



LOCAL PUBLIC ENTERPRISE "BUS STATION" JSC PRISHTINA

REPORT FOR THE AUDIT COMMITTEE

Exercise year 01.01.2020 until 31.12.2020

Prishtina, April 2021

Report for the Audit Committee of LPE " Bus Station" JSC Prishtina

Report for the Audit Committee regarding the audit of the Financial Statements of LPE "Bus Station" JSC, for the fiscal year ending 31.12.2020

Dear all,

In accordance with the requirements of Article 10 of Law No. 06 / L-032 on Accounting, Financial Reporting and Auditing, and in accordance with the requirements of Articles 10 and 11 of Administrative Instruction No. 02/2019 On the Independence of Statutory Auditors and Audit Firms issued by the Kosovo Financial Reporting Council (KFRC), we issue this Additional Report to the Audit Committee regarding the audit of the Financial Statements for the year 2020 for the company LPE Bus Station JSC, seated in Prishtina.

We notify the Audit Committee that we have planned and performed the audit of the Financial Statements 2020, in accordance with International Standards on Auditing, according to which we have compiled our Report during the months of April 2021. We assessed the internal audit environment to plan our audit procedures, for the implementation of which we will base our opinion regarding the Financial Statements and not to provide reasonable assurance on the internal audit environment of your company. Such a review would not necessarily reveal all internal audit issues, which they may have weaknesses with material impact, based on the Standards established by the International Federation of Accountants (IFAC).

Some of the issues raised in this Report present procedural weaknesses in the internal audit system.

We would like to take this opportunity to thank all the Management and other staff for the correct cooperation during our audit.

The purpose of this Report is to information, exploitation and recommendation to increase the effectiveness and efficiency of the Management of LPE "Bus Station" JSC, and is not intended to be and should not be used by anyone other than the specified parties.

We will be happy to discuss our comments and recommendations with you and, if you see it reasonable, we can also take part in their implementation or in monitoring the progress of any recommendation.

Respectfully,

Signed and sealed

Hysen Ramabaja, Engagement partner

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15 April 2021

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1. MANAGEMENT RESPONSIBILITY FOR THE OBJECTIVES AND RESTRICTIONS OF INTERNAL AUDIT

Management Responsibility

Management is responsible for establishing and maintaining internal audit. In fulfilling this responsibility, assessments and conclusions by management are necessary to assess the expected benefits and costs associated with the audits.

Objectives

Internal audit objectives are to provide more reasonable, but not absolute, management, ensuring that assets are protected against unauthorized use, loss or damage, and that transactions are executed in accordance with management authorization and are recorded in order to allow the preparation of financial statements in accordance with International Financial Reporting Standards.

RESTRICTIONS

Due to existing restrictions at any internal audit, incorrect declaration due to error or fraud may occur and may not be disclosed. Also the forecasts of any internal audit assessment for future periods are subject to risk, as internal audit may be inadequate due to changes in conditions or the level of compliance with policies, and procedures may deteriorate.

Report for the Audit Committee (continues)

2. GENERAL CONSIDERATION

Fair presentation of Financial Statements

The financial statements for the period 01.01.2020 to 31.12.2020 according to the verifications made and our opinion, with the exception of what is emphasized in the opinion base, fairly reflect the financial position, financial performance and cash flow of the company LPE "Bus Station" JSC from Prishtina. Also, in our view, these statements faithfully represent the effects of transactions, events and other conditions in accordance with the definitions and recognition criteria for assets, obligations, income and expenses.

Continuity

The financial statements are prepared on the basis of the assessment of "Bus Station" JSC in Prishtina, despite the possible business difficulties, has the ability to continue its business activities in the future.

Accounting on the basis of established rights and obligations

LPE "Bus Station" JSC has prepared its Financial Statements for 2020 using accounting on the basis of established rights and obligations and that accounting items are recognized as assets, obligations, net capital, and income and expenses (elements of financial statements), when they meet the definitions and criteria for recognizing these elements given in the framework, separating those elements where we have uncertainty, for which elements will be elaborated in more detail in the relevant notes.

