



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

**AUDIT REPORT ON THE MINISTRY OF ENVIRONMENT AND
SPATIAL PLANNING
FOR THE YEAR ENDED 31 DECEMBER 2018**

Prishtina, June 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 Statements of the Ministry of Environment and Spatial Planning, in consultation with the Assistant Auditor General, Qerkin Morina, who supervised the audit.

The report issued is a result of the audit carried out by Albesa Tolaj – Ramosaj (Team Leader), Arta Birinxhiku and Aurora Morina (team member), under the management of the Head of Audit Department Bujar Bajraktari.

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Executive Summary

This report summarises the key issues arising from our audit of the Ministry of Environment and Spatial Planning 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 29.03.2018.

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 Ministry of Environment and Spatial Planning.

Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

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

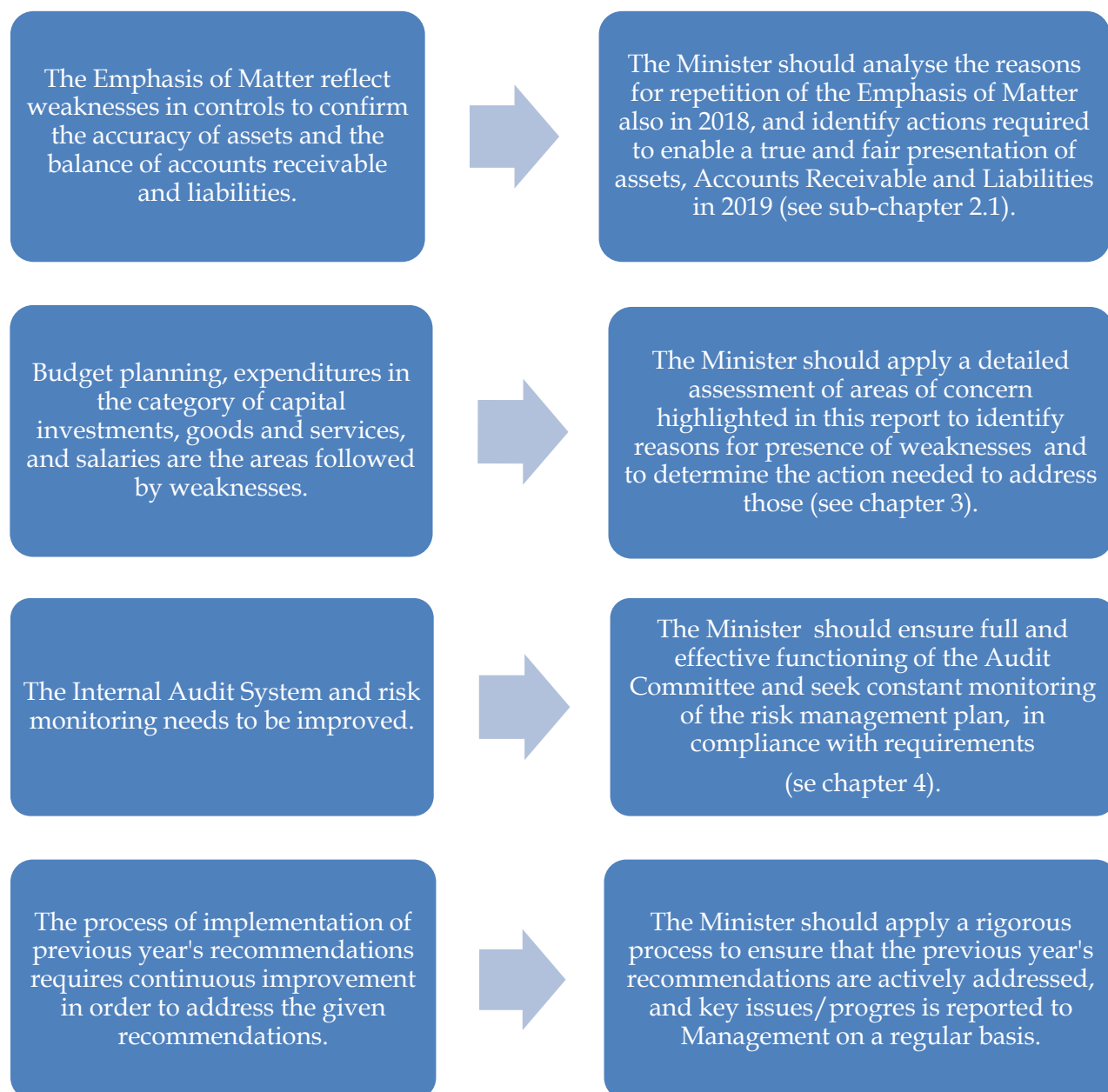
Emphasis of Matter

We draw your attention to the fact that asset registers and the disclosure of Outstanding Liabilities and accounts receivable are not fully reliable and accurate. In addition, irregular payments for wages and salaries in the amount of €126,242 have been identified.

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

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

Key Conclusions and Recommendations



Management response to the Audit 2018

The Management has agreed with most of the findings and conclusions of the audit, and has committed to address all given recommendations. Comments on issues for which the management of the ministry has not agreed, can be found in Annex II.

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 Ministry's business, 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. 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.

The following sections provide a detailed summary of our audit findings and recommendations in each area of review. Management response to our findings can be found in Annex II.

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 with Emphasis of Matter

We have audited the AFS of the Ministry of Environment and Spatial Planning for the year ended on 31st of December 2018, which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement and the Explanatory Notes of the Financial Statements.

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

Basis for the opinion

Our audit was 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 the opinion.

Emphasis of Matter

We draw your attention to the fact that:

- The value of capital assets (over €1,000), presented in the AFS was understated by €1,327,412¹, as these assets were not recorded in the accounting registers. While, regarding non-capital assets (under €1,000), the value of €1,128,000, presented in the AFS, according to the asset

¹ The Road segment "Dheu i Bardhë" Gjilan are not registered assets in the amount of €1,004,388, "Fixing rivers" payment in the amount of €318,752 and at "Toka-Hade" in the amount of €4,272.

register, was also incorrect. This is due to the fact that in the Ministry (except for the Kosovo Cadastral Agency), the registered assets were not depreciated according to the norms stipulated by the regulations, and registers contained assets in the amount of €1,000, which in total make the amount of €411,462. In addition, unregistered assets were found in the amount of €14,455. The Ministry did not have an internal register to reflect accurately the value of assets under €1,000.

- The Ministry does not yet have a full register of all its water assets (as defined by the Law No. 04 / L-147 on Waters). This issue was highlighted also in the previous year.
- The Ministry's liabilities are overstated by €948,844² since there was disclosed an obligation which was not an obligation of the Ministry.
- Accounts receivable presented by the Environmental Protection Agency (EPA) were understated by €1,166,540. This was due to the fact that in the AFS only the receivables of 2018 were presented in the amount of €515,199, not including the balances of the previous years.
- The Ministry had executed irregular payments from category of salaries and wages in the amount of €126,242, for more details (see issue C1).

