



Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

**AUDIT REPORT**  
**ON THE MINISTRY OF INFRASTRUCTURE**  
**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 Institution and good European practices.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the *Ministry of Infrastructure* 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 *Sabile Musa*, *Team Leader* and *Laureta Matoshi – Pozhegu*, *Team Member* under the management of the Head of Audit Department, *Blerim Kabashi*.

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## Executive Summary

This report summarises the key issues arising from our audit of the Ministry of Infrastructure 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 26.10.2018.

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 Ministry of Infrastructure.

### Opinion of the Auditor General

#### Unmodified Opinion with Emphasis of Matter

Annual Financial Statements for 2018 present a true and fair view in all material aspects, except for the following issues:

#### Emphasis of Matter

We draw your attention to the following irregularities:

- (a) From the category of capital investments, the value of €689,310 was budgeted and paid for road maintenance contracts, which by nature belong to the category of services. As a result, the assets are overstated for the same value;
- (b) Expenditures for the project "Dislocation of cemeteries from the Motorway lane R6, Prishtina-Hani i Elezit" in the amount of €353,589 have been paid by MI, as a result of exceeding the amounts provided for by the basic contract;
- (c) The amount of €153,554 was paid for compensation of salaries for 32 officials, for whom there is no evidence of their appearance at the workplace; and
- (d) As a result of the lack of controls, an invoice in the amount of €47,168 was paid twice.

For more details see Section 2.1 of this Report.

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

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## Key Conclusions and Recommendations

Opinion with Emphasis of Matter reflects control weaknesses to confirm the proper classification of expenditures and elimination of irregular payments.



The Minister should analyse the reasons of Emphasis of Matter of the Opinion and identify actions required to enable fair and true presentation of expenditures in 2019 (see issue A1).

The AFS preparation process is not properly managed. As a result, the financial statements contain a number of financial errors and uncertainties which disclosed the reporting deficiencies.



The Minister should ensure that the process of production of the 2019 AFS includes a final review of the responsible management, and with the declaration of the AFS signed only after all necessary actions have been implemented (see issue A2).

Internal controls have not operated effectively in some areas. Evident weaknesses were noticed in a number of important financial systems including capital investments, goods and services, salaries, assets and unpaid liabilities.



The Minister should carry out a review of processes in which internal controls have not functioned and should strengthen controls where evidence was identified (see issues 3 and 15).

The Ministry has not addressed at acceptable levels the prior year audit recommendations, improvements in the areas where the recommendations were given, were slow.



The Ministry should implement a more rigorous process to ensure that the action plan for implementing the prior year audit recommendations is actively implemented and key issues/progress are reported to management (See chapter 4).

## Management's Response on 2018 audit

The Minister has agreed with audit findings and conclusions, and has committed to address all given recommendations.

# 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 appropriate actions have been taken 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's responses 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 Infrastructure 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 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 (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:

Road maintenance expenditures in the amount of €689,310 have been paid from the capital investment budget. Maintenance contracts under which activities have been carried out such as: removing vegetation, snow removal, salting, grass cutting, monitoring, inspection, etc., do not contain elements of capital expenditure. The reason for this misclassification is planning by MI and budget approval by the Kosovo Assembly, affecting overestimation of Capital Investments and underestimation of Goods and Services. Capital assets are overstated for the same value.

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Expenditures for the project "Dislocation of Cemeteries of the Motorway Lane R6" in the amount of €832,236 have been paid by MI for the three-year period 2016-2018. The value of the basic contract, including the annex contract of 2016 was €66,000, the number of cemeteries 40, the contracted price unit €1,711. As a result of exceeding the amounts provided for under the basic contract, MI made payments for the exhumation and reburial of 434 other persons in the amount of €766,235. Exceeded amounts were paid referring to the 2016 contract. From the total amount paid, €353,589 is payments made for 2018.

In MI, after a recruitment process with appointment acts, 32 civil servants of the Serb community, former members of "Civil Protection", were integrated. These employees were planned to be systemised in the municipalities in the northern part of Kosovo, in certain positions within the respective departments in the Ministry.

For the aforementioned officials, the Ministry does not possess evidence that confirms their appearance at the workplace, as required by regulation no. 05/2010 of the working hours, while the Ministry made regular payment of their salaries. The financial value for salary expenditures for 2018, for 32 officials was €153,554. This has happened because management controls have not been implemented to ensure that all employees are present in the workplace during working hours.

Also, on 29.11.2018, a payment was executed under a court decision in the amount of €47,168 by the private enforcement agent for the project "Asphalting of the road Jashanica - Klina". The same invoice at the same value on 26.12.2018 was also paid by MI. The Ministry has initiated the procedure for returning the payment, but by the end of the audit, the return of funds from the company has not been completed.

For the above mentioned issues, we have not modified our opinion because the materiality threshold was not passed.

### **Responsibility of Management for AFS**

The Secretary General of the Ministry of Infrastructure is 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 number 03/L-048 on Public Finance Management and Accountability (as amended and supplemented with Law no. 03/L-221, Law no. 04/L-116, Law no. 04/L-194, Law no. 05/L-063 and Law no. 05/L-007.

The Minister is responsible to ensure the oversight of the Ministry'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 any material misstatement that might exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

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

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

## **2.2 Compliance with AFS and other reporting requirements**

The Ministry of Infrastructure 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 on Public Funds Expenditures and Financial Rule MoF 02/2013 on Management of Non-Financial Assets in Budget Organisations;
- Action Plan on implementation of recommendations;
- Final procurement plan;
- Quarterly reports; and
- Requirements of Financial Management and Control (FMC) procedures.

In respect of the AFS, we identified the following issue:

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- Article 17 - In the report on unpaid liabilities in the AFS, Subsidies and Transfer in the amount of €94,718, were not covered in the liabilities of €38,495,831 and for the same amount, the total of these liabilities was understated.

A number of financial adjustments were needed in the AFS, for which we provided suggestions to improve their quality, as follows:

- Article 14 - Budget execution report – in the part of payments, the final budget was understated for the amount of €244,639 compared to the final allocation in KFMIS. This has happened since MI for the category Goods and Services has taken into account the allocation report for the preparation of the 2018 AFS.

