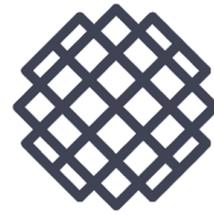




Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

**AUDIT REPORT**  
**ON THE MINISTRY OF LOCAL GOVERNMENT**  
**ADMINISTRATION**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Ministry of Local Government Administration 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 Erëmira Bytyqi Pllana (Team Leader) and Mazlumsha Sejfadini (team member) 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 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 26.11.2018.

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 MLGA.

### Opinion of the Auditor General

#### Unmodified Opinion with Emphasis of Matter

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

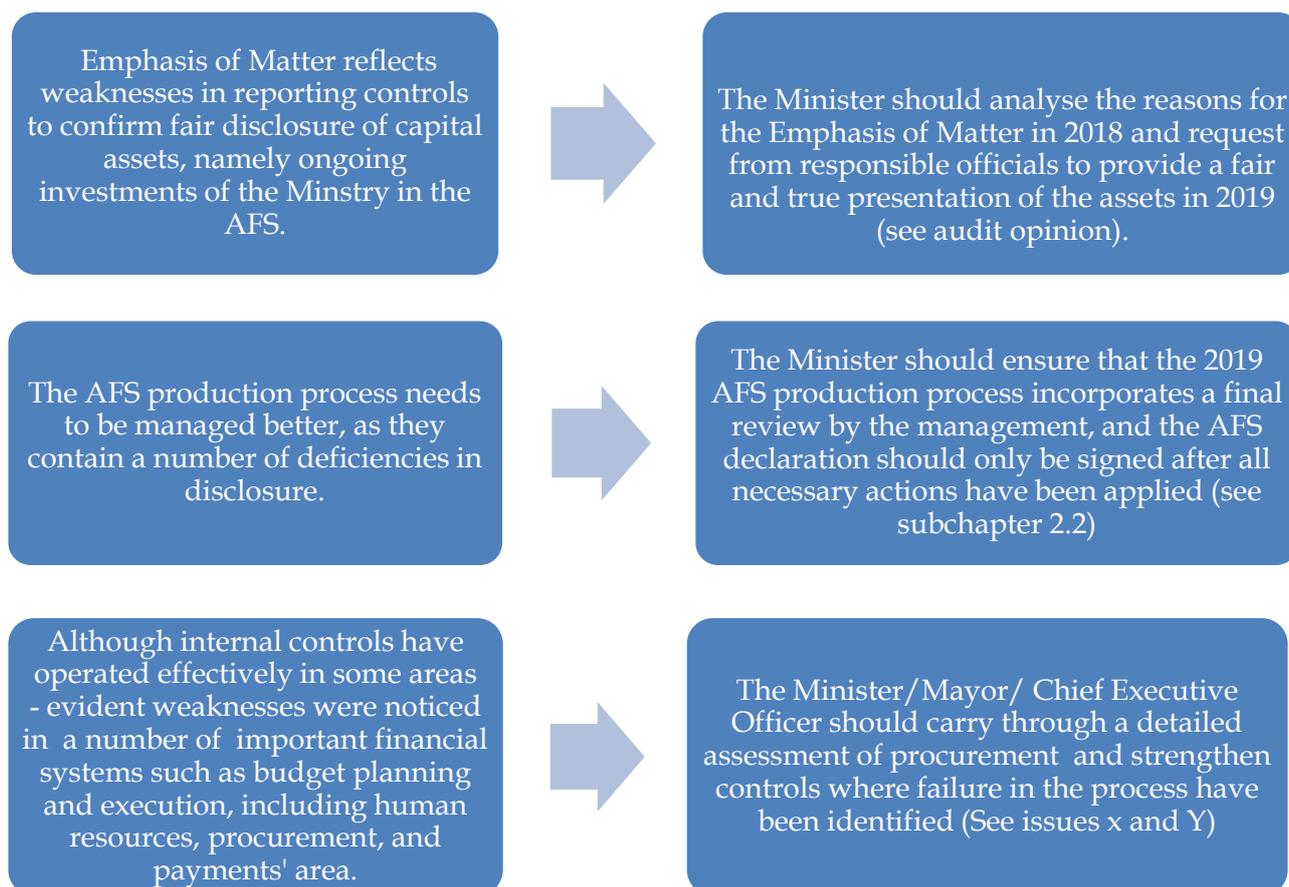
#### Emphasis of Matter

We draw your attention to the fact that capital and non-capital assets, namely ongoing investments of the Ministry were not disclosed correctly in the AFS, as they were underestimated by €739,018.

