented) activities pertain to conferences.

- The budget for supply of works was implemented at 91% while the budget for equipment was implemented at 25 %, since not all activities are implemented in 2018, they were mainly postponed to be implemented in 2019.

Issues related to the spending process, controls and implementation of recommendations are presented in the Letter to Management prepared along with the audit report.

Annex I: Explanation of the different types of opinion applied by the CAO

(Extract from ISSAI 200)

Opinion Form

147. The auditor should express an unmodified opinion if it concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

If the auditor, based on evidence obtained audit concludes that the financial statements as a whole contain material misstatement or fails to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, then should modify the opinion in the auditor's report under the section on "Determining the type of modification to the auditor's opinion.'

148. If financial statements prepared in accordance with the requirements of a fair presentation framework fail to give a fair presentation, the auditor should discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how resolved issue, to determine whether it is necessary to modify the audit opinion.

Modifications to the opinion in the auditor's report

151. The auditor should modify the opinion in the auditor's report on the case, based on evidence obtained audit concludes that the financial statements as a whole contain material errors, or if the auditor was unable to obtain evidence audit sufficient and appropriate to conclude that the financial statements as a whole are free from material misstatement. Auditors may issue three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.

Determining the type of modification to the auditor's opinion

152. The decision as to which type of modified opinion is appropriate depends upon:

- the nature of the matter that gives rise to the modification - that is, whether the financial statements contain material misstatements or, in the event that it was impossible to obtain sufficient appropriate audit evidence, may contain material misstatements; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter in the financial statements.

153. The auditor should express a qualified opinion if: (1) having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or together, are material but not pervasive to the financial statements, or (2) if the auditor was unable to obtain sufficient and appropriate audit evidence on which to base an opinion, but concludes that the effects of any undetected errors on the financial statements could be material but not pervasive.

154. The auditor should express an adverse opinion if, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or together, are both material and pervasive to the financial statements.

155. The auditor should disclaim an opinion if, having been unable to obtain sufficient and appropriate audit evidence on which to base an opinion, the auditor concludes that the effects of any undetected errors on the financial statements could be even the prevalent material. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit, the auditor considers may result in the need to express a qualified opinion or disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.

156. If the auditor gives a modified opinion, it should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705 provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Auditor's report

157. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements, which is important as well as essential that they understand financial statements, but there is sufficient evidence that appropriate issue contains no material misstatements in the financial statements, the auditor should include an Emphasis of matter paragraph in its report. Emphasis of Matter paragraphs should only refer to information presented or disclosed in the financial statements.

158. An emphasis of matter paragraph should:

- be included immediately after the opinion;
- have the title "Emphasis of Matter" or another appropriate heading;
- contain a clear reference to the matter being emphasized and indicate in what part of the financial statements can be found relevant disclosures that fully describe the matter; and
- to indicate that the auditor's opinion is not modified in respect of the matter emphasized.

159. If the auditor considers it necessary to communicate a matter, other than those presented or disclosed in the financial statements, which, in the auditor's judgment, is relevant to users in order to understand the audit, the auditor's responsibilities or report audit, and provided that this is not prohibited by law or regulation, must 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.