#### DECLARATION MADE BY MANAGEMENT OF MINISTRY OF INFRASTRUCTURE

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 can be considered to be incorrect, given that material errors were identified during audit.

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

## 2.3 Recommendations related to Annual Financial Statements

**Recommendation B1** The Minister should ensure that an analysis is carried out to determine the reasons for the Emphasis of Matter of the Opinion and their elimination. Therefore, specific actions should be taken to address the causes to eliminate misclassifications and irregular payments, which should be in line with the requirements of applicable laws.

**Recommendation A1** It should also ensure that when preparing the AFS, effective processes are established to confirm that the production plan for 2019 AFS addresses all issues pertaining to compliance. It should be ensured that steps are taken to ensure a correct presentation of outstanding liabilities as required by Treasury Rules.

## 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 area of financial management and controls, procurement remains a major concern due to poor implementation of regulations, resulting in poor value for money as well as delays in project completion.

In the context of financial systems, revenue controls in general are good and are being implemented effectively, but controls over a range of spending areas require further improvement to prevent expenditure irregularity, not complying with the terms and budget rules that should be in accordance with the procedural requirements and applicable laws.

The main areas where more improvements are needed are budget execution and procurement contracts management, execution of co-financed agreements, management of maintenance contracts, personnel controls for work attendance, management of special services agreements, management of assets etc.

The budget executed against the initial allocations contained considerable discrepancies. MI, due to delays in the establishment of project implementation units, was not able to use the funds under the 57 million investment clause.

Multi-year projects have been accompanied by numerous barriers, ranging from creating preconditions for commencing works, up to technical acceptance or granting them in use. As a result, from the beginning to the final implementation of the projects, significant delays have been noted.

The Ministry has also several co-financed memoranda with municipalities. These projects are largely financed by the Ministry, but are not sufficiently monitored by the Ministry. In certain cases, co-financed memoranda are made before the preconditions for starting the project have been created, such as: field examinations, executive projects, property issues resolution, obtaining permits/consents for sewage, water supply, electricity connection, etc.

In terms of classification of budget and expenditures, there are problems with handling of accounting of expenditures, and as a result, maintenance expenses to be treated as service expenses, are treated as capital investments.

Controls in the field of payments are effective. As a result of poor financial discipline, over 4.5 million payments were executed by the Treasury and under court decisions.

All of the issues mentioned above are in more detail handled within the report.

### 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 <sup>1</sup>	2018 Outturn	2017 Outturn	2016 Outturn
<b>Sources of Funds</b>	<b>304,572,759</b>	<b>310,932,813</b>	<b>244,826,294</b>	<b>234,379,056</b>	<b>213,025,341</b>
Government Grant -Budget	164,922,759	166,841,207	166,079,589	234,309,830	213,025,341
Financing from Borrowing	12,350,000	12,350,000	4,293,372	69,226	0
Investment Clause	57,000,000	57,000,000	0	0	0
One-time revenues from KPA	70,300,000	74,741,606	74,453,333	0	0

As can be seen from the table, the final budget is higher than the initial budget by €6,360,054. This increase is the result of a budget increase from one-time revenues from the Privatisation Agency of Kosovo (PAK) and the applicable increase in accordance with Government decisions. However, the budget at the end of the year resulted with a budget surplus of €66,106,520.

According to the Budget Law no. 06/L-020, the budget for capital projects through the investment clause was €57,000,000, destined for financing three projects:

(a) Expansion and rehabilitation of Highway M9 Prishtina-Peja €37,000,000; (b) Rehabilitation of Regional Roads €10,000,000; and (c) Rehabilitation of the railway line Fushë Kosovë - Hani i Elezit in the amount of €10,000,000. Failure to carry out these projects is a result of failure to achieve the implementation units for project management.

Other available funds were not spent either, such as: borrowing from the Arab Fund for financing the regional roads in the amount of €8,056,628 due to the obstacles presented on the roads during the execution of the works, the budget of €108,231 for local infrastructure projects, and the budget for categories of goods, services, utilities and subsidies and transfers in the amount of €941,661.

In 2018, MI spent €244,826,293 or 79% of the final budget, with a performance deterioration of 19% compared to 2017. The budget execution remains at an unsatisfactory level, and the explanations for the current position are given below.

<sup>1</sup> 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
<b>Spending of funds by economic categories</b>	<b>304,572,759</b>	<b>310,932,813</b>	<b>244,826,294</b>	<b>234,379,056</b>	<b>213,025,341</b>
Wages and Salaries	1,874,604	1,829,911	1,829,911	1,743,492	1,716,303
Goods and Services	6,603,323	7,023,323	6,594,681	5,776,727	5,883,302
Utilities	375,190	326,190	154,243	137,337	153,637
Subsidies and Transfers	1,443,814	1,382,814	1,041,743	1,442,658	832,678
Capital Investments	294,275,828	300,370,575	235,205,716	225,278,842	204,439,421

Explanations for changes in budget categories including reasons and impact are given below:

- The budget for wages and salaries was decreased by Government decision by €44,693 as a result of budget savings;
- The increase of the budget for goods and services by €420,000 is a result of Government decisions on savings for the payment of road maintenance and recruitment of a new number of staff with special services agreements;
- The budget for subsidies and transfers was decreased by Government decisions by €61,000 as a result of budget savings;
- The budget for capital investments was increased by €6,094,747. This increase comes from the KPA's one-time revenues by €4,441,606 and from Government decisions by €1,653,141. The Public Investment Programme includes 261 capital projects for 2018, out of which 188 marked financial progress over 90% of budgeted value, 12 projects had a low percentage of execution, and the rest were new projects; and
- According to the Budget Law no. 06/L-020 for 2018, Table 3.2 included a total of 61 projects that have not started to be implemented during 2018. The budget for these projects was transferred to other projects that were in the process of implementation in 2018. The reason for not starting the execution of these projects in 2018 were planned projects through co-financing with the municipalities of Kosovo, where design and planning procedures were delegated to the respective Municipalities. Due to the various difficulties faced by municipalities, the projects were postponed for 2019.

**Issue A 2<sup>2</sup> – Poor performance in budget execution**

**Finding** The final budget was executed at only 79%. MI did not achieve good budget performance, especially in the category of capital investments, where the final budget execution was €235,205,716 or 78%. This low percentage of execution comes due to non-execution of planned projects with the investment clause and projects planned for financing from the borrowing from the Arab fund.