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

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

## Key Conclusions and Recommendations



## Management response to audit 2018

The Minister agreed with most of the findings and conclusions of the audit, and has committed to address all given recommendations. Comments on the matter for which the ministry has disagreed can be found in Annex II.

The National Audit Office acknowledges the Ministry's management and staff for cooperation of during the audit process.

# 1 Audit Scope and Methodology

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

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- Whether the internal controls and internal audit functions are appropriate and efficient; and
- Whether have been taken appropriate actions for implementation of audit recommendations.

Audit work undertaken is based on risk assessment. We have analysed 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.

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## 2 Annual Financial Statements and other External Reporting Liabilities

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 Local Government Administration 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 capital non-financial assets, namely ongoing investments disclosed in Article 19.3.1 in the AFS were underestimated by €739,018.

During 2018, MLGA, based on co-financing agreements with Municipalities had funded various capital projects for municipalities of the Republic of Kosovo. These financings were registered by the MLGA in its assets register as ongoing investments. Following the execution of Ministry's obligation, namely the last payment, 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 and notified municipalities on the withdrawal of payments' documentation. On this occasion, the MoF deleted the projects from MLGA assets register even though they were not completed and their technical acceptance was not done. As a result, these ongoing investments were not included in any of the asset registers, neither as investments nor as assets.

This was not in accordance with Article 12 of the MoF Regulation. No. 02/2013 on the management of non-financial assets in budget organisations, which stipulates that: "By the time of acceptance of non-financial assets, the financing budget organisations shall record the transactions in the ongoing investments category. When the non-financial asset has passed all the rules and procedures of acceptance by the budget organisation, which acquires the right of ownership over the relevant asset, then the ongoing investment category is also closed in the records of the receiving budget organisation and the co-financing budget organisation".

This occurred due to non-implementation of the regulation on management of non-financial assets and the failure to respect the MoU with Municipalities regarding the manner of transferring ownership of the project by the responsible ministry officials.

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

The Secretary General of the Ministry of Local Government Administration is responsible for 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).

The Minister is responsible to ensure the oversight 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

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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

MLGA is required to comply with a specified reporting framework and other reporting requirements. On this case, we have considered the following issues:

- 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 of MoF no.01/2013 on Expenditure of Public Money and MoF Regulation no. 02/2013 on Management of Non-Financial Assets in Budget Organisations;
- Procurement plan and the report on public contracts signed;
- Quarterly financial reports, operational reports;
- Action plan on addressing of recommendations; and
- Requirements of Financial Management and Control (FMC) procedures.

Draft AFS of the Ministry were declared incorrectly with material values in main items, but after our suggestions they were corrected on 22.02.2019.

Regarding the AFS, apart from the issue raised at Emphasis of Matter, we have identified that the MLGA had not properly disclosed outstanding liabilities and non-cash financial assets as follows:

Article 17 - Report on outstanding liabilities, which were underestimated by €2,819. This was so because two invoices of December 2018, related to expenses of vehicle rent and fuel expenses, which were received at MLGA in January 2019, were not presented as liabilities in the AFS. This was in violation of the MoF Regulation. no. 01/2017 on the annual financial reporting by BOs, Article 17, report on Outstanding liabilities (invoices), which requires budget organisations to report all liabilities (invoices) incurred by December 31 of the reporting year.

This was so because the responsible finance officer had no knowledge that receipts that are received after the end of the fiscal year should be presented as outstanding liabilities in annual financial statements.

Article 19.3.2 - Non-capital assets under €1,000: Non-capital non-financial assets disclosed in the amount of €140,360 were overestimated. This is because the assets recorded in the amount of €24,320 in March 2018, revaluated by the evaluation commission; no depreciation was applied at the end of the year. This was in contradiction with regulation MoF 02/2013 on the management of non-

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financial assets in the BO, Article 20, under which all capital and non-capital non-financial assets will be subject to depreciation rates.

This occurred due to the non-application of automatic depreciation by the MPA and due to the absence of the officer responsible for the maintenance of the non-capital assets register.