Key Audit Issues

The value of Outstanding Liabilities for expropriations from 2010-2018 has reached the total amount of €159,384,567. Out of them: for expropriation of private properties €47,623,006, for expropriation of municipal property €11,059,701, for expropriation of socially owned properties €84,846,822, and for expropriation of public properties €15,855,038. The increase of liabilities over the years was due to the lack of financial resources and as a result of inadequate management of the expropriation process by the three responsible ministries: Ministry of Infrastructure which has the responsibility to allocate the expropriation segments, the Ministry of Finance responsible for determining the financial value of the expropriations, and MESP that is executing the payments of the financial value determined by the MoF.

2.2 Compliance with AFS and other reporting requirements

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

- Requirements of LPFMA no. 03/ L-048, (as amended and supplemented);
- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
- Compliance with Financial Rule no.01/2013 on Public Funds Expenditure, and 02/2013 on Management of non-financial Assets;
- Action Plan on implementation of recommendations;

² MESP in cooperation with the Ministry of Economic Development (MED) and the Regional Water Company Gjakova had signed the Memorandum of Understanding on 9.07.2018 where Article 2. Paragraph 2. Stipulates that MESP will finance project implementation in the amount of €200,000, the amount that was paid on 29.10.2018.

- Requirements of Financial Management and Control (FMC) procedures.
- Final Procurement Plan and the Report on Signed Contracts;
- Quarterly Financial Reports; and
- Operation Reports.

In the context of the AFS we have no issues to raise, except for those described in the Emphasis of Matter.

Therefore, the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance can be considered to be correct, except for the paragraph in the Emphasis of Matter.

2.3 Recommendations related to Annual Financial Statements

For the above-mentioned issues are given the following recommendations:

The Minister should ensure that the necessary measures are taken to eliminate the causes that have led to the Emphasis of Matter. In this regard, to carry out identification and recording in registers, information related to assets, liabilities and receivables, for their presentation in the AFS is accurate and complete.

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

Despite the fact that MESP has set relatively good controls in relation to its statutory obligations, non-compliance with requests has caused deficiencies in the payment process, inadequate management of assets, etc. Financial management and control should prove a good process of review and assurance in the implementation of legislation and other control processes. The main areas where more improvements are needed are in budget execution for capital investments, delays in execution of payments from the category of capital investments and goods and services, payments through court decisions and asset management under €1,000.

3.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ³	2018 Outturn	2017 Outturn	2016 Outturn
Sources of Funds	52,893,885	45,248,031	38,288,425	40,267,136	38,172,422
Government Grant -Budget	46,443,885	37,519,057	34,727,214	39,215,730	36,157,798
Borrowings	3,300,000	3,300,000	0	0	720,076
Revenues from PAK	3,150,000	3,150,000	3,056,483	0	0
External Donations	0	1,278,974	504,728	1,051,406	1,294,548

The final budget is lower than the initial budget by €7,645,854. This increase is a result of external donations in the amount of €1,278,974, and budget was reduced by Government decisions on budget cuts.

In 2018 the Ministry has spent €38,288,425 or 85% of the final budget, with a decrease of 12% compared to 2017. Explanations for the current position are detailed below.

³ Final budget – the budget approved by the assembly, which was subsequently adjusted for by the Ministry of Finance.

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

Description	Initial Budget	Final Budget	2018 Outturn	2017 Outturn	2016 Outturn
Spending of funds by economic categories	52,893,885	45,248,031	38,288,425	40,267,136	38,172,422
Wages and Salaries	2,204,901	2,199,043	2,197,516	1,976,772	1,984,177
Goods and Services	1,418,082	3,027,194	1,555,625	1,419,875	1,358,734
Utilities	83,220	75,826	68,363	67,241	40,974
Capital Investments	49,187,682	39,945,968	34,466,921	36,803,248	34,788,537

Explanations for changes in budget categories are given below:

- The final budget for wages and salaries was reduced by €5,858 compared to the initial budget. This reduction was made with a Government decision. Of this category, 99% of the final budget was spent.
- The final budget for goods and services was initially increased by €684,785 as a result of external donations and €342,000 as a result of the transfer from capital investments by a government decision to cover expenditures for the Task Force established by the Government for cleaning of the environment in Kosovo (€292,000), and for installation of the electric network in Gadime (€50,000). Despite the increase, the budget executed for this category was only 51%. This is due to delays in development of procurement procedures.
- The budget for Utilities was reduced by government decision by €14,405. The budget execution for this category was €68,363 or 90%.
- The final budget for capital investments was reduced by €9,241,714 compared to the initial budget, by the Minister of Finance and the Government decisions. Execution in relation to the final budget was 86%.
- With the Law on Budget, the Ministry allocated €3,300,000 from borrowings, for implementation of the project "Sewage landfill in Municipality of Pristina", a project with estimated investment value of €20,000,000 from 2017.
- Even during 2018, the Ministry had failed to implement the spending of funds for this project, as it had failed to finish procurement procedures for engagement of an international expert, for drafting of the terms of reference for project implementation.

Issue B1⁴ – Poor performance in execution of budget

Finding Budget execution should be done in accordance with Law no. 06 / L-020 on the Budget of the Republic of Kosovo for 2018, as well as in accordance with the cash flow.

Execution of the budget for capital investments is still the main challenge faced by MESP. Although the annual expenditure in relation to the final budget was 86%, we cannot say that it is a good performance indicator. Initially, many adjustments/cuts were made during the year, while on the other hand the outstanding liabilities at the end of the year in this category were very high (€2,206,432, excluding obligations on property/land expropriation).

Under the budget, 77 projects were planned (46 ongoing projects from the past and 31 new projects). Delays in implementation of the projects were obvious, due to delays in initiating procurement procedures, signing of contracts at the end of the year, cancelling of procurement procedures and complaints by Economic Operators (EOs) at Procurement Review Body (PRB) and poor drafting of projects and technical specifications by the requesting units.

Risk Poor budget execution for capital investments results in inefficient use of available resources, and reduces the effectiveness of the Ministry's expenditure plans. Non-fulfilment of capital investment program results in implementation of fewer projects.

Recommendation B1 The Minister should ensure that budget drafting is based on a detailed analysis of all factors affecting its execution in order to avoid the differences between planning and spending. The Minister should also ensure that all obstacles related to project execution are eliminated, and to initiate procurement procedures on time.

3.1.1 Revenues

The MESP in 2018 has planned to generate revenues in the amount of €923,000, but managed to collect around €1,398,646, or 51% more than planned. Compared with the previous year there was an increase by €754,384 or 117%. Revenue increase was a result of payments by water consumers, after the agreements made by the Ministry with the operators for programming and settlement of the debt accrued over the years.

Revenues are generated from licenses, water supply, revenues from construction permits, revenues from sale of services, municipal environmental permits, etc.

⁴ Issue A and Recommendation A – implies new issues and recommendations.

Issue B and Recommendation B – implies repeating issues and recommendations.

Issue C and Recommendation C – implies issues and recommendations that are partially repeated.

These revenues are generated by the MESP through the Department of Water, the Department of Environmental Protection, the Department of Housing and the Kosovo Cadastral Agency. Revenues collected are deposited into the Kosovo budget and not used by the Ministry.