This has occurred because the implementing units for the implementation of the respective projects were delayed.

**Risk** Poor budget execution and failure to carry out projects results in ineffective use of public funds and failure to meet the Ministry's objectives.

**Recommendation A2** The Minister should take actions for the timely functionalisation of Project Implementation Units so that capital projects are implemented in accordance with reached agreements.

**3.1.1 Revenues**

Revenues generated from MI in 2018 were €2,805,710. They relate to revenues from issuance of driving licences, revenues from the renewal of licences, application for local licences and transport, etc.

**Table 3. Own Source Revenues (in €)**

Description	Initial Budget	Final Budget	2018 Receipts	2017 Receipts	2016 Receipts
Own source revenues	1,865,000	1,865,000	2,805,710	2,501,388	2,510,869
<b>Total</b>	<b>1,865,000</b>	<b>1,865,000</b>	<b>2,805,710</b>	<b>2,501,388</b>	<b>2,510,869</b>

Revenues generated by MI are deposited in the Kosovo Trust Fund and are recorded in KFMIS in accordance with the Treasury Financial Rules and are not authorized for MI spending.

For 2018, 150% of the planned revenues were executed; out of which 58% are executed from the issuance of driving licenses and, compared to the previous year, there is an increase by €304,322 or 12%. We have applied substantive and compliance testing, but from the tests conducted, we have not identified any irregularities.

**Recommendations**

We have no recommendations in this area.

<sup>2</sup> Issue A and Recommendation A – means issues and new recommendations,  
Issue B and Recommendation B – means issues and recommendations repeated,  
Issue C and Recommendation C – means issues and recommendations partially repeated.

### 3.1.2 Wages and Salaries

Wages and salaries are paid through a centralized payment system managed by the Ministry of Public Administration (MPA) and the Ministry of Finance (MoF). However, there are a number of controls that operate within the MI, which relate to the determination of salary coefficients, promotions and approvals of allowances, etc. It is therefore important to have effective controls to ensure that these actions are in line with the general rules.

According to KFMIS data, the budget for the category of wages and salaries for 2018 was €1,874,604, while expenditure execution for 2018 was €1,829,911 or 98%.

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#### Issue A 3 - Employees with Special Service Agreements (SSA) without simplified recruitment procedures

**Finding** According to Law on Civil Service no. 03/L-149, Article 12 sets out that budget organisation may engage fixed-term employees based on contracts called "Special Service Agreements" (SSA) for less than six (6) months. Their engagement shall be done based on contracts called (SSA) which shall be subject to Law on Obligations and for which a simplified recruitment procedure shall be applied.

At the end of the year, 135 employees were engaged through SSA for different positions. Of them 68 are employed without a simplified recruitment procedure. Some of the positions covered with SSA employees are regular positions, such as: Chief Financial Officer, Budget and Finance Officer, Personnel Officer, IT Officer. In addition, MI for the same official applied the extension of such contracts every six (6) months.

In addition to the above number, 29 other employees with SSA were engaged in examiners positions. Preliminary contracts expired on 31.10.2017, but the same continued to work during 2018 without contracts. Their salaries for the period worked without contracts were paid in the first quarter of 2019, after the signing of the Special Services Agreement in 2019.

**Risk** Employee engagement with SSA for regular positions, without procedures and in absence of transparency, increases the risk of staffing positions with incompetent staff, without proper professional qualification and insufficient experience to perform official duties.

**Recommendation A3** The Minister should ensure that staff engagement with SSA is done in full compliance with the requirements of the regulations, respectively the procedures are implemented with full transparency, taking into account the professional preparation and performance of recruited candidates. In addition, in co-ordination with the MoF and the MPA, the Minister should review the possibility that regular positions are staffed according to the Law on Civil Service.

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### 3.1.3 Goods and Services and Utilities

The final budget for goods and services, including utilities in 2018, was €7,349,513, out of which €6,748,924 was spent. They relate to road maintenance expenses for 2017-2018, payments under Article 39.2 of LPFMA, court decision payments, other contractual services, fuel for cars, office renting.

We have applied substantive and compliance testing, and from these tests, we identified the following irregularities:

#### Issue A 4 – Payments made by Treasury and on Court decisions

**Finding** Based on the authorisations stemming from the Law on Public Finance and Accountability (LPFMA) article 39.2, Treasury, during the year, has handled the requirements of economic operators for payment of late invoices over 60 days from MI.

In 2018, the Treasury reviewed the economic operators' requests for the payment of late and unpaid invoices by MI, and approved a total of 22 invoices for payment in the amount of €4,184,557 (for seven economic operators) based on court decisions, while private enforcement agents have also executed €502,311 on the accounts of economic operators.

Payments relate mainly to summer and winter maintenance of roads. Of the tested cases for Prishtina region lot 1, the value of payments was €848,838, and the Gjlani region lot 1, the value of payments was €1,824,212. The execution of payments by the Treasury was due to the fact that these obligations were not paid for years due to lack of co-ordination between the requesting units, contract managers and the procurement office.

**Risk** Failure to perform timely obligations by MI caused mandatory payment execution by the Treasury and through court procedures. The making of payments in this manner can increase the risk of non-execution of new projects due to payments for earlier projects.

**Recommendation A4** The Minister should ensure that effective financial controls are established and a better co-ordination between the requesting unit, the contract manager and the procurement office is achieved in order for all obligations to be paid in time and to avoid the possibility of additional payments for court procedures, default interest and enforcement costs.



### 3.1.4 Subsidies and Transfers

The final budget for subsidies and transfers was €1,382,814, out of which €1,041,743 was spent. They relate to subsidies under the agreement for compensation of public service obligations for the period 2018-2022 with the public operating company Trainkos J.S.C. The agreement was signed on 18.04.2018 for directions Fushë Kosovë - Hani i Elezit - Fushë Kosovë (two trains) and Prishtina - Pejë - Prishtina (four trains).

We have applied substantive and compliance testing, and from the tests conducted, we have not identified any irregularities.

#### Recommendations

We have no recommendations in this area.