#### DECLARATION OF CHIEF ADMINISTRATIVE AND FINANCIAL OFFICER

Given the above, the Declaration made by the Chief Administrative and Financial Officer upon the submission of the AFS to the Ministry of Finance, except for the above-mentioned issues can be considered correct.

Related to other requirements on external reporting, we have no issues to raise.

## 2.3 Recommendations related to Annual Financial Statements

**Recommendation A1** 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.

The Minister should ensure that all unpaid obligations are presented fairly and correctly in the AFS, as required by Treasury Rules on Financial Reporting.

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 cooperation with MPA.

## 3 Financial Management and Control

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

### Financial Management and Control Conclusion

In the context of financial systems, MLGA controls over expenditures have generally been implemented effectively, but in some cases, we have identified shortcomings that need further improvement to prevent irregularities of expenditures. Failure to implement consistently regulations by a part of staff has led to shortcomings in some cases. Main areas where more improvements are needed are budget planning and execution, controls over the closure of advances, budget spending from respective codes and in compliance with legal requirements, management of assets registers of the Ministry, and establishment of controls in the procurement area.

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### 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>5,102,461</b>	<b>4,952,395</b>	<b>4,834,107</b>	<b>4,434,677</b>	<b>4,808,764</b>
Government Grant -Budget	5,102,461	4,682,430	4,676,584	4,331,066	4,696,680
External donations	0	269,965	157,523	103,611	112,084

The final budget compared to the initial budget was reduced by €150,066. This reduction is as a result of Government Decisions on declaration of unspent/saved funds at the end of the year, in all categories, with particular emphasis on capital investments.

In 2018, the MLGA has spent 97% of the final budget or €4,834,107.

**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>5,102,461</b>	<b>4,952,395</b>	<b>4,834,107</b>	<b>4,434,677</b>	<b>4,808,764</b>
Wages and Salaries	998,882	1,059,866	1,018,893	971,081	918,917
Goods and Services	264,430	305,432	242,033	192,284	345,231
Utilities	15,500	21,935	12,547	11,895	11,134
Subsidies and Transfers	50,000	46,980	46,815	184,611	197,624
Capital Investments	3,773,649	3,518,182	3,513,819	3,074,806	3,335,858

Explanations on changes in budget categories, including reason and their impact:

- The final budget for Wages and Salaries compared the initial budget was increased by €60,984. This increase comes as a result of donor grants in the amount of €106,773 and increase of €5,037 with Government Decision no. 07/80, for increase of salaries for the political cabinet, and then decrease of budget in the amount of €50,826, by Government Decision no. 02/70 dated 19.10.2018 regarding the declaration of savings by MLGA. Execution in this category was 96%.

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

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- The final budget for Goods and Services increased compared to the initial budget by €41,002. This increase was as a result of donor grants in the amount of €153,821, as well as a decrease of budget in the amount of €112,819, according to Government Decision 04/82 dated 28.12.2018. Despite the increase, the budget was executed only 79%.
  - In Utilities, the budget increased by €6,435. This was as a result of budget increase from donor grants by €9,372, and budget decrease in the amount of €2,937, according to Government Decision no. 07/80 dated 18.12.2018. The budget executed was only 57%.
  - Subsidies and Transfers were reduced by €3,020 with Government Decision no. 07/80 dated 18.12.2018. Execution in this category was at 99%.
  - The final budget for Capital Investments compared to the initial budget was reduced by €255,467, according to Government<sup>2</sup> Decisions. This was so because MLGA failed to fully execute planned projects related to Capital Investments in Municipalities. The deficiencies in this respect originally stemmed as a result of late signing of MoUs, followed by delays in the implementation of procurement procedures by Municipalities and the late start of the works.

## Issue A 2 - Misclassification of expenditures

### Finding

According to Financial Rule 01/2013 on spending of public money, expenditures should be recorded according to adequate codes, as defined in the Administrative Instruction (AI) for the chart of accounts. Based on AI no. 2005/08, the category of Goods and Services includes, among others, equipment in the amount of up to €1,000 even if the shelf life may be more than one year.

Payments in the amount of €82,798 for the contract "Supply with IT equipment for Municipalities" was made from Capital Investments, although the amount of €48,814 was for computers and other equipment under €1,000 (laptops, scanners and photo-cameras) dedicated to officials from municipalities and officials within the ministry, which should be executed from Goods and Services.

This occurred due to improper planning of expenditures in the relevant categories.

