



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT

**ON THE ANNUAL FINANCIAL STATEMENTS OF THE MINISTRY
OF LOCAL GOVERNMENT ADMINISTRATION FOR THE YEAR
2019**

Prishtina, April 2020

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 Republic Kosovo.

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 the 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 Local Government Administration (MLGA) in consultation with the Assistant Auditor General, Arvita Zyferi, who supervised the audit.

The report issued is a result of the audit carried out by Luljeta Sylaj - Team Leader, Bahri Statovci and Mazlumsha Sejfadini - Team Members, under the management of the Head of Audit Department Florim Beqiri.

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Executive Summary

This report summarises the key issues arising from our audit of the Ministry of Local Government Administration (MLGA) for 2019, which includes the Opinion of the Auditor General on Annual Financial Statements. Examination of 2019 financial statements was undertaken in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

Our audit focus has been on:



Conclusions

Annual Financial Statements of MLGA presented in the Annual Financial Report for year 2019 related to the statement of cash receipts and payments, budget execution statement and other disclosures for such statements are accurate and complete.

Financial Management and Internal Control has been generally adequate and effectively implemented. However, further engagement is required to avoid shortcomings in payment execution and assets.

The Ministry responded positively to recommendations given on previous year which is noted by the increased engagement on implementation thereof.

Opinion of the Auditor General¹

Unmodified Opinion

The Annual Financial Statements for the year ended on 31 December 2019 give a true and fair view in all material respects.

For more details, see Section 1 of this report.

Management's Response on 2019 audit

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

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

¹ Annex I explains different types of Opinions in line with ISSAIs.

Audit Scope and Methodology

The Audit involves examination and evaluation of Financial Statements and other financial records in regard to as the following:

- Whether the financial statements give a true and fair view of the accounts and financial matters 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 for implementation of audit recommendations have been undertaken.

The audit was based on risk assessment. We have analysed the Ministry's operations, the extent the management controls could be relied to in order to determine the level of in-depth testing required to obtain evidence supporting the opinion of the Auditor General.

Our procedures have included a review of internal controls, accounting systems and interrelated substantive tests, as well as related governance arrangements to the extent considered necessary for the effective conduct of audit. Audit findings should not be regarded as representing a comprehensive overview 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 in detail our audit findings and recommendations in each audited area. Management's responses to our findings can be found in Annex II.

1 Audit Opinion on Annual Financial Statements

We have audited the AFS of the MLGA for the year ended on 31 December 2019 in accordance with the Law on NAO and the International Standards of Supreme Audit Institutions (ISSAIs). Audit examinations were carried out in order to allow expressing opinions on AFS which comprise the Statement of Cash Receipts and Payments, and Budget Execution Statement, provided further in detail.

Unmodified Opinion

In our opinion, the Annual Financial Statements for the year ended on 31 December 2019 give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under the cash basis accounting.

Basis for the Opinion

The audit is carried out in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the section 'Auditor's responsibilities for the audit of the Annual Financial Statements' of our report. In compliance with ISSAI 10 and 30, and other relevant requirements for audit of budget organisations' AFSs, the NAO is independent from the Ministry. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of management for AFS

The Secretary General of the Ministry of MLGA is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Cash basis 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 compliance with requirements from the Law No. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented) and Regulation No. 01/2017 on Annual Financial Statements of Budget Organisations.

The Minister of MLGA is responsible to ensure the oversight of the Ministry's financial reporting process.

Responsibility of the Auditor General for the audit of the AFS

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will detect every material misstatement that might exist. Misstatements may

arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

The 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.

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

We communicate with the management of the audited entity regarding the audit scope, planned time and significant findings including any significant shortcoming in internal control that we have identified during the audit.

The audit report is published on the NAO's website, except for information classified (as sensitive) or other legal or administrative prohibitions in accordance with applicable legislation.

2 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, assets and liabilities, and the internal audit function.

