



Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

**AUDIT REPORT**  
**ON THE INDEPENDENT COMMISSION FOR MINES AND**  
**MINERALS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

**Prishtina, Jun 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 internationally recognized public sector auditing standards and good European practices.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Anti - Corruption Agency in Consultation with the Assistant Auditor General, Emine Fazliu, who supervised the audit.

The report issued is a result of the audit carried out by Faik Thaqi (Team Leader) and Nora Rashiti-Nishefci (team member) under the management of the Head of Audit Department Astrit Bllaca.

## TABLE OF CONTENTS

Executive Summary .....	4
1 Audit Scope and Methodology .....	6
2 Annual financial statements and other external reporting obligations .....	6
3 Financial Management and Control .....	8
4 Good Governance .....	12
5 Progress in implementing recommendations.....	14
Annex I: Explanation of the different types of opinion applied by NAO .....	17
Annex II: Letter of confirmation .....	20

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## Executive Summary

This report summarises key issues arising from our audit of the Independent Commission for Mines and Minerals for 2018, which includes the Opinion of the Auditor General on Annual Financial Statements. Examination of 2018 financial statements 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 statements. The applied audit approach is set out in the External Audit Plan dated 31.10.2018.

Our audit focus has been on:



The level of work undertaken to carry out the audit was determined depending on the quality of internal controls implemented by the Management of the Independent Commission for Mines and Minerals.