Table 3. Own Source Revenues (in €)

Description	Initial Budget ⁵	Final Budget	2018 Receipts	2017 Receipts	2016 Receipts
Own source revenues	923,000	923,000	1,398,646	644,262	609,575
Total	923,000	923,000	1,398,646	644,262	609,575

Recommendations

We have no recommendations in this area.

3.1.2 Wages and Salaries

Wages and salaries are paid through a centralized payment system managed by the MoF. However, there are a number of controls that operate within MESP, which relate to the authorization of the payroll list, the change of the payroll and the reflection of the changes that have been made. The planned number of employees was 343, while the current number at the end of 2018 was 330 employees.

The final budget for the category of wages and salaries was €2,199,043 and €2,197,516 or 99% was executed, despite the fact that the Ministry had not filled in the number of planned employees. This was as a result of the increase in the number of employees in the cabinet of the Minister, as from 20 employees, as planned, the number increased to 30 officials. This increase was made with Prime Minister's decisions on the appointment of deputy ministers who also have supporting staff. The high salaries of cabinet officials compared to the positions approved by the budget have led to spending of almost the entire budget, although the number of employees was not completed.

In relation to the personnel issues, we identified the following:

⁵ The initial and the final plan in this case implies the value planned to be collected.

Issue C1 – Lack of evidence for attendance at workplace**Finding**

Pursuant to the Brussels Agreement, respectively the 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 on dissolution of the so-called “Civil Protection” which has functioned in the northern municipalities of Kosovo, and has supported the commitments stipulated by these conclusions. Through this decision, relevant ministries and agencies are obliged to implement the conclusions.

Based on this, in the MESP, after a recruitment process, 38 officials of the Serb community, former members of “Civil Protection”, were integrated with appointment letters. These employees were planned to be systematised in the municipalities, in the northern part of Kosovo. However, their appointments letters determined only assigned positions, but not their working place.

We have noted that for 29 out of the 38 above-mentioned officials, the Ministry has no evidence to confirm their attendance at the workplace, as required by Regulation no. 05/2010 on working hours, while the Ministry had made regular payment of their salaries.

The financial value of expenditures for salaries in 2018 for these 29 officials was €126,242.

This has happened because managerial controls have not been applied to ensure that all employees are present at the workplace during the working hours.

Risk

Payments of employees in absence of evidence for attendance at work, and lack of commitment to carry out official duties, constitute irregular payments and damage the budget of the Ministry.

Recommendation C1 The Minister should undertake all actions to ensure regular attendance of these employees by carrying out constant monitoring, as foreseen by legal acts. On the contrary, this issue should also be discussed with the Government, as this problem is widespread in other ministries.

Issue B2 – Application of different coefficients for the same positions

Finding According to the Law No. 03 / L-147 on Salaries of Civil Servants, Article 3, paragraph 2, Public administration institutions in the Republic of Kosovo are obliged to pay equal salary for the same work with the same value.

When comparing the data for employees in MESP and Kosovo Cadastral Agency (KCA) for December, we have identified that in nine cases⁶ compensation was applied with different coefficients for the same positions. This had been partly a result of earlier recruitment of officials with different qualifications in the same positions.

Risk Failure to harmonize the coefficients and payments of officials for the same positions affects the quality of the works carried out by the respective officials and damage the budget.

Recommendation B2 The Minister should ensure that the payment of officials is done based on job descriptions, preventing the possibility of different payments for the same positions.

Issue B3 – Shortcomings in employee engagement with Special Services Agreement

Finding According to Law no. 03 / L-149 on Civil Service of the Republic of Kosovo, Article 12, point 4 - Appointments with a fixed term for a period of less than six (6) months shall be made on the basis of contracts called “Special Service Agreements” which are subject to the Law on Obligations and for which a simplified recruitment procedure is applied.

During 2018, the MESP had engaged 148 employees with Special Services Agreements (SSAs) who were engaged in different time periods. In three (3) cases the legal deadline of six months has been exceeded, and they continued their work only by a request from the respective department. In 13 cases, persons were engaged in performing regular duties, such as: security officers, administration and forest guardians. This was done in the absence of vacant positions and the need of the Ministry to fill in these positions, while 67 people were engaged as field workers, without applying any recruitment procedures. This is because their engagement for the five (5) month period was done through a Government decision for the project “Let’s Clean up Kosovo”.

⁶ Positions: Information Officer, Coefficients 7 and 6, Professional Researcher, coefficient. 9, 8 and 7, Coefficient Auditor. 15 and 7; Administrative Assistant, Coefficient 6 and 5; Co-ordinator, Coefficients 8 and 7, Co-ordinator, Coefficients 9 and 8; receptionist, coefficient 6 and 5; Senior Legal Officer - Coefficients 9 and 8; Officer for Protection of Air Quality - Coefficient 7 and 6.

Risk The signing of Special Services Agreements for regular tasks, and exceeding of the legal deadline of over six months, constitutes additional costs on contractual services. Engagement of persons with the SSA without procedures may result in engagement of non-meritorious persons, due to the lack of competition.

Recommendation B3 The Minister should ensure that legal deadlines are applied for the duration of engagement with the SSA, and that such contracts are used only for special services, and not for regular positions, and every recruitment is made through the procedures required by the law.

3.1.3 Goods and Services and Utilities

The final budget for Goods and Services (including Utilities) in 2018 was €3,103,021. Out of them, €1,623,988 or 52% were spent. They relate to office supplies, fuel for vehicles, expenses for traveling abroad, vehicle maintenance and repairs, other contracting services, and expenditures for Utilities.

From this category, we have selected 25 samples for substantive testing and 11 samples for compliance testing. Our tests have resulted in the following finding:

Issue A 2 – Financial support to cover travel expenses for persons who were not part of the Ministry

Finding According to AI 2004/07, Article 2, official travel is the movement, which has a destination, or purpose that serves to carry out official duties of the Government of Kosovo and the civil service.

From our testing, we noticed that on 16.05.2018 the Minister made a decision on financial support - covering travel expenses (flight tickets) in the amount of €7.144 for 14 persons for participation in the “16th International Architecture Exhibition, Biennale in Venice”. The persons in question were not part of the Ministry and the purpose of this support or the Ministry’s benefit from their participation in the event is not known. The decision was issued on the basis of a request made by the Ministry of Culture, Youth and Sports to partially support in covering the expenditures, without providing any supporting document which would indicate the purpose or benefit of the Ministry from this event.

Risk Spending of funds for persons who are not part of the ministry and without benefits for the ministry, and non-justifications of the funds spent indicates inadequate management of public funds, and such expenditures may be considered as irregular expenditure.

Recommendation A1 The Minister should ensure that any expenditure incurred by the ministry's budget for financing of the ministry's activities, is documented and carried out in compliance with the financial regulations.

3.1.4 Capital Investments

The final budget for capital investments was €39,945,968. Out of them in 2018, €34,466,921 or 86% were spent. They mainly relate to capital expenditures for the arrangement and maintenance of the environment and expropriation expenditures.