### 3.1.5 Capital Investments

The final budget for capital investments was €300,370,575, out of which €235,205,716 or 78% were spent in 2018. They relate to the execution of projects such as: construction of Motorway Prishtina - Hani i Elezit, construction of Motorway Gjilan - Konçul, and expansion of the airport runway, enhancement of the landing system "Adem Jashari". While, other projects include: construction of regional and local roads, co-financing with municipalities, maintenance of bridges and roads, payments based on article 39.2, payments by court decisions, etc.

For the construction project of the Motorway Prishtina - Hani i Elezit, in 2018, payments were made in the amount of €142,631,883. We have applied tests for substantive purposes to ensure that the expenses presented in the financial statements present a true and fair situation. The compliance aspect has not been addressed, because the case of Motorway is under investigation by the competent authorities.

In other examinations, we have applied substantive and compliance testing, and we have identified following irregularities.

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#### Issue A 5- Failure of MI officials to participate in bid opening and evaluation commissions in the projects with co-financing with municipalities

##### Finding

According to the co-financing memoranda with municipalities, article 4, par. 4, an MI official should be present in the bid opening and evaluation to ensure that the winning bidder has submitted all required documentation and that the selection process is done according to the legislation in force.

From the tested samples, we have identified that in five cases, MI officials were not an integral part of the commission for opening and evaluating bids in the procurement processes conducted by municipalities.

This has occurred when evaluating the bids for the projects: (a) "Asphalting the road in the village of Poterq i Epërm" the value of the contract is €258,804; (b) "Asphalting the road Mulliq - Potok" the value of the contract €37,357; (c) "Asphalting of the road Brodosanë - Rezina" the value of the contract is €255,000; (d) "Asphalting of the road Lushi - Dullovi" the value of the contract is €214,354 and (e) The project "Construction of the road Kryshec - Morinë", the value of the contract €728,322.

This occurred because municipalities did not timely inform MI officials about the conduct of procurement procedures, while MI officials were also negligent in participating in procurement processes.

#### **Risk**

The failure of Ministry's officials to participate in the commissions for bid opening and evaluation, conducted by municipalities may result in the selection of irresponsible operators and failure to inform the Ministry of the dynamics of the projects.

**Recommendation A5** The Minister should ensure that its officers should be part of the bid opening and evaluation commission processes to ensure that procurement processes are conducted in the framework of full transparency and in compliance with the regulations and be informed with the dynamics of projects.

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### **Issue A 6 - Stagnation in execution of projects in co-financing with municipalities**

#### **Finding**

Article 5, par. 2 of Memorandum of Co-operation with Municipalities obliges the Municipality to create the necessary conditions for the execution of projects and undertake the measures that the contractor should without any impediment begin with project implementation in a timely manner.

We have identified that the implementation of projects co-financed with the Municipality has encountered obstacles in the execution of works. Municipalities have committed and signed Memorandum of Co-operation with MI for financing certain projects, without creating the necessary preconditions for commencing the works.

From the tested samples, we have identified that in four (4) cases, the development of the projects was foreseen within two or three years. We have made the analysis of the financial progress of the contracts and the conclusion is that the projects are being implemented with a slow dynamic.

Projects with the lowest progress of execution are

- The "External ring road in Ferizaj", a three-year contract in the value of €2,865,167 was signed on 15.11.2016, while execution of payments at the end of 2018 was €624,333 or 21 %;

- "Expansion of the road Komogllavë - Tërstenik", the contract signed on 10.11.2016 in the amount of €1,089,590 for a three-year period, payment execution at the end of 2018 is €275,088 or 25%;
- "Expansion of the road Sadovinë e Jerlive - Dardani", a two-year contract in the value of €292,325, signed on 26.12.2017, while payment execution at the end of 2018 is €166,917 or 57%; and
- "Asphalting the Mosque road", a two-year contract signed on 18.10.2017 in the value of €487,688, payment execution at the end of 2018 is € 327,923 or 67%.

This low dynamic of implementation of projects has occurred due to unresolved property issues, citizen reactions and disagreements with the motorway tracks.

### Risk

The allocation of funds for co-financing of projects, before the municipalities have resolved the mentioned issues, may cause stagnation in the execution of projects, their failure to finish within the contracted deadlines and the possibility for additional project expenditures. This can also affect the inefficiency of budget spending by the Ministry.

**Recommendation A6** The Minister should ensure that before municipal agreements on co-financing of certain projects are reached, the municipalities have regulated property issues, a copy of the plan and the consent on connections given by the municipal companies (electricity, water and sewage). Otherwise, no funding should be made.

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## Issue A 7 - Signing of contracts with operators that have not met the tender dossier adequacy requirements

### Finding

According to Law no. 04/L-042 on Public Procurement (LPP) article 65, par. 4.1, the economic operator is not eligible to participate in a procurement activity or in the execution of any public contract if, during the past two (2) years, it has been announced bankrupt or insolvent by a competent court, and par. 4.8, if it is currently overdue in paying the taxes in Kosovo.

Upon evaluating procurement activities, we have identified that in two cases prior to the signing of contracts, confirmations required by the court and the Tax Administration of Kosovo (TAK) were not offered. It is about:

- Signing of the contract "Construction of the National Road Deçan - Montenegro" in the amount of €4,191,313; and
- Signing of contract "Nedakovc - Smrekovnicë Lot II" in the amount of €2,067,455.

Signing of contracts with economic operators in the absence of required evidence is the result of the work of procurement officers to administer the process according to the regulations.

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**Risk** Not complying with tender dossier criteria increases the risk of signing contracts with irresponsible operators. This damages the transparency of the process and the possibility of discrimination of other competitive operators.

**Recommendation A7** The Minister should review the above two cases and analyse why the mentioned irregularities have occurred and ensure that the Procurement Department will strictly apply all procurement regulation requirements in the future.

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**Issue A 8 - Contract duration not in accordance with contract award notice**

**Finding** In the contract notice, par. 2.3, the duration of the contract or the deadline for completion of the works was from 20.05.2016 to 20.05.2017 for a period of one year.

The contract for the "Drafting of Road and Structural Projects- Lot II" signed on 08.06.2016, with a unit price of €0.78 with a total annual value of €70,000 was signed for the period of three (3) years or 36 months.