Financial Management and Control Conclusion

MLGA's internal controls have generally been implemented by the management and resulted to be effective in preventing irregularities. However, failure to consistently implement statutory regulations and obligations resulted in shortcomings in terms of spending of funds from the capital investments and goods and services categories, and in assets management.

2.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Sources of Funds:	12,201,508	12,220,825	4,760,820	39	4,834,107	4,434,677
Government Grant – Budget	4,201,508	3,949,529	3,714,414	94	4,676,584	4,331,066
Revenues from PAK	1,000,000	941,275	919,787	98	0	0
Investment Clause	7,000,000	7,000,000	0	0	0	0
External Donations	0	330,021	126,619	38	157,523	103,611

When we compare the 2019 final budget of MLGA with the execution, it results that only 39% has been spent. However, if funds are excluded from the Investment Clause fund, which were not allocated, then it results that the budget execution has been 91%.

The final budget is higher than the initial budget by €19,317. This increase is a result of grants the MLGA received in amount of €330,021, whereas the budget was decreased by €310,704 through government decisions for budget allocations and budget savings.

² Final Budget – budget approved by the Assembly subsequently adjusted by the Ministry of Finances.

It is worth mentioning that the planned budget for financing out of the investment clause/external loan for capital projects was not allocated to the ministry as spending because the agreements have not been ratified by the Assembly of Kosovo.

In 2019, the Ministry spent 91% of the final budget or €4,760,820, excluding the funds from investment clause. Whereas on previous year the MLGA spent 97% of the final budget or €4,834,107. Details on the current position are presented below.

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

Description	Initial Budget	Final Budget	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Spending of funds by economic categories:	12,201,508	12,220,825	4,760,820	39	4,834,107	4,434,677
Wages and Salaries	1,061,577	1,069,763	1,022,588	96	1,018,893	971,081
Goods and Services	314,431	447,449	254,288	57	242,033	192,284
Utilities	15,500	17,630	8,394	48	12,547	11,895
Subsidies	0	0	0	0	46,815	184,611
Capital Investments	10,810,000	10,685,983	3,475,550	33	3,513,819	3,074,806

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries compared to the initial budget was increased by €8,186 which is because of the difference between the donor grants in the amount of €101,873 and the decrease by Government Decision (no. 02/115 dated 17/12/2013) on behalf of budget savings in amount of €93,687.
- The final budget for Goods and Services compared to the initial budget was increased by €133,018 which is because of the donor grants in the amount of €218,018. However, through the Government Decision no. 02/113 there were taken €45,000 on behalf of savings, whereas by Decision no. 02/115 dated 17/12/2019 there were taken additional €40,000.
- The total budget under Utilities was increased by €2,130. This budget was increased by €10,130 from donor grants, while it was reduced by €5,000 because of the Government Decision no. 02/113, and by €3,000 because of the decision no. 02/115.
- The final budget for Capital Investments compared to the initial budget was reduced by €124,018. This reduction occurred because of the Government Decision no. 02/113 where €106,885 were taken on behalf of savings, and because of the other decision no. 02/115 made on December where additional €17,132 were taken from. This was due to failure of municipalities to execute projects according to the plans; therefore, the MLGA failed to spend the budget from this category.

2.1.1 Wages and Salaries

The final budget for Wages and Salaries in 2019 was €1,069,763 of which €1,022,588 were spent. The approved number of employees by budget was 154, whereas by the end of the year the number was 137, three (3) employees were not in the payroll as they were paid by donations. During 2019, there were employed three (3) new staff. We have conducted substantive testing of 30 samples in amount of €24,932, and compliance testing of 9 samples.

We have also conducted compliance testing of the process management in regard to personnel management activities. We have noticed some minor flaws which have no impact on the regularity of the process and they were verbally reported.

It is worth mentioning that the Audit Report for MLGA for year 2018 reported lack of evidence on work attendance of the staff engaged pursuant to the Brussels' Agreement³, whereby 18 employees were hired in this Ministry. Currently the employees have started reporting on weekly basis and they sign in and sign out in the attendance book for 2019.