### Opinion of the Auditor General

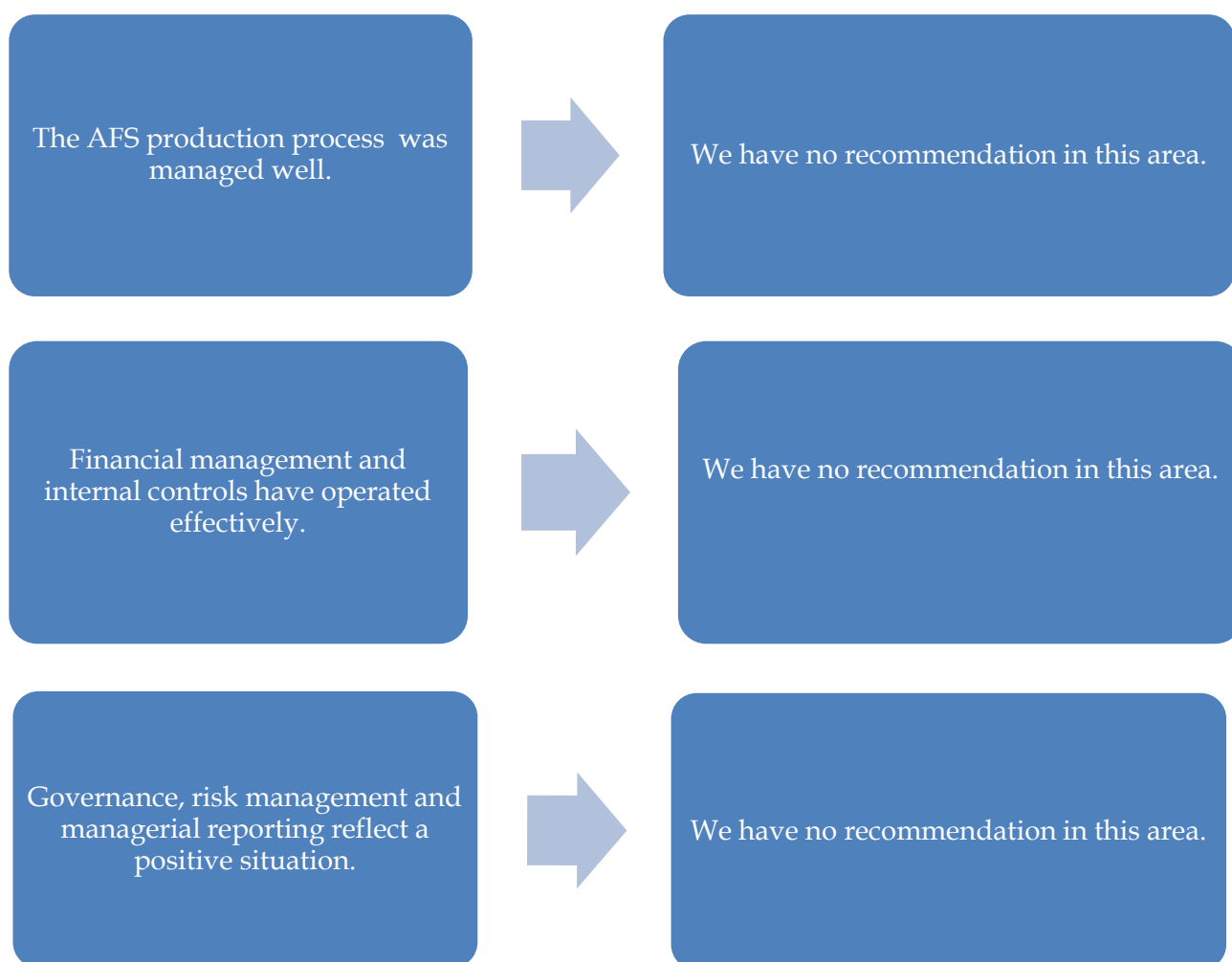
#### Unmodified Opinion

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

For more details, refer to Section 2.1 of this report.

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

## Conclusions and Recommendations



## Management's Response on 2018 audit

Chairman of the Bord has agreed with audit conclusions.

The National Audit Office appreciates the cooperation of the management and personnel of the ICMM during the audit process.

# 1 Audit Scope and Methodology

The Audit involves examination and evaluation of Financial Statements and other financial records, as follows:

- Whether the financial statements give 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;
- Whether the internal controls and internal audit functions are appropriate and efficient; and
- Whether have been taken appropriate actions for implementation of audit recommendations.

Audit work undertaken is based on risk assessment. We have analysed the business of Independent Commission for Mines and Minerals (ICMM), the level of reliance on management controls, in order to determine the level of detailed testing required to provide the necessary evidence and that support the opinion of the AG.

Our procedures have included a review of internal controls, accounting systems and related substantive tests, as well as related governance arrangements to the extent considered necessary for the effective performance of the audit.

## 2 Annual financial statements and other external reporting obligations

Our audit of the Annual Financial Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information presented in the AFS, including the declaration made by the Chief Administrative Officer and Chief Financial Officer.

The declaration on presentation of AFS includes a number of assertions relating to the compliance with the reporting framework and the quality of information within the AFS. These assertions intend to provide assurance to the Government that all relevant information has been provided to ensure that an audit process can be undertaken.

## 2.1 Audit Opinion

### Unmodified Opinion

We have audited the AFS of the Independent Commission for Mines and Minerals for the year ended on 31<sup>st</sup> of December 2018, which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement, Disclosure and other accompanying reports.

In our opinion, the Annual Financial Statements for the year ended on 31<sup>st</sup> of December 2018 present a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (according to cash based accounting), Law no.03/L-048 on Public Financial Management and Accountability (as amended and supplemented) and Regulation MoF no.01/2017 on Annual Financial Reporting by Budget Organisations.

### Basis for the opinion

The audit is carried out in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the 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 the opinion.

### Responsibility of Management for AFS

The Director General and the Chief Financial Officer are responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Modified Cash based Accounting and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law no. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented).

The Chairman of the Board is responsible to ensure oversight of ICMM's financial reporting process.

### Auditor General's responsibility for the audit of the AFS

Our responsibility is to express an opinion on the AFS based on our audit. 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 every material misstatement that might exist. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

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 the Management, as well as evaluating the presentation of the financial statements.

## 2.2 Compliance with AFS and other reporting requirements

From ICMM is required to comply with a specified reporting framework and other reporting requirements. We considered:

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
- Requirements of LPFMA no. 03/L-048, (as amended and supplemented);
- Compliance with Financial Rule no.01/2013 and 02/2013;
- Action plan for addressing of recommendations;
- Requirements of Financial Management and Control (FMC) procedures; and
- Final Procurement Plan for 2018.

In the context of the AFS we have identified the following incompliances.

Given the above - the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance is considered correct.

## 2.3 Recommendations related to the Annual Financial Statements

We have no recommendation related to the AFS:

## 3 Financial Management and Control

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Budget Organisations. Specifically, we have handled budget management, procurement, human resources as well as assets and liabilities.



## Financial Management and Control Conclusion

In the context of financial systems, revenue and expenditure controls in general are appropriate and are being implemented effectively.