**Risk** Changing the term of contracts according to internal procedures implemented by the Ministry against the public notice of contract award increases the risk of fraud, transparency of procurement and contract manipulation.

**Recommendation A8** The Minister should consider the above case and strengthen controls and accountability measures in the procurement office to ensure that the signing of the contracts is in full compliance with the deadlines published in the contract notice and such practices are not repeated in the future.

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**Issue C1 – Contracts signed without performance security****Finding**

The Operational Guidelines of Public Procurement (OGPP), Article 27, states that performance security is intended to support the performance of the contract, and it will be required to be a prerequisite for signing and entering of the contract into force and should be at least 10% of the value of the contract.

The contract "maintenance and repair of bridges for 2017-2019", the contract value €3,615,499, under special conditions of the contract – performance security was requested to be €30,000 or 0.8% of the value of the contract.

In four other procurement activities, the amount of performance security was requested to be 10% of the total value of the contract, and should have a coverage deadline of up to 30 days after the completion of the works specified in the dynamic plan. For the following four cases, we have not found any evidence for the existence of insurance policies:

- Rehabilitation of road M9 Prishtina - Peja with a contract value of €4,783,022;
- Investment road maintenance - contract value €168,146;
- Asphaltting of the road Potërqi i Epërm - contract value €258,504; and
- Laying and asphaltting of M9 Road Dheu i kuq - contract value €585,877.

Deficiencies have occurred due to frequent staff movements in the procurement office and due to negligence in obtaining these documents prior to signing the contract.

**Risk**

Signing of contracts without performance security or with a lower value than the value stipulated in the procurement regulations increases the risk that in case of unilateral termination of contracts or failure to execute projects in accordance with the terms stipulated by the contract, the compensation from economic operators will not be covered.

**Recommendation C1** The Minister should ensure that the necessary actions are taken to ensure that the procurement office provides assurance that the development of procurement processes from the initiation of the activities to the signing of contracts is conducted within the legal framework, or should specifically request from the procurement manager not to sign contracts without evidence of the project performance security.

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**Issue A 9 - Deficiencies in project drafting by the contracted company by MI****Finding**

According to the tender dossier - the bill of quantities and the bill of account, the projectors are required to conduct upon the design of the main road project, including geodesy surveys, the work of review of geo-mechanics necessary for working the main project, drilling at depths of 8-15 meters, laboratory tests and preparation of geotechnical elaboration.

In two cases, the drafting of the road projects was not done according to the bill of quantities and the mandatory technical specification. In the absence of this, problems have arisen since the beginning of the road construction, and the projects have resulted in additional work and there was a need to revise the execution projects, in order to allow the continuation of road construction works.

Requests for project changes are submitted by project managers at the procurement office. The requests for re-designing the projects have been approved by the respective commission for the approval of additional works.

The project "Construction of the National Road Deçan - Montenegro", the basic contract in the amount of €4,191,313, the project manager requested re-designing of the project with the justification that the project contained the following deficiencies: geodetic surveys were deficient, insufficient recording of the existing situation and cross section profiles reflected the wrong terrain. On the recommendation of the commission, the project was re-designed and on this occasion an annex contract for additional work was signed in the amount of €414,725.

The project "Re-asphalting of the regional road 220, segment Bukosh - Prilluzhë" the value of the basic contract €1,990,332. Reasons for re-designing the project were: changes in designer quantities and the real situation on the ground, property issues, requirements for changing the road track and the change of bridge position projected to that of the existing bridge on the ground. Additional construction work estimated amounts to €194,440, while the annex contract is expected to be signed after completion of procurement procedures.

**Risk**

Designing projects that do not comply with the technical specifications results in failure to construct roads within the deadlines foreseen by the contract, prevents planning of real value of investments and may incur additional project costs.

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**Recommendation A9** The Minister should ensure that all field examinations, including geodetic surveys, recording of the real situation on the ground, resolution of property issues and accurate mapping of the roads, have been carried out before drafting the executive projects. Afterwards, determine the bill of quantity and bill of accounts of the project to reduce the possibility of exceeding the works stipulated by the contract.

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**Issue A 10 - Re-designing of project without procurement procedures**

**Finding** According to OGPP, article 61, contract management, inter alia, the contract manager is responsible to provide full details of a required change of contract to the procurement department and to obtain its approval.

The main project "Construction of the National Road Deçan - Montenegro" with a construction cost of €4,191,313 was not designed correctly, and the re-design of the project was made by a company that was not contracted by MI.

The request for re-designing the project by the project manager was accepted by the MI management. In this case, a commission for assessing the requests for approval of additional works was established, and the commission had taken a decision and confirmed the need for re-designing the project.

This change occurred since the geodetic surveys and parameters projected by the company were inaccurate, and the executor was unable to continue completing the work. The drafted project and the situation on the ground contained discrepancies, and the project manager with the justification that the project was of particular importance engaged another company for re-designing the company, with which MI had no contract signed.

**Risk** Examinations and poor analyses before the project is designed leads to the need for subsequent corrections of the projects. The engagement of economic operators for design services without procurement procedures increases the likelihood of designing projects in an unauthorised manner and avoiding responsibility in case of failures.

**Recommendation A10** The Minister should ensure that in cases when the need for technical corrections to projects is imposed, the process for re-designing the projects is carried out only after procurement procedures have been developed or by companies contracted by the Ministry.

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**Issue A 11 - Technical acceptance of works and projects by commission with incompetent composition**

**Finding** According to the Administrative Instruction No. 2008/3, article 2, par. 3 it is stated that members of the expert commission on supervision of works, technical acceptance and examination of completed works shall be persons with qualifications and specialised knowledge in the road infrastructure sector in the field of construction, road traffic safety, and the like.

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Of the total of five samples tested, we have identified that in two (2) cases the composition of commissions for acceptance of works was not composed of the members with competence and knowledge of the required field. The commissions consisted of one engineer and two other members of non-professional fields.

For the projects "Construction of the Vojnik-Osojan road - Lot 2" as well as for the project "Re-asphalting of the regional road R220, Bukosh-Prillluzhë segment", technical acceptance and assessment of the construction condition was made by the commissions in this composition: one engineer, one economist and one lawyer.

This occurred due to the large number of projects and the insufficient number of engineers.