2.1.2 Goods and Service

The final budget of Goods and Services and Utilities in 2019 was €465,079, of which €262,682 were spent. They mainly relate to travels abroad, contractual services, fuel expenses, rental expenses, luncheon expenses etc. We have conducted substantive testing of 10 samples in amount of €62,030, and compliance testing of 5 samples.

³ Law No. 04/L-199 on Ratification of the first international agreement of principles governing the normalisation of relations between the republic of Kosovo and the republic of Serbia, by Decision no. 06/39 dated 22.07.2015 approved the conclusion agreed upon on dissolution of the so-called "civil protection" which has operated in the northern municipalities of Kosovo, and supports commitments stemmed from these conclusions. Through this decision, the respective Ministries and Agencies are obliged to implement the conclusions according to their legal responsibility.

Issue B1 Open advances from previous years

Finding Pursuant to Financial Rule no. 01/2013/MF – Public Funds Expenditure and the MPS Administrative Instruction No. 2004/7 on Official Travels, the advance money for official travel should be closed and unspent amounts should be returned to the bank account within 15 days upon return from the official travel.

The MLGA, in Article 20 of the Annual Financial Report (AFR) presented an amount of €5,945 as unjustified advance money for official travels from previous years 2010-2014. MLGA had evidence that advance payments were closed, but they still appeared open in KFMIS. MLGA had made a request to the Treasury to correct the previous advances by submitting the appropriate documentation and was waiting for the correction of the remaining open advances from the Treasury. The same issue was also reported in our audit report of 2018.

This occurred due to lack of proper coordination between the respective officers of the MLGA and the Treasury.

Impact Absence of concrete actions in closing the advances impacts on failure to avoid errors in accounts of advances, and reflects unclosed expenditures making this account appear as still open. In addition, information presented in the AFS do not reveal the realistic position of the ministry's advances.

Recommendation B1 The Minister should, in cooperation with the Treasury, ensure that concrete measures are taken to close the open advances based on evidence provided by MLGA, in order to avoid their overestimation in AFR.

Issue A1 Payment not in accordance with the agreement and beyond the competences of MLGA**Finding**

Pursuant to Government Regulation No. 02/2011 on the Areas of Administrative Responsibility of the Office of the Prime Minister and Ministries, the Ministry of Local Government Administration has certain clear and specific competences to support municipalities in various fields of local government administration. Whereas the Ministry of Economic Development, as representative of the shareholder of Publicly-owned Enterprises, allocates subsidies to support central and regional POEs, as per their needs.

On 25.06.2019, Municipality of North Mitrovica addressed to MLGA with a request to cover the electricity expenditures for the Regional Water Company KRU Mitrovica. On 25.06.2019, the Minister issued a decision approving the request of Municipality for allocation of €20,000 from the economic category of Goods and Services. On the same date the Memorandum of Understanding on covering electricity spending expenditures for KRU Mitrovica was signed by the Minister of MLGA and the Mayor of Municipality of North Mitrovica, in amount of €20,000. Pursuant to Article 3 of this memorandum, MLGA shall make the payments according to the electricity invoice for KRU Mitrovica.

Based on the competences vested on it, the Ministry is not entitled to take over the electricity payment for the Regional Water Company KRU Mitrovica. Moreover, the budget planned through the budget appropriation to MLGA for support to municipalities is done from the economic category of capital investments rather than goods and services.

Further on, we noticed that the payment has not been done for electricity, as provided for by the agreement; there were paid invoices for water supply issued by KRU Mitrovica. The water supply invoices were for December 2013 and for February and March 2014⁴. The MLGA made the payment of water supply from the economic code of other contractual services in amount of €19,523 given that the funds to cover this agreement had not been budgeted at all. Funds had been taken from the project "Provision of professional services for implementation of capital projects" which was not executed.