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<sup>2</sup> The Government Decision No. 04/70 dated 19.10.2018 with a declaration of savings has been reduced in the amount of €41,954; The Government Decision No. 11/79 dated 11.12.2018 with a declaration of savings has been reduced in the amount of €22,235; The Government Decision No. 07/80 dated 18.12.2018 has been reduced by €17,202 and the Government Decision No. 04/82 dated 28.12.2018 has been reduced to €174,076.

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**Risk** Payment of Goods and Services from Capital Investments reflects an unfair overview of spending the Ministry's budget, by overestimating Capital Investments and underestimating Goods and Services.

**Recommendation A2** The Minister should ensure that a proper budget planning is made based on Ministry's needs in the adequate categories, based on the chart of accounts approved by MoF.

**Issue B1 - Low budget execution in the category of Goods and Services and Utilities**

**Finding** MLGA had not managed to spend the budget for Goods and Services, by spending only 79% of the budget, and the budget for Utilities 57%. This occurred due to the failure of indented plans and projects related to the use of budget of these categories.

**Risk** Inefficiency in budget spending in the relevant categories affects the non-achievement of Ministry's objectives and the decrease of budget plans in the coming years.

**Recommendation B1** 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.

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### 3.1.1 Wages and Salaries

The final budget for wages and salaries was €1,059,866, while were spent €1,018,893 or 96%.

#### Issue A 3 - Lack of evidence on work attendance

##### Finding

We have tested a number of samples regarding the work attendance of MLGA staff. Based on the Brussels Agreement, namely Law No. 04/L-199 on the Ratification of the First International Agreement of Principles governing the Normalization of Relations between the Republic of Kosovo and the Republic of Serbia, the Government of Kosovo, by Decision no. 06/39 dated 22.07.2015, approved the agreed conclusions on the dissolution of the so-called "Civil Protection" which has functioned in the northern municipalities of Kosovo and supports the commitments stemmed from these conclusions. Through this decision, the respective Ministries and Agencies are obliged to implement the conclusions according to their legal responsibility.

In MLGA after a recruitment process, 18 Serbian civil servants, former members of "Civil Protection", were integrated with Appointment Acts. These employees were planned to be accommodated in Municipalities in the northern part of Kosovo. However, in their Appointment Acts, the employees were systemised in certain positions within respective departments in the Ministry.

Regarding the aforementioned officials, Ministry has no evidence to confirm their work attendance, as required by Regulation no. 05/2010 on the working hours, while the Ministry executed regular payment of their salaries. The financial value for salaries for 2018, for 18 officials was €81,156.

This happened because management controls have not been implemented to ensure that all employees are present in the workplace during the working hours.

##### Risk

Payments for employees in the absence of evidence of work attendance have no clear legal basis and are not regular payments. As such, they can damage the Ministry's budget.

**Recommendation A3** 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.

### 3.1.2 Goods and Services and Utilities

The final budget of Goods and Services and Utilities in 2018 was €327,367, out of which €254,579 were spent. They relate to servicing and maintenance of vehicles, purchase of inventory and IT equipment, office supplies, contractual services, travel expenses, representation expenses, etc.

#### Issue A 4 - Open advances from previous years

**Finding** According to Financial Rule no. 01/2013 MoF-spending of public money and Administrative Instruction on official travel no. MSHP 2004/7, advances for official travel should be closed and unspent amounts should be returned to the bank account within 15 days after returning from official travel.

MLGA, in the AFS (Article 20), presented a value of €6,832, unjustified advances for official travel and petty cash. Out of which, the value of €5,945 was open advances from previous years<sup>3</sup>, and €887 in cash advances. MLGA, possessed documents showing closure of advances, but they still appeared open in KFMIS. The MLGA had made a request to the Treasury to correct previous advances, by submitting the appropriate documentation, and was waiting for the remaining part of open advances from the Treasury.

This occurred due to lack of good coordination between the MLGA financial officer and the Treasury.

**Risk** Lack of proper controls regarding advances increases the risk of failure of avoiding errors in the account of advances and the account to remains open.

**Recommendation A4** 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.

### 3.1.3 Subsidies and Transfers

The final budget of Subsidies and Transfers was €46,980, out of which €46,815 were spent in 2018. Those relate to financial support projects of NGOs regarding the advancement of local self-governance in Kosovo.