Management has set up a capital investment control system, including the procurement and payment process. Our tests have identified that these controls were not very effective during the reporting period.

From this category we have selected 100 samples for substantive testing and 11 samples for compliance testing. The tests have resulted with the following findings:

Issue A 3 - Delays in the implementation of the procurement plan for capital projects

Finding Based on the Law on Public Procurement (LPP) not less than thirty (30) days before the beginning of each fiscal year, each contracting authority should prepare, the preliminary procurement planning, which will identify with reasonable detail all supplies, services and the works that the contracting authority (CA) foresees to procure during the fiscal year in question.

In the procurement plan for 2018, MESP foresaw the procurement of 44 capital projects with a common value of €23,018,682. By the end of the year, it had managed to implement only 24 procurements with a financial value of €4,492,279.

Reasons for not implementing projects include, lack of detailed projects, delays in initiating procurement procedures in relation to the plan in the absence of technical specifications of projects, cancellation of procurement processes, and delays in signing contracts as a result of the procedures on complaints and disputes at PRB.

Risk Failure to carry out procurement procedures in time impose the risk that the capital projects will not be implemented according to the foreseen plan and reduces the possibility of meeting the ministry's annual objectives.

Recommendation A3 The Minister should ensure that all the factors that may affect in implementation of the plan are taken into consideration when preparing the annual procurement plan, such as: resolution of property disputes, preparation of executive projects, timely initiation of procurement procedures, establishment of the evaluation commissions with adequate experience and expertise, etc.

Issue A 4 – Improper budget planning and initiation of projects without securing preconditions for implementation

Finding

Article 9, paragraph 3, of the LPP - If the contracting authority is a public authority or budget organization and the concerned procurement will increase financial obligations that will be satisfied from budget appropriations expected to be done in future fiscal years. The CFO shall ensure that the schedules attached to the Law on Budget Appropriation provide a reasonable basis to expect that sufficient funds will be appropriated to it in such future fiscal years for the purpose of satisfying such obligations.

We have noted that for the project “Rehabilitation of the Water Network and Increase of Water Capacities for 9 villages in Kaçanik”, the contract was signed in 2015 in the amount of €948,036, while the initial budget planning for three years 2015-2017 was only €400,000. For this project, the Ministry had signed a contract annex in the amount of €92,468 and in 2018 signed a new contract for continuation of works in the amount of €178,434, which also exceeds the amount of budget appropriations by €169,160. In total, this project amounted to €1,218,938, or more than double of the initial planning. The works for the project were not yet completed. Execution of works by the end of 2018 was 96%.

For the project “Construction of the pipeline from Shipoli (Mitrovicë) to Tërnovc (Skënderaj)”, the Ministry had contractual obligations from previous year in the amount of €328,354⁷, while under the Law on Budget for 2018, the budget for this project for three years (2018-2020) was only €170,000. In addition, in 2018 it had signed an annex contract for additional works in the amount of €31,831. This has constituted the need for future budget changes. To compensate budget shortcomings for this project, funds from other projects had to be taken.

⁷ The signed contract was in the amount of €388,460, while the expenses / payments made during 2017 were €60,106.

For the project "Construction of 7 Laure in the territory of Kosovo for the Empowerment and Management of National Parks Mali Sharr and Bjeshket e Nemuna", the contract was signed in 2018 in the amount of €334,649, while the three year budget planning was only for €170,000 or 49 % less.

Further on, Article 28 paragraph 10 states that "Technical Specifications for work contracts must accurately determine the nature and characteristics of the performance of the works required. An integral part of the technical specifications should also be the executive project. Without an executive project, no CA is permitted to issue tender documentation, including the provision of relevant permits under applicable Laws (Law on Environment, Law on Waters, Construction Law, etc.)

For the project "Protection and preservation of the spatial environment in the region of Suhareka - Sharr Mountains", the works were terminated by the Ministry itself as the contractor during the execution of the works according to the conditions foreseen by the contract had entered the area which is protected by the law⁸, and the works to obtain the environmental impact assessment were not allowed. This was not foreseen by the Ministry in time.

For the project "Fixing of River bed in Mirusha " during 2018 the Ministry had made payments in the amount of €353,670 without requiring the insurance of the execution of the works. This is a project initiated in 2012 in the amount of €3,133,171, which is still followed by delays in implementation as a result of problems with the expropriation of the properties that are stretched along river bed, problems which the municipality had not yet solved, and the lack of the necessary capacities to carry out the works by the economic operator.

The aforementioned shortcomings have occurred as a result of inadequate planning, inappropriate project and technical specifications, lack of adaptation to the on-site circumstances and incorporation of the projects in the budget law, either by the Ministry or by the parliamentary groups, without any proper preliminary analysis of the projects.

⁸ Law No. 03 / L-233 on Nature Protection, Article 43 Point 1 and 2 The Ministry of Environment and Spatial Planning is the competent authority for decision-making, determines the special conditions for nature protection in the procedure of issuing permit of the construction and for works performances as well interventions in the territory of national park, paragraph 2, the permit shall be issued only if the construction of facilities is planned with the Spatial Plan of protected area and implement EIA procedures according to the Law No. 03 / L-214 on Environmental Impact Assessment, Annex 1 point 25 which defines that "the widening of an existing road will be five (5) km or more in continuous length, and it should be subject to EIA procedures".

Risk Initiation of procedures by the Ministry in excess of the approved budget funds, failure to properly draft technical specifications and commencement of work prior to providing work conditions, risks the progress and implementation of projects as planned, producing additional costs for the ministry.

Recommendation A4 The Minister should ensure that the legal requirements are strictly adhered, so that budget planning and drafting of key projects is made in accordance with the on-site circumstances, so that the projects can be implemented on time and without additional costs. Further on, before contracting the works, for each MESP-funded project, all necessary permits shall be obtained.

Issue A 5 - Failure to respect the criteria in awarding economic operators

Finding According to the secondary legislation of the LPP, the standard tender dossier paragraph 6.4 Eligibility of economic operators specifies that EO has no right to participate in a procurement activity or in the execution of any public contract if that EO is currently late in paying the any social security contribution or tax in Kosovo. Further on, it is noted that all members of the group (when applying as a group) should be appropriate and provide evidence of their suitability.

We have noticed that during the procurement process for the project "Construction of 7 ramps in two National Parks, Bjeshkët e Nemuna and Sharr", the contract in the amount of €334,649 was won by a group of EO. However, during the evaluation of the bids, the above mentioned rules were not respected, as one of the members of the group had received a tax certificate stating that the person had unpaid tax obligations. In spite of this, the group in question was awarded with a contract.

This has happened due to the lack of responsibility of the Bid Evaluation Committee, failing to strictly comply with the requirements set out in the tender dossier.

Risk Awarding of the contract to the EO that does not meet the defined criteria leads to legal non-compliance, may be subject to unequal treatment of bidders and harms the transparency of the process. Subsequently, contracted work can be performed with poor quality.

Recommendation A5 The Minister should increase responsibility measures towards Bid Evaluation Committees, so that bids are evaluated objectively, and to ensure that only responsible and meritorious operators will be awarded.