According to Minister, the financial assistance to KRU Mitrovica aimed to support citizens of municipalities in having access to drinking water as a guaranteed right.

Impact

Signing of the Memorandum of Understanding with Municipality for covering electricity expenses of KRU Mitrovica is beyond the competences/scope of the Ministry. Moreover, execution of payment from an unplanned budget, not based on the agreement, impacts on processing of irregular payments.

Recommendation A1 The Minister should ensure that Memoranda of Understanding for financing of other budget organisations are signed within the foreseen legal competences and through economic categories the funds are budgeted for. Upon signature of the agreements, the terms thereof shall be fully respected to avoid irregular payments.

2.1.3 Capital Investments

The final budget for capital investments in 2019 was €10,685,983, of which €3,475,550 were spent. They relate to four PIP approved projects such as: Co-financing from Donors on Municipal Performance-Based Grant Scheme; Municipal Social and Economic Infrastructure Development Program; Public Lighting in village Kabash-Korisha; and Information Technology Equipment. Funds are spent based on Memoranda of Understandings on co-financing of projects with municipalities. The objective of MLGA is to increase citizens' life quality and develop infrastructure capacities. We have conducted substantive testing of 75 samples in amount of €3,446,903, and compliance testing of 9 samples.

⁴ Invoice nos. 0038456 in amount of €6,314, 0048063 in amount of €6,314 and 0256374 in amount of €6,895.

Issue A2 Support to municipalities' capital projects with no criteria**Finding**

Law No. 06/L-133 on the Budget appropriations for the budget of the republic of Kosovo for year 2019, Article 17 paragraph 6, provides that "for every financing or co-financing of the projects in the local level on municipal regular financing, central budget organization shall apply specific, clear, fair and transparent criteria. Such criteria should take into account the municipal and inter-municipal balanced development in constructing the infrastructure and providing services".

In addition to the criteria determined by MLGA on appropriation of funds to municipalities from the performance grant and the criteria determined in the public call for inter-municipal cooperation funds, MLGA allocated other funds for financing capital projects of municipalities with no criteria through Minister's decisions. Through such decisions, there were funded 16 projects of mainly Serbian municipalities in amount of €596,225. The ministry justified these financings with the fact that the municipalities at stake had not benefited from the other two schemes, while the purpose of the Ministry was to financially support all municipalities by MLGA.

Impact

Allocation of funds to municipalities without applying clear, specific and transparent criteria impacts on unfair and unequal funding of municipalities.

Recommendation A2 The Minister should ensure to set specific, clear, fair and transparent criteria prior to financing capital projects of municipalities, as provided by the law on budget appropriations.

2.2 Capital and non-capital assets

The amount of capital assets disclosed in AFS is €2,914,156, that of non-capital assets is €72,620 as stock is €4,931. We have conducted substantive testing of 100 samples in amount of €4,227,950⁵, and compliance testing of 8 samples.

Issue C1	Underestimation of non-financial capital assets
Finding	<p>Regulation 02/2013 on Management of Non-Financial Assets by Budget organisations, Article 12 states that organisations can buy or build assets through co-financing and by the time of acceptance of non-financial assets, they will record transactions in category of ongoing investments. At the moment when the non-financial assets have passed all the acceptance rules and procedures by BO, then the category of ongoing investments should be closed also in records of recipient BO and co-financing BO. The asset will then be registered in the assets' register of the recipient BO.</p> <p>During 2018, the MLGA funded various capital projects for municipalities of the Republic of Kosovo based on co-financing agreements with Municipalities. These financings were registered by the MLGA in its assets register as ongoing investments. Following the execution of Ministry's obligation, MLGA requested the Ministry of Finance (MoF) to remove these ongoing investments from asset registers on the grounds that it had performed its financial obligation. On this occasion, the MoF wrote off the projects from MLGA assets register even though they were not recorded in the assets register of respective municipalities. Upon receipt of our audit report for year 2018, the ministry undertook immediate actions to rectify the error where from the €739,018 as written off assets in 2018, €300,000 remained unrectified in 2019. The unrectified amount relates to the projects funded yet uncompleted regarding Municipality of Leposavic.</p> <p>This occurred due to the absence of Assets Officer and Assets Register in the municipality that received such asset. Currently, MLGA returned these assets to its own register of 2020.</p>
Impact	Writing off of assets registered as ongoing investments by MLGA without any consultation with respective municipalities, and without any agreement with them, impacted on these assets being in no register of 2019, including registers of beneficiary municipality.