### **Risk**

Technical acceptance and assessment of the situation of construction by inadequate officials increases the risk of accepting projects that are not in compliance with standards and required quality and may result in subsequent additional costs for the Ministry.

**Recommendation A11** The Minister should ensure that part of the commissions for the acceptance of projects and works will be officials with relevant qualifications, with specialised knowledge in road infrastructure that would provide assurance that the projects were implemented in full compliance with the construction standards.

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## **Issue A 12- Deficiencies in conducting procurement procedures for the project "Maintenance of Bridges 2017-2019"**

### **Finding**

According to the Operational Guidelines for Public Procurement (OGPP), Article 56.10, the amount foreseen and specified in the tender dossier is only an indicative amount. The Contracting Authority shall specify in the tender dossier the value or amount of the contract as a threshold or ceiling and may allow deviations from it up to a minus 30%.

The requesting unit made a request to the procurement office to initiate procurement procedures through a framework contract for maintenance of bridges for 2017-18 and 2018-19.

On 01.08.2017, the procurement office made a contract notice for the procurement activity through an open procedure. The tender dossier has set indicative amounts and the criterion for awarding the contract was the lowest price per unit. The procurement process resulted in the conclusion of a public contract for a period of two years with a price per unit of €4,348. The value of the contract for two years amounts to €3,615,499. We have not encountered any valid justification in the dossier why the procurement office did not use the framework contract, but the public contract.



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**Risk** Failure to use a framework contract in cases where the approximate quantities for supply or construction are known increase the risk of manipulation with items that are offered with a higher price.

**Recommendation A12** The Minister, when procurement procedures are conducted when dealing with supplies or work, where approximate quantities are known, should ensure to consider the preliminary suggestions of the requesting procurement units for the type of contracts and procedures to prevent the possibility of manipulations.

## 3.2 Capital and non-capital assets

Asset management is an important part of financial management and control in the public sector. This requires control and management procedures that prove the existence of assets and provide accurate and up-to-date information on the assets of the organisation. The value of assets over €1,000 presented in the AFS was €1,440,659,472, while that under €1,000 was €457,816.

In addition to the issues highlighted in the audit opinion chapter, we have also identified issues as below.

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### Issue C2 – Deficiencies in inventory and asset management

**Finding** Based on the MoF Regulation no. 02/2013 on the Management of Non-Financial Assets in Budget Organizations, Article 19, par. 4.6 and 4.7, the Commission on asset inventory, upon the completion of work, is required to prepare a report for carrying out the inventory, and a general report based on the individual reports of the Commission, before the AFS preparation.

The inventory commission has carried out the inventory of non-financial assets, where registration forms have been completed by the relevant departments, but no general report on the inventory has been prepared. There is a lack of consistency between inventory and asset registry forms, as any payment made from the Capital Investments category is recorded as an asset, even though they do not meet the asset criterion.

The Asset Evaluation Commission has identified 195 assets (desks, chairs and drawers) that are of no value to carry forward and should be disposed of. After the disposal of these assets, only 31 of them were removed from the assets register, while the rest remained in the register of non-capital assets under €1000.

This has occurred due to asset management by incompetent and inexperienced employees in the field of asset management.

**Risk** Lack of the final report on inventory of assets impedes the confirmation of the existence of the assets. While, the recording of any capital expenditure as an increase in assets affects the financial overestimation of the asset situation and their inaccurate presentation in the financial statements at the end of the year.

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**Recommendation C2** The Minister should ensure that members of the asset inventory and valuation commission and asset management officers are appointed competent and professional employees that would enable full inventory, reporting and asset management in accordance with legal requirements.

### 3.3 Receivables

According to AFS 2018, the amount of revenues uncollected at the end of the year was €195,069. These accounts belong to different departments, while in this category we have examined five samples for the needs of substantive and compliance tests. From the tests we conducted, we have not identified any irregularities.

#### 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 €38,495,831. These liabilities were carried forward to be paid in 2019. Unpaid liabilities from the category of capital investments were €38,108,381, where €32,906,209 was only for the construction project of Motorway R6 Pristina-Hani i Elezit. Of this amount, €24,356,209 was for the unpaid regular works and situations and the value of €8,550,000 belongs to €53,100,000 approved as additional expenses for the motorway. While, the share of liabilities of €5,202,172 belongs to other infrastructure projects.

The reason for not paying the invoices was lack of budget.

Unpaid liabilities in the category of goods and services amounted to €384,680 and liabilities for utilities €2,768. However, this reflects only a part of the budget constraints faced by the Ministry. Compared with the previous year, an increase of liabilities by €10,317,337 or 45% was noted. We have applied substantive and compliance testing, and from the tests conducted, we have identified the following irregularities:

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#### Issue C3 – Deficiencies in the management of liabilities

**Finding** According to Financial Rule 01-2013, Article 37 – Public Funds Expenditures, the OB is obliged to pay every invoice received, valid for payment, within 30 calendar days from the receipt of the invoice.

The Ministry has ineffective controls in the management of liabilities. As a result, during 2018, with Treasury decisions and court decisions, over 4.5 million of unpaid obligations were paid in 2018 and previous years. Even this year, there are no improvements in this area.

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Only in the category of capital investments, the amount of outstanding liabilities was €38,108,381, but there are other unpaid liabilities for goods and services.

**Risk** Continued inefficient practices in the management of liabilities, and their continuous increase may expose the Ministry to financial difficulties and bring into question the execution of infrastructure projects. In addition, the Ministry may also be subject to court procedures which may increase the cost of these liabilities.

**Recommendation C3** The Minister should first ensure that there are secure funds for the payment of outstanding liabilities from previous years and that all invoices received during the year will be paid within the established deadlines.

## 4 Good Governance

Good Governance implies basic principles of accountability, effectiveness of controls, risk management, independence of internal audit, 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 Organisations 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 are a number of governance weaknesses within MI, particularly with regard to internal organisation and poor co-ordination between governing structures. Frequent staff changes in the procurement department have affected many irregularities in procurement activities.

There are also weaknesses in the performance of the organisation to provide better decision making, better services, and better value for money given. It is very important that the public procurement process is conducted transparently and fairly, and provides the best value for public money.