3.1.5 Expropriation Payments

MESP is responsible to carry out payments for expropriation of the property. These payments are carried out by the budget allocated for capital investments. The final budget for expropriation expenditures was €21,241,500. Out of them, €21,032,332 or 99% of the funds were spent. Procedures for registration of the expropriated property are regulated by the Law No. 03 / L-139 on Expropriation of Immovable Property, supplemented and amended by the Law No.03 / L-2015. The subject of immovable property registration is regulated by the AI no.18 / 2015, while the competent institutions for registration and regulation of expropriated properties are the Municipal Cadastral Offices (MCOs).

From this category of payments, we have tested 100 samples and testing has resulted in:

Issue A 4 – Failure to set up the Electronic Expropriation System

Finding In order to better manage the issue of expropriations, MESP is in the process of setting up an expropriation system (EES) since 2013, but this system has not yet been functionalized and the expropriation data registration continues to be performed in Excel program. This is due to the lack of finalization of the operational guidelines for EES, drafted by the working group, but not signed by the Secretary General of MESP. In this process are included the Ministry of Finance and the Ministry of Infrastructure, which have been negligent and have not expressed willingness for cooperation regarding the use of EES during 2018. We have reported this issue also in the previous year's audit reports, but it was not addressed.

Risk Failure to functionalize the EES, recording of expropriation data in Excel forms, and the lack of a procedure for this process, increases the risk of errors and damages the data quality. Further on, the possibility of changes without leaving tracks (in Excel) can be a subject of irresponsible changes.

Recommendation B4 The Minister should review the entire process and identify all the factors that have led to delays in setting up this system into function, and ensure that within a reasonable period of time the system is functional.

Issue C2 - Payments through court decisions

Finding Based on LPFMA, Article 40, paragraph 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 relevant Ministry.

Through court decisions on expropriations in 2018, direct payments from Treasury were executed in the amount of €2,377,885. This is because owners have received regular payment of expropriation, but dissatisfied with such price they have filed a lawsuit against MESP and have achieved to change the price through court decisions. In some cases when the party wins the dispute, the final judgement is not sent to the MESP, but directly to the enforcement agent. This causes additional costs for execution procedures. For ten (10) tested cases of these payments, MESP has paid €61,977 additional costs for execution procedures and other administrative expenses.

This has happened due to poor cooperation between the competent Courts, with the State Advocacy and the Ministry.

We have also identified that the obligations arising from expropriation of municipal property in the amount of €11,059,701 have not been compensated for years, although municipalities have applied for compensation. During 2018, only Pristina Municipality was compensated in the amount of €1,732,375 through private enforcement agent. This value is only a part of the total amount determined on the basis of the execution order, where the total amount of compensation was €2,271,627.96, of which €1,680,000 were for the principal debt and the rest for interest, expenditures, enforcement and other administrative expenditures (in total €591,628).

This has happened due to the lack of budget.

In addition, it is worth mentioning that out of 27 samples tested, in 16 of them, the Treasury had executed the payment prior to receive the confirmation from MESP that the same payment was not made by the ministry.

Risk

Execution of payments by the Treasury through court decisions prior to notify the Ministry increases the risk for the same payment will be made twice, causing additional costs for the ministry. Failure to timely make payments for expropriation of municipal property caused additional costs, damaging the budget of the ministry.

Recommendation C2 The Minister should ensure that the causes of the findings presented above are analysed. In cooperation with the State Advocacy and Courts, it should be ensured that the Ministry receives a copy of the final judgements so that the obligations from the latter are carried out in a timely manner to avoid additional possible expenditures, due to enforcement procedures. Further on, in order to avoid additional costs, it should be discussed with the Government and the Ministry of Finance to provide additional funds for settlement of expropriation obligations on time.

Issue B5 - Recording by inadequate codes of expropriations

Finding According to Financial Rule 01/2013 - Public Funds Expenditure, expenditures should be recorded in the appropriate codes, as defined in the Administrative Instruction for the Accounting Plan.

We have noted that all payments made for expropriation of land during 2018 in total amount of €18,745,379 are recorded in code 31220 (construction of regional roads) and code 31210 (construction of auto roads), while the exact code for their recording is 32100-Earth.

In addition, in two cases, payments of a total value of €1,024,569 were recorded in the investment maintenance code, while they should have been recorded as ongoing investments.

This was due to the non-compliance with the consistency of the accounting plan by the financial officers.

Risk Recording of expenditures into inadequate codes increases the risk for unfair presentation of expenditures, with effect in unfair presentation of expenditures in the AFS.

Recommendation B5 The Minister should strengthen internal controls in the area of payments and finance, to ensure that all expenditures are classified correctly and in accordance with the government accounting plan.

3.1.6 Common issues related to goods and services and capital investments

Following are common issues related to goods and services as well as capital investments:

Issue A 6 – Shortcomings in payment process

Finding According to the Financial Rule 01/2013, firstly, requests for purchase, commitment of funds, processing of purchase orders, processing of goods or services must be initiated, and upon receipt of invoice, payment is executed.

Out of 125 payments tested (including payments for the category of goods and services and capital investments), in 15 of them with a common value of €1,191,447 the commitment of funds and purchase order was made after reception of the invoice.

This has happened due to non-implementation of procedures for spending public money on behalf of responsible officials.

Risk Reception of invoices before commitment of funds and purchase order may lead to the increase of liabilities for future periods in case the Ministry is not able to carry out the payment. This may also result with a lawsuit by the EO.

Recommendation A6 The Minister should establish additional financial controls and ensure that financial officers strictly adhere to the spending procedures, and that all invoices are paid within defined legal deadlines.

3.2 Capital and non-capital assets

MESP has presented in the AFS capital assets over €1000 in the amount of €240,683,792, non-capital assets under €1000 in the amount of €1,128,000, and stocks in the amount of €80,000. We have evaluated management of asset registers, the inventory process, and we implemented substantive tests on 100 samples, and compliance tests in 10 samples. In addition to the issue highlighted in subchapter 2.1 Emphasis of Matter, we have identified the following issue:

Issue A 7 – Delays in inventorying of Assets

Finding Regulation 02/2013 on management of non-financial assets, Article 19, paragraph 4.7, stipulates that asset inventory should be performed before preparation of the AFS, the inventory report should be reconciled with the accounting records and the potential differences to be clarified in the AFS.

The MESP Inventorying Commission had failed to complete the report before the AFS were prepared. The report on inventory of the assets of the Ministry was completed on 18.03.2019. Subsequently, there was no inventory outcome reflected in the AFS.

This has happened because the inventorying commission has failed to perform duties in accordance with the decision assignment of the commission, and the provisions of the regulation on asset management were not applied.

Risk Failure to perform asset inventory on time does not allow reconciliation of assets with the accounting status, and confirmation of the asset physical presence. This increases the risk that the declared assets in the AFS is inaccurate.

Recommendation A7 The Minister should ensure that the inventory commission compiles the inventory report prior to the preparation of the AFSs, and ensures that asset inventory reconciliation with the organization records is performed prior to the preparation of the AFSs in 2019. This report should be reviewed by the management, and the asset register is updated depending on inventory outcomes.