#### Recommendations

We have no recommendations in this area.

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<sup>3</sup> Open Advances from 2010-2014.

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### 3.1.4 Capital Investments

The final budget for capital investments was €3,518,182, out of which in 2018 were spent €3,513,819. They relate to four projects approved in the PIP, such as: (a) Co-financing with donors for the grants scheme based on municipal performance; (b) Municipal Program for Development of Socio-Economic Infrastructure; (c) Incentive Fund and (d) IT Equipment for Municipalities.

#### Issue A 5 - Payment made based on the agreement for sharing costs

##### Finding

According to Article 22 of Financial Rule no. 01/2013/MoF on spending of public money, the relevant documentation including the receipt report and the invoice are required for processing a payment.

In the agreement for sharing expenses between UNDP and MLGA, dated 09.08.2018, it was determined that MLGA will pay in advance the amount of €20,000 for the design of the online platform. This agreement does not specify the value of the contribution on the part of UNDP, while the platform is foreseen to remain the property of MLGA. As a result, MLGA made a payment of €20,000 on UNDP's account, recording it as an expense in the software code, without an invoice and a report on the receipt of goods (services)/works performed, and not from the advance code for Capital Investments, as foreseen in the chart of accounts. Furthermore, the agreement did not foresee clear deadlines for the implementation of the project. Although the payment was made in August, by the end of 2018, the MLGA had not received any financial or narrative reports on the progress of the project, as until this time, the project has not started to be implemented.

This occurred as a result of lack of knowledge on the requirements of laws/financial rules by the Ministry's responsible officials.

##### Risk

The total payment of the part financed by MLGA, not in accordance with the rule on spending of public money and in the absence of clear deadlines for implementation, increases the risk of achieving the Ministry's objectives. In addition, this does not indicate a true statement of expenditures due to overestimation of capital expenditure and underestimation of capital non-financial assets.

**Recommendation A5** 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.

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**Issue A 6 - Preparation of tender dossier in full discrepancy with technical specification****Finding**

Based on the Rules and Operational Guideline, paragraph 11.3 stipulates that “the responsible officer of the procurement office in cooperation with the requesting unit shall co-ordinate the specifications, terms of reference, bill of quantities and forecast”.

The MLGA procurement office upon preparing the tender dossier for the contract “Supply with IT equipment for Municipalities” in the amount of €82,798, after having received the technical specification from the commission appointed for its preparation, had intervened in its modification by adding an additional position (staff training) in the amount of €1,000, while this position had been included at another place together with the assembling and installation of the equipment, also in the amount of €1,000. In this way, the EO bid for two positions involving the same requirement, such as staff training.

This occurred due to the inattentiveness of the procurement officer to harmonize specification of tender dossier with the specification requirements drafted by the commission.

**Risk**

Modification of the technical specification by the procurement office without coordination with the committee for designing specification risks the duplication of positions in the tender dossier, which resulted in a double payment for the same service.

**Recommendation A6** 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 cooperation with the unit or commission which prepared the technical specification.

## 3.2 Capital and non-capital assets

According to the AFS of the Ministry, capital assets were disclosed in the amount of €99,537, while non-capital assets in the amount of €140,360. Issues related to the disclosed value of capital assets in the AFS have been addressed in the Audit Opinion chapter - Emphasis of Matter, while those for non-capital assets in Chapter 2.2 - Compliance with requirements of AFS and other reporting requirements.

### 3.3 Outstanding liabilities

The statement of liabilities not paid to suppliers at the end of 2018 was €449. This value has been underestimated and we have handled this in chapter 2.2 - Compliance with AFS and other reporting requirements. These liabilities were carried forward to be paid in 2019.

## 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 Organizations is monitored by the self-assessment checklists completed by all BOs, which are submitted at the end of the year to the Ministry of Finance.

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

## Overall Governance Conclusion

Governance at MLGA in the area of management reporting and accountability, as well as risk management reflects a positive situation. The Chief Administrative Officer receives regular weekly reports from departments as well as individual weekly reports. The Ministry has also developed a risk register where it identified the risks at departmental level, the likelihood of occurrence, the measures/actions to be taken.

MLGA has set its objectives in the Strategy for Local Self-Government (SLSG) 2016-2026 and monitors their fulfilment through the Action Plan for implementation of SLSG 2016-2026 as well as MLGA's 2018 annual work plan. The Ministry has already approved the Local Economic Development Strategy, which has been one of the priorities in the Action Plan for the implementation of the Government Programme.