### 3.1 Budget Planning and Execution

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

**Table 1. Sources of budgetary Funds (in €)**

Description	Initial Budget	Final Budget <sup>1</sup>	2018 Outturn	2017 Outturn	2016 Outturn
<b>Sources of Funds</b>	<b>1,383,433</b>	<b>1,229,353</b>	<b>1,197,003</b>	<b>1,292,277</b>	<b>1,239,655</b>
Government Grant - Budget	1,383,433	1,229,353	1,197,003	1,292,277	1,239,655

The final budget compared to the initial budget was decreased by €154,080. This decrease was as a result of Government Decision No. 07/80 dated 18.12.2018 for budgetary savings.

In 2018 ICMM has spent 97% of the final budget or €1,197,003, with an improvement of 1% compared to 2017. Budget execution remains at a satisfactory level and below are given explanation for current position.

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

Description	Initial Budget	Final Budget	2018 Outturn	2017 Outturn	2016 Outturn
<b>Spending of funds by economic categories</b>	<b>1,383,433</b>	<b>1,229,353</b>	<b>1,197,003</b>	<b>1,292,227</b>	<b>1,239,655</b>
Wages and Salaries	812,552	795,661	795,661	773,366	744,619
Goods and Services	386,281	386,281	376,585	354,964	367,258
Utilities	30,600	23,911	15,899	22,731	20,931
Capital investments	154,000	23,500	8,858	141,166	106,846

Explanations for changes in budget categories are given below:

- The final budget for salaries and wages compared to the initial budget was reduced by €16,891 under Government decision. The budget for this category was spent at 100%;

<sup>1</sup> Final budget – the budget approved by the assembly, which was subsequently adjusted for by the Ministry of Finance.

- The final budget for goods and services did not change from the initial one. The budget for goods and services was spent at 97%;
- The final budget for municipal services was reduced by €6,689 from the initial one under Government decision. The budget for this category was spent at 66%. The reason for low budget execution in this category was due to reductions of phone expenditures; and
- The final budget for capital investments was reduced by €130,500 from the initial one under Government Decision no. 007/80 at the end of 2018. The budget for this category was spent at €8,858 or 38%. The reason why the budget was not implemented is because tendering procedures for the capital project "Construction of ICMC Facility" in the amount of €145,000, led by the Ministry of Public Administration were not carried out.

### 3.1.1 Revenues

ICMC for 2018 had planned revenues in the amount of €33,000,000, out of which had managed to collect 79% or revenues of €25,999,451 (excluding the deposit of €25,000 for rehabilitation of mines).

From the table below we notice that collection of revenues in 2018 compared to the previous year is lower by €5,229,801 or about 17%, and that this was because the Publicly Owned Enterprise "Kosovo Energy Corporation (KEK)" had not spent planned mining resources.

Table 3. Revenues (in €)

Description	Receipts 2018	Receipts 2017	Receipts 2016
<b>Total</b>	<b>25,999,451</b>	<b>31,229,252</b>	<b>31,206,899</b>
Administrative Fee	425,635	454,370	461,722
Administrative Fines	344,205	204,406	190,895
Mining royalties	25,229,611	30,570,476	30,554,282

Revenues collected relate to administrative fees, administrative fines, mining royalties and confiscation of deposits for rehabilitation of the site where ores were used.

### Recommendations

We have no recommendations in this area.

### 3.1.2 Wages and Salaries

Wages and Salaries are paid through a centralised payment system that is managed by MPA and MoF. Key controls that confirm the accuracy and completeness of the payments are the payroll lists which are signed by heads of organisational units.

Expenditures for Wages and Salaries during 2018 were €795,661 or 100%. The approved number of employees at ICMC was 77, while the current number of employees at the end of the year was 76.

#### **Recommendations**

We have no recommendations in this area.

### 3.1.3 Goods and Services and Utilities

The final budget of Goods and Services and utilities in 2018 was €410,192, out of which were spent €392,484 or 96%. Largest part of expenditures in these categories include operating costs such as official travel, rent expenses, maintenance, vehicle registration and facility, education and training costs, other contractual services and utilities, etc.

#### **Recommendations**

We have no recommendations in this area.

### 3.1.4 Capital investments

The final budget for capital investments was in the amount of €23,500, while expenditures were only €8,859 or 38%. They relate to upgrading of the e-mail system and building of the ICMC facility.

#### **Recommendations**

We have no recommendations in this area.