3.3 Receivables

The value of accounts receivable in the PFV of 2018 was €2,327,322 reflecting an increase of these accounts for €515,322 compared to the year 2017. These accounts relate to the taxes that must be paid to the EO that are mainly water consumers. Apart from the issues mentioned in chapter 2.1 for the opinion, we have no issues to raise.

Recommendations

We have no recommendations in this area.

3.4 Outstanding liabilities

The statement of liabilities not paid to suppliers at the end of 2018 was €161,769,076. These obligations include: Final Expropriation Decisions in the amount of €159,384,567, capital investment obligations in the amount of €2,206,432, and obligations for goods and services and utilities €178,077. These obligations were carried forward to be paid in 2019. Our tests have identified the following issue:

Issue C3 – Delays in payment of Liabilities

Finding According to article 37, paragraph 1 of the regulation 01/2013 MoF – Public Funds Expenditure, all invoices received by the budget organization must be paid within 30 days.

From the list of obligations disclosed in the AFS, we have tested 19 samples, and from testing it resulted that 6 invoices with common value of €125,995 have not been paid within the legal deadline.

In addition, by testing of 25 payments for goods and services, carried out throughout the year, we have noticed that 4 invoices with a common value of €15,629 have been paid after the legal deadline of 30 days.

Delays in payment vary mainly from 22 to 98 days beyond the legal deadline. This has occurred because of failure to implement fully regulations on Public Funds Expenditure by responsible officials.

Risk Failure to meet obligations under the terms set out in the Treasury Regulation increases the risk for increase of debts, and the possibility of lawsuits against the Ministry. This may also cause other budget implications throughout the year.

Recommendation C3 The Minister should ensure that finance officers confirm the existence of these obligations in advance, and thereafter to process all invoices for payment on time.

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

There is a number of governance weaknesses within MESP particularly related to risk management. An effective response to audit recommendations and the operation of a high quality internal audit unit are not fully in place, and the Audit Committee is not fully functional. The requirements regarding the submission of the self-assessment questionnaire was fulfilled within legal deadline.

Despite the fact that MESP has developed a risk matrix, according to FMC requirements, including identifying, evaluating and addressing of risks, there are no monitoring mechanisms and continuous review of the risk management plan.

Weaknesses were found in controls, in particular in planning, management and implementation of capital projects, management of expropriations, personnel and asset management.

Projects implemented by MESP, most of them are multi-year projects. Contracts relate to the amounts of the approved initial budget, lack of executive projects, surplus of quantities and contracted works, and in specific cases, new contracts are concluded for the same projects. As a result, projects are not completed within the contracted deadlines.

Expropriation decisions amount to over €159 million, and due to poor management of these obligations, many payments have been executed through court decisions.

In the field of personnel as well, many problems have been identified, such as: payment of employees who have not attended work, the large number of employees engaged with Special Service Agreement, the application of different coefficients for the same positions, etc.

Asset management is also associated with shortcomings. The inventory commission had prepared the report on delay, and therefore, the inventory results were not reflected in the financial statements.

4.1 Internal Audit System

The Internal Audit Unit (IAU) operates with three members of staff – Director of IAU and two auditors. An effective audit requires a comprehensive work programme that reflects financial and other risks to MESP and provides sufficient assurance over the effectiveness of internal control. The impact of Internal Audit output should be judged by the importance that management places on addressing recommendations and the support and challenge provided by an effective Audit Committee.

For 2018, IAU had planned six audits of high and medium risk areas. This includes the activities of 2017 and 2018 regarding: (a) capital investments, (b) assets, (c) management of the warehouse, (d) personnel management, (e) procurement, (f) budget and finance management division, and (g) information technology management.

By the end of the year, all planned audits were carried out. From the plan and from the annual work report it is noticed that the audits were conducted by two auditors until the third auditor's engagement could be confirmed and the third auditor performance evaluation was not even performed at the end of the year. Furthermore, IAU had presented the need for an additional auditor in the annual report.

Even the contribution of AC seems insignificant.

Issue B6 – Poor functioning of Audit Committee

Finding According to the rules for the functioning of the Audit Committee (KA), it is required that the Audit Committee maintain at least four (4) regular meetings during the year. We have noticed that during 2018 the AC had held only three work meetings. From the minutes of the meetings it is noted that the work of the IAU has been reviewed, but the minutes of the meetings are prepared in general terms. The Audit Committee has not compiled its statute yet, as required by AI 11/2010 article 4, point 1.14 on establishment and functioning of CA in the entities of the sector.

Risk Insufficient engagement of the Audit Committee results in lack of monitoring of the IAU work to provide support to the management in decision-making and to ensure that audit recommendations are addressed and implemented.

Recommendation B6 The Minister should ensure that the Audit Committee has adopted its work status, and that CA will review the work plan and internal audit reports constantly, as well as suggest to the management in taking measures and actions in relation to the recommendations given by the audit.

4.2 Management Reporting, Accountability and Risk Management

Management has implemented a number of internal controls to ensure systems work properly. It is important for the management to receive proper and timely reports to enable an effective and timely response to the identified operational problems. MESP has two subordinate agencies: the Kosovo Cadastral Agency (KCA) and the Environmental Protection Agency (EMA), but only the KCA has a separate payment system and prepares the financial statements that are consolidated in the FS of MESP.

Issue B7 – Lack of risk monitoring

Finding Under FMC No. 4 it is emphasized that the risk register should be reviewed regularly (recommended reviews on a quarterly basis) to determine whether actions have been taken as planned and whether any change in risk assessments has been made. The revised risk register should be produced after each review and updated as needed.

MESP has developed a risk matrix, according to FMC requirements, including identification, assessment and risk management, but there are no monitoring mechanisms and continuous review of the risk management plan. This is because the management has not put the emphasis and due attention to this area.

Risk The lack of continuous monitoring of risks by management poses the risk that the identified risks are not properly managed.

Recommendation B7 The Minister should ensure that the risks register is continuously monitored by responsible persons, on regular time periods, in order to reduce the impact of risks at acceptable levels.

5 Progress in implementing recommendations

Our Audit Report on the 2017 AFS of MESP resulted in 19 recommendations. The Ministry prepared an Action Plan stating how all recommendations will be implemented.

At the end of our 2018 audit, out of 19 recommendations given in 2017, only four (4) have been implemented; four (4) were in process; and 11 have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Table 4.

Table 4 Summary of prior year recommendations and of 2018

No	Audit area	Recommendations of 2017	Actions taken	Status
1	AFS	The Minister should ensure that an analysis is undertaken to determine the causes for the emphasis of matter and actions should be taken to draft a complete register of all waterfront properties, that after to be recorded in the asset register.	The situation was the same even during 2018. This is reflected in this report as well.	Recommendation not implemented.
2	AFS	The Minister should ensure strengthening of internal controls in order to present contingent liabilities fully, and cooperate with the State Advocacy for the reconciliation of registers, in order to have all contingent liabilities presented.	We have not found such cases in the AFS of 2018.	Recommendation implemented.
3	Budget Process	The Minister should ensure that the drafting of budget relies upon a detailed analysis of all factors that have an impact in the budget execution without significant differences between planning and spending of funds. Further on, he should ensure that the budget is spent according to the cash flow plan.	It has been requested from budget units that during the budget planning process to analyse the factors that affect the budget execution and the budget expenditures are done according to the cash flow plan and procurement plan. However, this does not depend only on MESP since there is budget interference by the MoF, the Government, and the Assembly.	Recommendation not implemented.