The Ministry has managed to spend its budget at a satisfactory level, except in the area of Goods and Services and Utilities where there is a poorer performance. In terms of capital investments, the Ministry had not managed to implement them according to project plans for infrastructure development in Municipalities, as a result of late signing of MoUs and delays in implementation of procurement procedures by Municipalities, where as a result 74% of the budget was spent in the last two months of the year, while a portion of funds at the end of the year from this category was withdrawn under a Government decision to declare savings in budget categories.

Internal Audit provided a clear picture of the level of security of internal controls and provided recommendations for their improvement.

MLGA has met MoF's request regarding submission of self-assessment questionnaire.

## 4.1 Internal Audit System

The Internal Audit Unit (IAU) operates with three members - the Head of IAU and two auditors. A comprehensive work programme is required to carry out an effective audit that reflects the financial and other risks of the auditee and provides sufficient assurance on the effectiveness of internal control.

IAU prepared the strategic plan (2018-2020) and the annual plan, which were approved by the Chair of the Internal Audit Committee. The annual work plan was drafted in accordance with the strategic plan. Six audits are planned in the annual plan covering the period of 2018.

The IAU finalised a total of seven (7) audits, six (6) of which were planned audits and one (1) audit on the request of the Ministry's Management<sup>4</sup>.

In addition to the timely finalisation of reports, they were also qualitative and substantial. Audit reports contain conclusions and recommendations that identify some of the deficiencies in MLGA's internal control system. The total number of recommendations given was 46, of which 23 were implemented, 16 were being implemented and seven recommendations were not implemented.

IAU reported on a regular basis also in the Internal Audit of Central Harmonisation Unit.

The work of the IAU was overseen by the Audit Committee, which held three meetings discussing on IAU reports. This committee has also prepared the work report for 2018, which was sent to Ministry's Management.

### **Recommendations**

We have no recommendations in this area.

## 4.2 Management Reporting, Accountability and Risk Management

In order to have a proper planning, oversee activities on a regular basis and to ensure effective decision-making, the Management needs to have regular reports. Accountability as a process is

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<sup>4</sup> Finalised Reports: (1) Budget Management System Phase I; (2) Vehicle Management; (3) Procurement Management System; (4) Payroll Management System; (5) Budget Management System Phase II; (6) Capital Investment Management System; and (7) Audit on Management's request.

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acceptance of responsibilities, holding persons into account for their actions and disclosure of results in a transparent manner. Whereas, risk management is a process that relates to identification, analysis, evaluation and actions/ measures taken by the Management to control and respond to risks threatening the Organization.

The management receives individual weekly reports depending on departments, and holds regular weekly meetings, as proved by the meeting minutes.

Risk management is accompanied by a monitoring report on the implementation of the risk list for the six-month and annual period.

Although a number of internal controls have been implemented by Management to ensure that systems operate properly, we have noticed that the measures applied were not sufficiently effective because in some cases they did not enable an effective and timely response to the operational problems identified. Regarding issues identified where management controls have not functioned, recommendations were given in the chapters above.

#### **Recommendations**

We have no recommendations in this area.

## **5 Progress in implementing recommendations**

A private company "Deloitte Kosova Sh.p.k", contracted by the National Audit Office, did the audit report on the 2017 AFS of the MLGA. This report has resulted with six (6) key recommendations. The Ministry had prepared an Action Plan showing how it will implement recommendations given.

By the end of the 2018 audit, five (5) recommendations have been implemented; Although the MLGA has undertaken actions to improve monitoring of budget progress during the year, the recommendation regarding execution of the budget for goods and services and utilities remains unimplemented. For a more complete description of the recommendations and how they are addressed see Table 4 (or the Recommendation Table).

#### **Recommendations**

We have no recommendations in this area.