## 3.2 Capital and non-capital assets

ICMC's capital assets over €1,000 were in the amount of €647,511, non-capital assets under €1,000 were €79,060 and stocks in the amount of €19,926.

The ICMC had established a commission for inventorying and a commission for assessment of non-financial assets. Committees had fulfilled their duties as required by the regulation by drafting specific reports and providing recommendations on how to proceed with non-financial assets.

#### **Recommendations**

We have no recommendations in this area.

### 3.3 Receivables

ICMM in AFS has presented the total value of accounts receivable in the amount of €25,868,147, whereas only for 2018 receivables amounted to €2,846,105. Accounts receivable consist mainly of mining royalties (73%), different fines (23%) and administrative fees (3.7%).

In the ICMM is noticed an increasing trend of receivables from year to year (10% only in 2018). This has happened despite the fact that ICMM had applied debt programming, conditioning of licensing, imposing fines and engaging private bailiffs to achieve the best results, but these actions had not shown any specific effect. For these issues we have recommended in previous years, but this remains a challenge for the ICMM.

In addition, the increase of accounts receivable has led to Government's decision no. 29/20 dated 20.12.2017 for issuance of the license to Trepça J.S.C to exercise its activities for the public interest, by taking into account the economic and social aspect of development of Trepça J.S.C.

Liabilities of Trepça J.S.C at the end of 2018 were in the amount of €12,414,395 or 48% of the total receivables.

#### **Recommendations**

We have no recommendations in this area.

### 3.4 Outstanding liabilities

The statement of outstanding liabilities owed to suppliers at the end of 2018 were in the amount of €8,064, which were carried forward to be paid in 2019. In general, ICMM has good controls in managing outstanding liabilities.

#### **Recommendations**

We have no recommendations in this area.

## 4 Good Governance

Good Governance implies basic principles of accountability, effectiveness of controls, risk management, independence of internal audit, and coordination of NAO with internal audit and good governance with public assets.

A key tool supporting effective governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. The level of compliance with FMC requirements by Budget Organizations is monitored by the self-assessment checklists completed by all BOs, which are submitted at the end of the year to the Ministry of Finance.

Specific areas of our governance-related reviews have been the accountability and risk management process, while the other components are handled within the chapters or subchapters above.

## Overall Governance Conclusion

ICMM in general has good controls in relation to its legal obligations. Financial management and control has proved a good process of review and assurance in implementation of legislation and other control processes.

Governance in ICMM in the area of managerial reporting and accountability, as well as risk management reflects a positive situation. Progress in implementation of recommendations given by NAO and preparation of risks register with all measures, by identifying all significant risks that may have impact on the organization regarding the achievement of its objectives.

### 4.1 Internal Audit System

ICMM has a functional internal audit system that constitutes an important segment of overall controls. The Internal Audit Unit (IAU) consists of one auditor (IAU Director). IAU for 2018 has planned to carry out five audits.

The Audit Committee during 2018 had held five meetings. Furthermore, IAU had produced reports that were submitted to the CHUIA in MoF.

#### **Recommendations**

We have no recommendations in this area.

### 4.2 Management Reporting, Accountability and Risk Management

In order to have a proper planning, oversee activities on a regular basis and allow effective decision-making, the Management needs to have regular reports. Accountability as a process is the acceptance of responsibilities, holding persons into account for their actions and disclosing results in a transparent manner. Whereas, risk management is a process related to identification, analysis, evaluation and actions/measures taken by the Management to control and respond to risks threatening the Organization.

Governance in ICMM in the area of managerial reporting and accountability, as well as risk management reflects a positive situation. In addition, ICMM had drafted a strategic plan and the register of risks that may face, and the measures it can undertake to achieve its objectives.

Management of ICMM had designed a good internal control system and financial management. The internal reporting process functions according to the organizational structure. In this regard, management maintains regular meetings with all department heads that are accompanied by minutes and appropriate records in order to enable an effective and timely response to identified operational problems. ICMM has also prepared the risks register.

## 5 Progress in implementing recommendations

Our audit report on the AFS for 2017 of ICMM has resulted with six recommendations. ICMM had prepared an Action Plan showing how it will implement recommendations given by the National Audit Office.

By the end of our 2018 audit, six recommendations were implemented. For a more complete description of the recommendations and how they are handled see Table 3.