4	Revenues	The Minister in cooperation with the MoF should initiate opening of new codes to allow a clear reflection of MESP revenues.	A request was made by the Ministry to open the respective codes but the MoF did not deem it necessary.	Recommendation closed unimplemented.
5	Wages and Salaries	The Minister should ensure that the payment of officers is made according to the job description, by avoiding the possibility of different payments for the same positions.	No measures have been taken to implement the recommendation.	Recommendation not implemented.
6	Wages and Salaries	The Minister should ensure that the employee's attendance at work is proved, so that the employees' payments are in accordance with the applicable laws.	For 29 out of 38 employees, there is no evidence of attendance, no working reports, while for the other nine there are several work reports that they submit to their employees.	Recommendation partially implemented.
7	Wages and Salaries	The Minister should ensure that legal deadlines are considered in cases of positions with Acting and through the recruitment process to cover positions with regular staff.	Three positions are still covered by Acting.	Recommendation closed unimplemented.
8	Wages and Salaries	The Minister should ensure that the legal deadline for the employees under Special Service Agreements is not exceeded and ensure that such contracts are used only for special services and not for regular positions.	Same issues have been repeated also in 2018.	Recommendation implemented.
9	Goods and Services	The Minister should ensure that all Ministry's agreements are made in accordance with the Treasury rules on Expenditure of Public Money, where advances are recorded in respective codes and the same at the end of the year are justified with supporting documents, in order to secure fair presentation of expenditures.	There were no such cases in 2018.	Recommendation implemented.
10	Capital Investments	The Minister should ensure that procedures for public framework contracts are developed only when the exact quantities that will be supplied during the contract period are not known.	There were no such cases in 2018.	Recommendation implemented.
11	Capital Investments	The Minister should ensure that a Project Monitoring Officer for each	From tested samples we have	Recommendation

		agreement is appointed as foreseen in the Memorandum of Understanding, which will monitor the project until its completion.	found that a contract manager was assigned for each contract, in accordance with legal requirements.	implemented.
12	Expropriation Payments	The Minister should use proper mechanisms to push forward the process until the completion and functionalization of EES, and the operational guideline. Further on, he should ensure that the remark in KLCIS for the properties that are in expropriation has been recorded.	The Ministry has yet not found a proper solution to functionalize the EES.	Recommendation not implemented.
13	Expropriation Payments	The Minister should ensure that the causes of payments through court decisions have been analysed and the same are presented to the MoF, to allow a more realistic evaluation of properties subject to expropriation process.	Same issues have been repeated also in 2018.	Recommendation not implemented.
14	Expropriation Payments	The Minister should ensure that the expropriation officer makes proper classification of expenditures according to the chart of accounts and the expenditures are recorded through respective codes.	Same issues have been repeated also in 2018.	Recommendation not implemented.
15	Capital Assets	The Minister should ensure that the Committee for assets inventory performs assigned tasks as foreseen in Article 19 of the Regulation on management of assets.	The inventory commission had performed its work as set out by the regulation but failed to complete the report before preparation of the AFS.	Recommendation partially implemented.
16	Outstanding Liabilities	The Minister should critically consider the situation of outstanding liabilities, to determine the necessary measures for addressing identified issues, and that the payments are made within the deadlines determined by financial rules and that all liabilities are presented fairly within the liabilities report.	Same issues have been repeated also in 2018.	Recommendation not implemented.
17	Progress in implementing Recommendations	The Minister should ensure that the action plan is implemented, which clearly sets out a timeframes for the implementation of recommendations given by the Auditor General with	Same situation is present also in 2018. The Minister has not managed to undertake proper	Recommendation partially implemented.

		accountable staff members identified.	measures in addressing all recommendations.	
18	Internal Audit System	The Minister should ensure that the Audit Committee charter has been drafted, which ensures the full functioning of the AC. The Committee should review the internal audit outcomes and actions taken by the Management regarding the internal audit recommendations. Furthermore, to ensure that all action plans for the implementation of recommendations have been prepared.	Same issues have been repeated also in 2018.	Recommendation partially implemented.
19	Management Reporting, Accountability and Risk Management	The Minister should ensure that the risks register is continuously monitored by the Ministry in order to reduce the impact of risks into acceptable levels.	Although risk register have been prepared, it was not updated as required by FMC procedures.	Recommendation not implemented.
No	Audit area	Recommendations of 2018		
1	AFS	The Minister should ensure that the necessary measures are taken to eliminate the causes that have led to the Emphasis of Matter. In this regard, to carry out identification and recording in registers, information related to assets, liabilities and receivables, for their presentation in the AFS is accurate and complete.		
2	Budget Planning and Execution	The Minister should ensure that budget drafting is based on a detailed analysis of all factors affecting its execution in order to avoid the differences between planning and spending. The Minister should also ensure that all obstacles related to project execution are eliminated, and to initiate procurement procedures on time.		
3	Wages and Salaries	The Minister should undertake all actions to ensure regular attendance of these employees by carrying out constant monitoring, as foreseen by legal acts. On the contrary, this issue should also be discussed with the Government, as this problem is widespread in other ministries.		
4	Wages and Salaries	The Minister should ensure that the payment of officials is done based on job descriptions, preventing the possibility of different payments for the same positions.		
5	Wages and Salaries	The Minister should ensure that legal deadlines are applied for the duration of engagement with the SSA, and that such contracts are used only for special services, and not for regular positions, and every recruitment is made through the procedures required by the law.		
6	Goods and Services	The Minister should ensure that the payment of officials is done based on job descriptions, preventing the possibility of different payments for the same		