The procurement field is currently subject to high risks due to numerous contracts and large volume of budget. Most of infrastructure projects are multi-year projects, but in some cases the projects start without a long-term commitment of funds, but only with partial commitments. The initiation of the procedures is carried out before the executive projects are provided, and as a result, the revision of the projects is done at stages after the works have begun.

As a result of failure of controls, irregular payments were made due to negligence in the conduct of procurement procedures. This has happened with payments for the dislocation of cemeteries from tracks of motorway Prishtina - Hani i Elezit, where over €353,000 was paid without a contract only in 2018. Payments were made with reference to the prices of a contract of 2016, but which was an expired contract.

Inadequate management was also identified with special services agreements, with 135 people were employed under these agreements. In addition, 29 others did not have any contracts, and the same were paid for 2018 in the first quarter of 2019. Although the law allows such staff engagement, our remarks are about not implementing the required procedures for such cases.

The Ministry has not implemented most of the recommendations; however it has prepared the risk register and the self-assessment questionnaire, identifying the risks that might impact the organisation in achieving its objectives. Internal audit has raised many issues on the quality and effectiveness of internal controls and provided relevant recommendations for their improvement.

## 4.1 Internal Audit System

The Internal Audit Unit (IAU) operates with three members of staff - the Head of IAU and two auditors. An effective audit requires a comprehensive work programme that reflects financial and other risks to Auditee 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.

The Internal Audit Unit in MI for 2018 has planned 18 audits. Until December 2018, this unit carried out 13 planned audits. MI prepared a plan for implementing the IAU recommendations and is in the process of their implementation. IAU has also prepared semi-annual reports on its activities in the CHU/IA 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, supervise the 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 way.

Our conclusions are that there are deficiencies in the reporting process. Communication between Ministry's organisational units requires significant improvements. From the findings highlighted in the report, it turns out that accountability is poor, and as a consequence, many irregularities have occurred.

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. As the Ministry has numerous activities and huge budget, the risks are quite high. Management should systematically review the activities to reduce the risks at acceptable levels.

Although, a range of internal controls are applied by Management to ensure that systems operate as intended, we have noticed that the measures applied are weak and ineffective and therefore do not provide an effective and timely response to the identified operational problems.

## 5 Progress in implementing recommendations

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

At the end of our 2018 audit, nine (9) recommendations have been implemented; three (3) were in process; four (4) were closed, unimplemented; and three (3) have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or Table of recommendations).

Table 4 Summary of prior year recommendations and of 2018

No	Audit area	Recommendations of 2017	Actions taken	Status
1	AFS – Qualified Opinion	The Minister should ensure that an analysis is undertaken to determine the causes of the qualification of the opinion. The preparation of AFSs is subject to proper controls and review in order not to repeat the errors in the presentation of KPA borrowings and revenues.	Regarding the errors in the AFS, measures have been taken and we have not identified such errors in the 2018 AFS.	Recommendation implemented,
2	Emphasis of Matter	The Minister should analyse the causes for Emphasis of Matter and ensure/undertake specific actions to eliminate errors in classification of expenditures, and to provide correct presentation of the assets of the Ministry.	Misclassification of expenditures for MVD exists because the contracts concluded do not separate positions for investment maintenance from services. In the Emphasis of Matter are addressed other issues, such as improper payments, double payments.	Recommendation unimplemented
3	Wages and Salaries	The Minister should ensure that sustainable solution for positions covered by Acting is	MI has not taken action,	Recommendation

		found including full compliance with the legal framework.	while Acting positions continued for more than three months (15 positions according to personnel records).	unimplemented
4	Personnel management	The Minister should ensure adequate controls in the area of personnel, take appropriate steps to apply the legislation in force, and ensure efficient and effective management of the organization, in order to meet its objectives.	MI has engaged 32 employees from communities who do not attend work at all.	Recommendation unimplemented
5	Goods and Services	The Minister should ensure proper management and strengthen controls in execution of the expenditures, to ensure their proper classification for a fair and accurate financial disclosure.	We have not identified misclassification within the category.	Recommendation implemented
6	Goods and Services	The Minister should strengthen controls over procurement office and the requesting units in order to apply a proper procurement/contracting procedure for the same supplies.	We have not identified such cases.	Recommendation implemented
7	Capital Investments Shortcomings in project management co-financed by respective Municipalities	The Minister should ensure proper management of co-financed projects, and through the Department of Road Management to strengthen controls on the receipt of services by established supervisory authorities.	Completed projects	Recommendation closed / unimplemented
8	Misclassification of funds by	The Minister, in cooperation with the CFO and the Department for Road Management, should identify the measures to be undertaken for the	Misclassification exists, it	Recommendation



	category of Capital Investments and shortcomings in the process of receipt	receipts of Lots disclose the accurate value within a payment presents the value for maintenance and which one presents the value for capital investments. Also, in cooperation with the MoF, assets are classified / budgeted correctly by the economic categories that have a material impact on the Organization's AFSs.	relates to Emphasis of Matter – recommendation 2	unimplemented
9	Entering into Contractual Obligations without funds available	The Minister should strengthen the controls during project development by ensuring that before the initiation of procurement procedures any capital project has sufficient funds for its realization.	We have not identified similar cases of CI	Recommendation implemented
10	Non-compliances in Contract Award Notification	The Minister should ensure controls in the procurement field by determining the reasons for not complying with the legal requirements in the procurement process, in order to eliminate them in the future.	We have not identified similar cases of CI	Recommendation implemented
11	Expired coverage of Performance Security	The Minister should ensure/undertake a review to identify why procurement requirements have not been implemented, and to ensure adequate controls for such failures will not occur in the future.	Such cases do not exist, but there are cases when performance security contracts were signed	Recommendation in process of implementation
12	Improper planning of procurement activities and shortcomings in presentation of the report on executed contracts	The Minister should ensure proper controls and in cooperation with the Procurement Office should eliminate non-compliances by collecting the specific requirements of each requesting unit of the organization for all completed procurement procedures are in line with the final plan. Each contract should be disclosed in the annual report of signed public contracts.	No actions were taken to correct the recording of prior year contracts	Recommendation closed unimplemented