⁵ The tested amount includes assets of 2019, transfer of capital assets to beneficiary municipalities, testing of assets balance for previous year.

Recommendation C1 The Minister should ensure that payments executed for projects through co-financing with municipalities, which are registered in the ministry's asset register as ongoing investments, are not written off from registers without ensuring that a transfer agreement is made, technical acceptance occurred and they may be recorded in the assets register of the beneficiary municipality.

2.3 Outstanding liabilities

The statement of outstanding liabilities to suppliers by the end of 2019 was €6,811. These liabilities are carried forward to be paid in 2020 and they relate to obligations for goods and services and utilities. Except for one invoice, all others fall within the payment period of less than 30 days.

The Ministry conducts a regular reporting process for obligations and the officer in charge reports the outstanding obligations in due time to treasury. MLGA has no contractual obligations.

2.4 Internal Audit function

The Internal Audit Unit (IAU) operates with three members - the Head of IAU and two auditors, with adequate qualification. IAU prepared the strategic plan (2019-2021) and the annual plan, which were approved by the management of the Ministry. The annual plan includes six (6) audits planned to cover the period of 2019 and assessment of addressing previous year recommendations. The scope is to audit budget spending, management of capital investments, assets, procurement and human resources. Audit approach was based on identification and assessment of risks that may impact on achievement of ministry's objectives.

The IAU finalised all the planned audits⁶, and each audit report addressed also the implementation of recommendations from previous years. The audit reports contain conclusions and recommendations identifying some shortcomings in MLGA's internal control system. The total number of recommendations was 30, of which six (6) were implemented, 20 were under implementation, and four (4) were unimplemented.

The management has undertaken actions and prepared plans for implementation of recommendations from the IAU reports.

IAU reported on regular basis to the Central Harmonisation Unit for Internal Audit, as well. The operation of IAU was supervised by the Internal Audit Committee which held four meetings

⁶ Finalised Reports: Budget Management System Phase I; Capital Investment Management System Phase I; Human Resources Management System; Asset Management; Procurement Management System; Budget Management System Phase II; and Capital Investment Management System Phase II.

discussing IAU reports. In addition, the Audit Committee prepared the 2019 work report which was sent to Ministry's management.

3 Progress in Implementing Recommendations

Our audit reports on the 2019 AFS of MLGA resulted in seven (7) recommendations. The Ministry prepared an Action Plan stating how the recommendations will be implemented. It also submitted the report on progress in implementing recommendations (30th of September and 15th of March) under requests deriving from the Rules of Procedure on implementation of Audit and action plans.

At the end of the 2019 audit, four (4) recommendations have been implemented, one (1) partly implemented, one (1) unimplemented and one (1) closed as unimplemented. For a more thorough description of the recommendations and the way they have been addressed, see Table 4 (or Table of Recommendations).