Table 3. Summary of prior year recommendations and of 2018

No.	Audit area	Recommendations of 2017	Actions taken	Status
1	<b>Revenues</b>	The Chairman of the Board should ensure that appropriate measures are taken to increase the accountability and efficiency of the relevant mechanisms in order to provide complete information on the volume of manufactured minerals and the activity of the licenses users as provided under the applicable law.	ICMM had increased activities of field inspectors related to the volume of manufactured minerals and the activity of license users.	Implemented
2	<b>Revenues</b>	The Chairman of the Board should ensure immediate and effective co-ordination and efficient action is taken through state bodies <sup>3</sup> in order to influence the prohibition of illegal activities. It should also analyse the effectiveness of the available mechanisms for collection of fines, as well as propose additional measures and procedures that have a direct impact on the prohibition of illegal operations, collection of debts and protection of the country's property.	Management has taken action by increasing the cooperation with state bodies, police and TAK.	Implemented
3	<b>Personnel management</b>	The Chairman of the Board should ensure that an appropriate solution is found to cover the position of the Certifying Officer under the LPFMA.	Management has taken actions to eliminate the conflict of interest with regard to the Certifying Officer. This duty was delegated to another official as additional work.	Implemented

4	Capital and non-capital assets	The Chairman of the Board should strengthen controls on asset management by making proper records and removing from the register all donated and disposed assets so that the asset presented in the AFS at the end of the year is accurate and complete.	Management had made the necessary corrections in the assets register.	Implemented
5	Receivables	The Chairman of the Board should ensure that appropriate measures are taken including legal actions in order to increase the efficiency in collecting receivables.	Management had applied debt programming, conditioned licensing, imposed fines and engaged bailiffs.	Implemented
6	Progress in implementation of recommendations	The Chairman of the Board should ensure that a revised action plan has been implemented to address the remaining 2015 and 2016 recommendations. This plan should define reasonable timetable for the implementation of the recommendations made by the AG, with the accountable staff identified. Progress towards the plan should be systematically monitored by management to ensure full implementation of the recommendations.	Management of ICMM had implemented all recommendations given. Implemented.	Implemented
No.	Audit area	Recommendations of 2018		
We have no recommendations in 2018				

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



## Annex I: Explanation of the different types of opinion applied by NAO

(extract from ISSAI 200)

### Form of opinion

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

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the opinion in the auditor's report in accordance with the section on "Determining the type of modification to the auditor's opinion".

148. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor should discuss the matter with the management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the audit opinion.

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

151. The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or if the auditor was unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Auditors may issue three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.

Determining the type of modification to the auditor's opinion

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

- The nature of the matter giving rise to the modification – that is, whether the financial statements are materially misstated or, in the event that it was impossible to obtain sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

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

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

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

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705<sup>19</sup> provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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

157. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not materially misstated in the financial statements, the auditor should include an Emphasis of Matter paragraph in the auditor's report. Emphasis of Matter paragraphs should only refer to information presented or disclosed in the financial statements.

158. An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading "Emphasis of Matter" or another appropriate heading;

- include a clear reference to the matter being emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor's opinion is not modified in respect of the matter emphasised.

159. If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, and provided this is not prohibited by law or regulation, this should be done in a paragraph with the heading "Other Matter," or another appropriate heading. This paragraph should appear immediately after the opinion and any Emphasis of Matter paragraph.

## Annex II: Letter of confirmation



Republika e Kosovës - Republika Kosova - Republic of Kosovo

Komisioni i Pavarur për Miniera dhe Minerale

Nezavisna Komisija za Rudnike i Minerale



## LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2018 dhe për zbatimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Të nderuar,

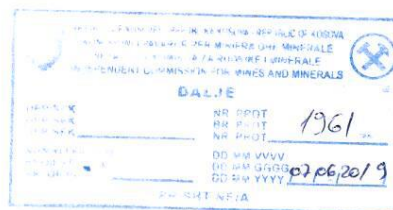
Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Autoritetit të Komisionit të Pavarur për Miniera dhe Minerale për vitin e përfunduar më 31 dhjetor 2018 (në tekstin e mëtejme "Raporti"); dhe
- pajtohem me përmbajtjen e Raportit.

z. Musa Shabani

Kryetar i Bordit të Komisionit për Miniera dhe minerale

Data: xx.qershor.2019, Prishtinë,



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Kuvendi i Kosovës

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