13	Delays from Bid Opening to their Evaluation	The Minister should ensure mechanisms to strengthen controls in the procurement area, by correctly applying the deadlines foreseen in the LPP.	Such cases do not exist	Recommendation implemented
14	Common Issues on Goods and Services and Capital Investments	The Minister, together with the finance office, should strengthen controls in execution of expenditures and ensure full compliance with the steps established by the LPFMA and the Treasury Rules.	Such cases do not exist	Recommendation implemented
15	Capital and Non-Capital Assets	The Minister should review the current controls on asset management. Controls in this area need to be strengthened so that assets are properly recorded, evaluated and recorded and prevented from loss or misuse.	Actions were taken, a commission for inventory was formed, but the commission did not prepare a general inventory report	Recommendation in process of implementation
16	Outstanding Liabilities	The Minister should ensure proper controls and good management of liabilities analyse the reasons for their increase, and that obligations towards suppliers are paid within the statutory deadline to avoid additional costs, and to ensure that the reporting of outstanding liabilities is made in accordance with the rules.	Measures were taken, however such cases still exist, outstanding liabilities have increased in relation to the previous year, but the reporting of liabilities was in compliance	Recommendation in process of implementation

			with the legal regulation.	
17	Progress in implementing recommendations	The Minister should apply an effective process for monitoring implementation of the Auditor General's (AG) recommendations, which sets the deadline and the responsible officials. Recommendations that are not implemented by deadlines should be revised as soon as possible, and proactive actions should be taken against the barriers that may arise during the process.	Measures were taken however, there are still such cases	Recommendation closed, unimplemented
18	Internal Audit System	The Minister, in cooperation with the Audit Committee, should review the internal audit plans in critical manner to confirm that they are based on current year processes, and to provide management with the adequate assurance.	Measures were taken by IAU	Recommendation implemented
19	Management Reporting, Accountability and Risk Management	The Minister should take appropriate measures to continuously identify all significant risks as means of testing the effectiveness of the financial management and control system in support of the organization's objectives.	MI has prepared the risk register	Recommendation implemented
No	Audit area	Recommendations of 2018		
1	Audit Opinion	The Minister should ensure that an analysis is carried out to determine the reasons for the Emphasis of Matter of the Opinion and their elimination. Therefore, specific actions should be taken to address the causes to eliminate misclassifications and irregular payments, which should be in line with the requirements of applicable laws.		
2	AFS	It should also ensure that when preparing the AFS, effective processes are established to confirm that the production plan for 2019 AFS addresses all issues pertaining to compliance. It should be ensured that steps are taken to ensure a correct presentation of outstanding liabilities as required by Treasury Rules.		
3	Budget Execution	The Minister should take actions for the timely functionalisation of Project Implementation Units so that capital projects are implemented in accordance with reached agreements.		

4	Wages and Salaries	In co-ordination with the MoF and the MPA, the Minister should review the possibility that for regular positions solutions are found within the Law on Civil Service.
5	Goods and services	The Minister should ensure that effective financial controls are established and a better co-ordination between the requesting unit, the contract manager and the procurement office is achieved in order not to allow the exceeding of amounts and contract value, or else the contract manager should recommend the procurement office to terminate contracts.
6	Capital Investments	The Minister should ensure that its officers should be part of the bid opening and evaluation commission processes to ensure that procurement processes are conducted in the framework of full transparency and without discrimination.
7	Capital Investments	The Minister should ensure that before municipal agreements on co-financing of certain projects are reached, the municipalities have regulated property issues, a copy of the plan and the consent on connections given by the municipal companies (electricity, water and sewage), otherwise, no funding should be made.
8	Capital Investments	The Minister should ensure adequate management of procurement processes, procurement manager should not sign contracts with economic operators without meeting tender dossier requirements and promote full transparency when signing contracts.
9	Capital Investments	The Minister should enhance controls in the procurement office to ensure that the signing of the contracts is in full compliance with the deadlines published in the contract notice of such nature and such practices are not repeated in the future.
10	Capital Investments	The Minister should ensure that the necessary actions are taken to strengthen controls, the procurement office provides assurance that the development of procurement processes from the initiation of the activities to the signing of contracts is conducted within the legal framework, or should specifically request from the procurement manager not to sign contracts without evidence of the project performance security.

11	Capital Investments	The Minister should ensure controls in project designing, to ensure that projects are done in accordance with bill of quantities and technical specification, project designing should correspond with the real needs on the grounds and should be based on technical standards for road designing.
12	Capital Investments	The Minister should ensure that the process for re-designing the projects is carried out only by companies contracted by the Ministry.
13	Capital Investments	The Minister should ensure that part of the commissions for the acceptance of projects and works will be officials with relevant qualifications, with specialised knowledge in road infrastructure that would provide assurance that the projects were implemented in full compliance with the construction standards.
14	Capital Investments	The Minister, upon procurement procedures when dealing with supplies or work, where approximate quantities are known, purchases or supplies should be made through public framework contracts which prohibits big changes at the levels of positions between approximate quantities and those executed.
15	Asset Management	The Minister should ensure that as members of the asset inventory and valuation commission and asset management officers are appointed competent and professional employees that would enable management and reporting of financial value of assets in accordance with legal requirements.
16	Outstanding Liabilities	The Minister should ensure that control mechanisms have been strengthened on management of liabilities, by not entering into contractual relationship in absence of funds.

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

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## 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.

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*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: Confirmation Letter

**Republika e Kosovës / Republika Kosovo / Republic of Kosovo**  
**MINISTRIA E INFRASTRUKTURËS DHE TRANSPORTIT**  
**MINISTARSTVO INFRASTRUKTURE I TRANSPORTA**  
**MINISTRY OF INFRASTRUCTURE AND TRANSPORTATION**

Nr. i regjistrimit	04	Nr. i Prot.	6767
Org. / Institucioni		Prot. Nr.	
Nr. i Ekipit	01	Data:	25.06.19
Nr. i Skedarit		Data:	
Nr. i Pajës			

PRISTINE/A

### 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 Ministrisë së Infrastrukturës për vitin e përfunduar më 31 dhjetor 2018 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturën dhe rekomandimin dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimit, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tij.

Z. Betim Reçica

Sekretar i Përgjithshëm i Ministrisë së Infrastrukturës

Data: xx.qershor.2019, Prishtinë,