Table 4 Summary of prior year recommendations and of 2018

No	Audit area	Recommendations of 2017	Actions taken	Status
1	Budget planning and execution	The Minister should ensure that the monitoring of budget performance is strengthened and enhanced even further. Where initial budget assumptions are incorrect, it should be fully reflected in the final budget.	Have not been taken sufficient actions in this regard since implementation of the budget in the areas identified is not at the expected level	Unimplemented Recommendation
2	Common issues for goods and services and capital investments	We recommend the entity to strength the controls in procurement process and plan and commit appropriately the funds needed for services obtained or goods purchased.	In our samples for capital investments and goods and services, funds were committed at the right amount.	Recommendation implemented
3	Capital and non-capital asset	We recommend the Ministry to ensure that appropriate records are maintained for the assets under management and those records are appropriately disclosed in the financial statements.	Understated assets are recorded in e-assets in March 2018.	Recommendation implemented
4	Capital and non-capital asset	We recommend to the Ministry to hold a stocktaking for all the assets under its possession and prepare a report with results over the process and reflect these results in the system of accounting.	Stocktaking has also included assets over €1,000.	Recommendation implemented
5	Progress in implementing recommendations	The Minister should ensure that a revised action plan is implemented which more clearly sets out a timetable for addressing the recommendations made by the AG with accountable staff members identified and with initial focus on those of greatest significance.	The action plan has set deadlines for implementation. Out of six recommendations given in the previous year, only one	Recommendation implemented

			recommendation has not been implemented.	
6	Management reporting, accountability and risk management	Budgetary performance, including revenues and expenditures, should be subject to regular reporting and review by the Management.	Management was informed with regular reports.	Recommendation implemented
No	Audit area	Recommendations of 2018		
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>		
A2	Budget planning and execution	The Minister should ensure that a proper budget planning is made based on Ministry's needs in the adequate categories, based on the chart of accounts approved by MoF.		
B1	Budget planning and execution	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.		
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.		

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A4	Goods and services	The Minister should ensure that appropriate controls are taken regarding continuous management of the account of advances and continue co-operation with Treasury, so that the remaining part of the open advances are closed in the shortest period.
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.
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.

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

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

(extract from ISSAI 200)

### Form of opinion

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

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

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

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

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

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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: Comments of the Ministry regarding findings in the report

Findings/ Issues	Agree Yes/No	Comments of the Ministry	NAO view
Finding 5:	No	<p>Regarding this payment, the MLGA provided the following evidence during the audit: A Memorandum of Understanding between MLGA and UNDP, MoU of MLGA with British Embassy, ToR, proposed budget, diagrams, project progress, ABB financial report, work plan. MLGA has applied the practices from previous years regarding these payments as in the following cases.</p> <p>European Commission</p> <p>MLGA has signed the Grant Contract External Actions of the European Union TA. The Grant for the cross-border cooperation program between Kosovo and Montenegro started its implementation on 15.10.2013 and was completed on 14.10.2016. After the completion of TA Grant program of IC Kosovo - Montenegro, the final narrative, financial report and external auditor's report was submitted for approval to the European Union Office in Kosovo. Following the approval of the reports mentioned above by the EU Office in Kosovo on 14.12.2017, we have received a letter (Recoveryorder) for return of the funds in the amount of 16,971.76 euros. According to Annex II Article 18. Recovery, the fund is returned. Find enclosed the evidence of payments. (Three European Commission cases)</p> <p>Cooperation Agreement between MLGA and UNDP in 2015. On 08.07.2015 a Cooperation Agreement between MLGA and UNDP was signed in the amount of 13,390.00 Dollars and on 10.09.2015 were carried over the UNDP funds in the amount of 12,172.50 euros. Find enclosed the agreement between MLGA and UNDP (of the same format as the relevant agreement) and the evidence of payment. (2015 UNDP)</p>	<p>MLGA did not provide any valid evidence related to this finding. In the comments on this issue, the ministry has provided only explanations to show how the co-financing agreements were made for earlier years. Our findings refer to 2018, so audit conclusions remain unchanged.</p>

	<p>The cooperation agreement between MLGA and Helvetas Swiss Intercooperation in 2015.</p> <p>On 20.03.2015, with the protocol number 0-1591 / 1, an agreement was signed between the Government of the Republic of Kosovo represented by the Ministry of Local Government Administration, it will be signed between MLGA and Helvetas Swiss Intercooperation.</p> <p>On 04.06.2015, a Memorandum of Understanding was signed between MLGA and Helvetas Swiss Intercooperation and on 20.10.2016 a payment of 37,565.85 euros was made on behalf of Helvetas Swiss Intercooperation. The used funds belong to Capital Investments Code 14588. Find enclosed the evidence of payment. (2016 DEMOS.</p>	
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