		positions.
7	Capital Investments	The Minister should ensure that all the factors that may affect in implementation of the plan are taken into consideration when preparing the annual procurement plan, such as: resolution of property disputes, preparation of executive projects, timely initiation of procurement procedures, establishment of the evaluation commissions with adequate experience and expertise, etc.
8	Capital Investments	The Minister should ensure that the legal requirements are strictly adhered, so that budget planning and drafting of key projects is made in accordance with the on-site circumstances, so that the projects can be implemented on time and without additional costs. Further on, before contracting the works, for each MESP-funded project, all necessary permits shall be obtained.
9	Capital Investments	The Minister should increase responsibility measures towards Bid Evaluation Committees, so that bids are evaluated objectively, and to ensure that only responsible and meritorious operators will be awarded.
10	Expropriation Payments	The Minister should review the entire process and identify all the factors that have led to delays in setting up this system into function, and ensure that within a reasonable period of time the system will be used.
11	Expropriation Payments	The Minister should ensure that the causes of the findings presented above are analysed. In cooperation with the State Advocacy and Courts, it should be ensured that the Ministry receives a copy of the final judgements so that the obligations from the latter are carried out in a timely manner to avoid additional possible expenditures, due to enforcement procedures. Further on, in order to avoid additional costs, it should be discussed with the Government and the Ministry of Finance to provide additional funds for settlement of expropriation obligations on time.
12	Expropriation Payments	The Minister should strengthen internal controls in the area of payments and finance, to ensure that all expenditures are classified correctly and in accordance with the government accounting plan.
13	Common Issues related to Capital Investments and Goods and Services	The Minister should establish additional financial controls and ensure that financial officers strictly adhere to the spending procedures, and that all invoices are paid within defined legal deadlines.
14	Capital and non - Capital Assets	The Minister should ensure that the inventory commission compiles the inventory report prior to the preparation of the AFSs, and ensures that asset inventory reconciliation with the organization records is performed prior to the preparation of the AFSs in 2019. This report should be reviewed by the management, and the asset register is updated depending on inventory outcomes.
15	Outstanding Liabilities	The Minister should ensure that finance officers confirm the existence of these obligations in advance, and thereafter to process all invoices for payment on time.
16	Internal Audit	The Minister should ensure that the Audit Committee has adopted its work

		status, and that CA will review the work plan and internal audit reports constantly, as well as suggest to the management in taking measures and actions in relation to the recommendations given by the audit.
17	Risk Management	The Minister should ensure that the risks register is continuously monitored by responsible persons, on regular time periods, in order to reduce the impact of risks at acceptable levels.

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 1705¹⁹ provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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

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

158. An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading "Emphasis of Matter" or another appropriate heading;
- include a clear reference to the matter being emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor's opinion is not modified in respect of the matter emphasised.

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

Annex II: Comments of MESP regarding findings in the report

Findings/ Issues	Agree Yes/No	Comments from the BO in case of disagreement	NAO view
Issue 1: Emphasis of Matter	We do not agree	<p>Depreciation of non - financial assets is not performed by MESP, but by the MPA.</p> <p>This year have been allocated €200,000.00(Drafting of the Cadastre on Waters according to AU SIU) and in 2020 are estimated €350,000.00. ToR has been drafted and tender procedures have been initiated.</p>	<p>Depreciation of assets under €1,000 is not performed by MAP but through electronic e-Asset system.</p> <p>If accurate information is entered in the system then the depreciation is also calculated accurately. For your information, MAP only provides technical assistance in cases where BOs have problems with implementation of e-Asset.</p> <p>Regarding the Water Registry, the aforementioned actions were undertaken in 2019, while the audit report and opinion are made for the AFSs of 2018.</p>
Issue A2: Financial support to cover travel expenses for persons who were not part of the Ministry	We do not agree	The Minister's decision was taken upon the request of the Secretary General of the Ministry of Culture, Youth and Sports, while the aim of the support or benefit of MESP was that in this Biennale were presented also presentations of urban/spatial and architectural development related to the scope of the MESP (during the closing meeting, audit team / NAO, have provided the evidence taken from the official website of the Biennale regarding the character of this world event).	The evidence provided does not indicate the benefit of the Ministry from the participation of the persons concerned at this event. There is no travel report, so finding and recommendation will continue to be part of the report.
Issue A3: Delays in the implementation of the procurement	Partially agree	Delays in initiating capital projects occurred because the former Minister cancelled the procurement activity for providing engineering services	The comment does not contravene the finding of the audit so finding and recommendation will continue to be part of the report.

plan for capital projects		(drafting of projects) and immediately MESP informed all Municipalities (that their projects that were part of the Law on Budget) are obliged to draft their own projects and to complete the supporting documentation (to be equipped with relevant permits) which has taken time and constituted delays (we have given the decision of the Minister for cancellation of the procurement activity for the provision of engineering services- designing projects).	
Issue A4: Improper budget planning and initiation of projects without securing preconditions for implementation	We do not agree	<p>For the project "Rehabilitation of the Water Network and Increase of Water Capacities for 9 villages in Kaçanik" - in 2018 with budget allocations we had €169,160, at the end of 2018 the transfer of funds in the amount of 253,000 was carried out, the total amount was €422,160 (the project, 92,468+178,434 = €270,902), So there was sufficient budget for this project during 2018, €422,160.</p> <p>For the project "Construction of 7 Laure in the territory of Kosovo for the Empowerment and Management of National Parks Mali Sharr and Bjeshkët e Nemura", there is no clarification that the funds for this project have been provided with transfer from other projects (prioritization). Based on the NAO's conclusion, "<i>The aforementioned shortcomings have occurred as a result of inadequate planning, inappropriate projects and technical specifications</i> , we clarify that these shortcomings have occurred because the former Minister had cancelled the procurement activity for the provision of engineering</p>	<p>The emphasis of this issue is poor initial budget planning for capital projects. It is true that in the later stages of projects the budget is complemented by transferring funds from other projects. However, at the initial stage, no accurate budget planning and other preconditions (permits, expropriations and various barriers) have been made, as happened in the cases mentioned in the report. Therefore findings and recommendation will continue to be part of the report.</p>

		services (drafting of projects) and all Municipalities (whose projects were part of the Law on Budget) were obliged to draft their own projects and to complete the supporting documentation (to be equipped with relevant permits) which has taken time and constituted delays, but problems in technical specifications.	
Issue C2 -	We do not agree	<p>We have provided the explanations in the letter of 20/06/2019.</p> <p>According to the Law no. 03 L-139 on the Expropriation of Immovable Property with amendments and supplements made by Law no.03 L-205, each owner whose property is affected by the expropriation process has the right to file a complaint on the amount of compensation under Article 36 of this law, and it implies that this process is conducted out of the MESP control.</p>	To be concerned in this issue is the fact that MESP is paying considerable amounts of funds for execution procedures and other administrative expenditures. That is why we wanted to raise it as an issue in order to improve inter-institutional cooperation, to avoid such unnecessary expenditures. Therefore, the recommendation will continue to be part of the report.
Issue B5 -	Partially agree	<p>Budget planning was made under the two following economic codes (Motorway and regional roadways) and it did not pose any problems in identifying and presenting bills.</p> <p>This recommendation is now implemented in 2019, and from now on we record these expenditures only under economic code, land.</p>	Despite the budget planning, the recording of these expenditures was not proper. The second paragraph of the management comment confirms this. Finding and recommendation will continue to be part of the report.
Issue B7 -	Partially agree	<p>Management of the MESP (Secretary General and Executive Directors of Agencies), update the register depending on identified risks.</p> <p>We consider that some risks have been identified during this year (Legal Department, Information Technology Division and Logistics) and in</p>	There is no evidence that the monitoring and updating of the risk register has been performed. The MESP management comment also emphasizes that the update of the registry will be performed at the end of 2019. Therefore, finding and recommendation will continue to be part of the

		cooperation with the Internal Audit Unit the necessary actions have been taken. Therefore, at the end of Fiscal Year 2019, the Risk Register will be updated based on 2019 identifications.	report.
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