Table 4 Summary of recommendations for previous year and for 2019

No.	Audit area	Recommendations of 2018	Actions undertaken	Status
A1	AFS	<p>The Minister should ensure that payments made for projects through co-financing with municipalities, which are recorded as following investments in the Ministry's assets register, are not deleted from the registers until these projects are completed and transferred to the ownership of the beneficiary municipality.</p> <p>The Minister should ensure that all unpaid obligations are presented fairly and correctly in the AFS, as required by Treasury Rules on Financial Reporting.</p> <p>The Minister should ensure that appropriate measures are taken to address the problems related to the depreciation so that the asset officer will maintain the register by applying the depreciation according to the established norms in co-operation with MPA.</p>	<p>The management has undertaken measures to address our recommendation. Transfer of all assets to municipalities, except for Municipality of Leposavic, has taken place. Even the recommendation on obligations has been addressed.</p>	Recommendation partly implemented
A2	Budget process	<p>The Minister should ensure that a proper budget planning is made based on Ministry's needs in the adequate categories, based</p>	<p>In 2019, we noticed no misclassification of expenditures from the</p>	Recommendation implemented

		on the chart of accounts approved by MoF.	category of capital investments to goods and services.	
B1	Budget process	The Minister should consider causes of non-execution of the budget and should take corrective actions in areas where projects failed to execute. Budget performance should be subject to regular review and monitoring by Management.	Even in 2019 the budget spent for goods and services and utilities was low.	Recommendation closed as unimplemented
A3	Wages and Salaries	The Minister should undertake all actions to ensure working conditions and regular attendance of these employees at work by carrying out continuous monitoring as foreseen by legal acts. On the contrary, this problem should be discussed also with the Government, as the problem as such is very widespread in other Ministries as well.	Attendance records were introduced and officials were hired to perform respective duties.	Recommendation implemented
A4	Goods Services and	The Minister should ensure that appropriate controls are taken regarding continuous management of the account of advances and continue cooperation with Treasury, so that the remaining part of the open advances are closed in the shortest period.	There had been discussions with Treasury, yet the problem was not solved.	Recommendation unimplemented

A5	Capital Investments	The Minister should ensure that co-financing agreements contain clear project implementation timelines and all financial transactions are made in accordance with the financial procedures and rules on spending of public money.	Such cases were not repeated.	Recommendation implemented
A6	Capital Investments	The Minister should ensure that the responsible procurement officer during the preparation of the tender dossier follows the rules on his responsibilities in preparing the tender dossier, without interfering in the modification of the technical specification without a proper co-operation with the unit or commission, which prepared the technical specification.	We noticed no such cases in our audit for year 2019.	Recommendation implemented
No.	Audit area	Recommendations of 2019		
B1	Open advances from previous years	The Minister should, in cooperation with the Treasury, ensure that concrete measures are taken to close the open advances based on evidence provided by MLGA, in order to avoid their overestimation in AFR.		
A1	Payment not in accordance with the agreement and beyond the competences of MLGA	The Minister should ensure that Memoranda of Understanding for financing of other budget organisations are signed within the foreseen legal competences and through economic categories the funds are budgeted for. Upon signature of the agreements, the terms thereof shall be fully respected to avoid irregular payments.		

A2	Support to municipalities' capital projects with no criteria	The Minister should ensure to set specific, clear, fair and transparent criteria prior to financing all capital projects of municipalities, as provided by the law on budget appropriations.
C1	Underestimation of non-financial capital assets	The Minister should ensure that payments executed for projects through co-financing with municipalities, which are registered in the ministry's asset register as ongoing investments, are not written off from registers without ensuring that a transfer agreement is made, technical acceptance occurred and they may be recorded in the assets register of the beneficiary municipality.

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.

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

Annex II: Letter of confirmation



Republika e Kosovës
Republika Kosova-Republic of Kosovo
Qeveria - Vlada - Government
Ministria e Administrimit të Pushtetit Lokal
Ministarstvo Administracije Lokalne Samouprave
Ministry of Local Government Administration

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2019 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 Raportit/Pasqyrave Financiare Vjetore të Ministrisë së Administrimit të Pushtetit Lokal, për vitin e përfunduar më 31 dhjetor 2019 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet 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 rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Emilija Redžepi.....*Emilija Redžepi*

Ministre - Ministria e Administrimit të Pushtetit Lokal,

Data: 22 Prill 2020, Prishtinë,