Consistency of Presentation

The presentation and classification of items in the financial statements are kept the same from one period to another.

Comparative information

The financial statements for the period 01.01.2020 to 31.12.2020 for all reported amounts provide comparative information with the previous period.

Report for the Audit Committee (continues)

3. IMPLEMENTATION OF RECOMMENDATIONS FROM PRELIMINARY AUDITS

Findings

Our tests have noticed that the Bodies in charge of the Governance and Management of the company have paid attention to the implementation of the recommendations from previous years and have implemented almost all the recommendations addressed from previous years, except those that are partially in process, which are as follows:

1. The Board of Directors must ensure that in the shortest possible time the position is filled with the asset officer and the asset register contains all the information for each asset as required by the regulation on asset management.

* The Assets Officer is appointed but a register must be kept separately for each asset and in aggregate form according to the categories classified according to the chart of accounts, as well as Article 6.4 which requires the Chief Executive Officer to establish an accounting register of non-financial assets where in addition to the information required by the Law on Public Financial Management and Accountability, the following elements will be included: Name of the public enterprise, name of the property, description, serial number, bar code number, date of receipt, location, category, source of financing, initial or estimated value, current year depreciation and accumulated impairment, book value, date of alienation, and reference number of the acceptance document.

2. The Board of Directors must ensure that in the case of inventory of assets, the members of the commissions are also responsible in preparing the summary report on the condition of fixed assets, equipment and inventory in a professional, objective manner and in accordance with legal provisions.

* The auditor noted that: The Commission has made the registration of assets but we have not been provided with a summary report on the condition of fixed assets, equipment and inventory in a professional, objective manner and in accordance with legal provisions.

3. The Board of Directors should take appropriate measures to elect an internal audit officer to assist Management in assessing and identifying weaknesses in internal audits. It should also be considered that until the position is filled, internal audit services will be provided by the shareholder.

* The Board has elected the internal audit officer but, after complaints from two participants in the competition, LI (Labor Inspectorate) has disputed the regularity of the selection, but the audit committee has appealed the decision of the Labor Inspectorate and the case is still pending.

4. AUDITOR'S INDEPENDENCE DECLARATION

We confirm that to the best of our knowledge and understanding, we have complied with the firm's policies and procedures, which include Sections 290 and 291 of the IESBA International Code of Ethics for Professional Accountants on Independence for the Audit of Financial Statements of the year 2020 of Buss Station JSC in Prishtina and each participant of the company "H&N" LLC in the audit, has signed the Independence Declaration.

5. AUDIT FEES

Audit fees received from Buss Station JSC in Prishtina for 2020 do not exceed 15% of the revenues of the audit company "H&N" LLC from Prishtina, we make this announcement for you according to the requirements of AI No. 2/2019 of KFRC;

Report for the Audit Committee (continues)

6. MATERIALITY

Quantitative materiality for 2020 is worth 6,665.00 euros (FS of 2020 has been audited by another auditor and we have no information as to how much the materiality was). Quantitative materiality is based on 1% of Operating Expenses. We have compared 6 indicators to determine materiality such as: operating profit/loss, net profit / loss for the year, equity, total assets, total income and total expenses. Out of all these indicators, in our opinion the operating expenses indicator has been the most appropriate to determine the material for 2020;

7. OTHER INFORMATION ABOUT AUDIT

In accordance with the requirements of Articles 10 and 11 of Administrative Instruction No. 02/2019 on the Independence of Statutory Auditors and Audit Firms issued by the Kosovo Council for Financial Reporting (KCFR), we inform you with the following data:

- Participated in the audit: Nimon Zeneli, Legal Auditor and Audit Partner in the company "H&N" LLC with over 35 years of experience in accounting and finance and Hysen Ramabaja, Legal Auditor, Audit Partner and Director of H&N "LLC, with an experience of over 30 years in the field of accounting and finance;
- In this audit we did not engage other auditors which are outside the auditing company "H&N" LLC or external experts;
- We started the audit first with the request for Documentation for the start of the audit on 14.12.2020 forwarded via e-mail and we held a meeting with the Chief Financial Officer of Buss Station, JSC, Mr. Arianit Grezda and Mr. Emin Sylejmani, Manager for this contract, and we discussed about the audit process, emphasizing that in this meeting we have jointly assessed that the audit cannot be performed according to the date of the contract from the procurement and we have requested extension of the contract term. FSs were not approved by the Board, and also during the audit we informed the EC Mr. Luan Hoti, and then the required documentation was forwarded to us via email. Then, according to the preparation of the following documents until today, we performed substantial tests in the working premises of Buss Station, JSC.
- In continuation, we communicated with the responsible persons and the management about our tests and the request for documentation at the end of the audit;
- We have distributed the tasks within the audit team, as follows: Analytical procedures of FS, testing of long-term tangible assets, cash in banks and cash registers, VAT declarations, revenues, assets and other issues are performed by Nimon Zeneli. While Hysen Ramabaja conducted the testing of purchases, stocks, BD minutes, personnel, salary declaration and other issues;
- According to Law No. 06 /L-032 on Accounting, Financial Reporting and Auditing, Publicly Owned Enterprises are required to apply IFRS regardless of size and in addition to the FS the auditor must also audit the Annual Management Report.
- As we informed you in the meeting held with You on 20.01.2021 at the working premises of Buss Station, JSC, as agreed during our joint work if we notice weaknesses amounting to over 6,665.00 euros, we will give our opinion;

- We did not notice any deviation from the direction when using the methods of valuation of any assets, liabilities or equity;
- Generally the documents required for the audit of FS by authorized persons have been provided to us;

8. FINDINGS DURING THE AUDIT

8a) Non-provision and non-confirmation of accounts receivable and non-trade receivable accounts

As disclosed in note 7 of the accompanying financial statements, the company has presented Trade and other receivables in the 2020 AFS, 71,480 EUR. To test their accuracy we have asked from Buss Station, JSC to send nine letters of confirmation to the clients of the enterprise. According to the accounting register, the total of these receivables that we requested confirmations was 43,908.05 EUR, of which we received three (3) letters of confirmation in the amount of 11,385.65 EUR, while 2 clients are in court proceedings in the amount of 11,419.00EUR, while for four clients in value of 21,103.48 EUR, we did not receive confirmation.

Also as disclosed in note 11, trade receivable accounts and others in the 2020 AFS were 30,388.70 EUR. To test their accuracy we have asked from Buss Station, JSC to send nine letters of confirmation to the clients to make the confirmation of accounts payable in the amount of 11,813.24 EUR. We have received confirmations from five clients with a value of 7,821.32 EUR, where from these confirmations received, for two clients the status of the financial card does not match with that of confirmed in the amount of 461.17 EUR, while for four clients, we did not receive confirmations in the amount of 3,530.75EUR.

Impact

Lack of an internal procedure regarding the provision of receivables as well as Non-Confirmation of receivables and accounts payable and possible cash differences presents incorrect amounts in the financial statements. As in this particular case we have the difference between the balance of accounts receivable of customers and that presented in the financial cards. Weak tenant accounts receivable management processes increase the risk of not paying utility and rent fees. This reduces the source of the company's funds and increases bad receivables and debts. Moreover, leasing the property of the enterprise increases the risk of misuse, damage and obstruction in the operation of the enterprise.

RECOMMENDATION

The Bus Station JSC Management and those in charge of governance must ensure that they have followed all necessary procedures of communication and cooperation with debtor clients, in order to provide timely confirmations to the auditor regarding the value of liabilities to LPE Bus Station JSC.

Management Comment:

8b). Failure to fill key positions in the enterprise

Findings

As of 01.07.2019, the Board has not yet managed to elect the Internal Auditor according to Law no. 03 / L-087 on Publicly Owned Enterprises article 21 *Selection and Appointment of POE Officers*, during this period this key position was vacant until March 31, 2020 when the internal auditor signed the contract.

This decision was challenged by two participants in the competition exercising the right to appeal, who complained to the Labor Inspectorate, which according to case number no. Nr. 12-319 / 2020 and letter no. 02/2325 15 12 2020, has found irregularities in the selection of the internal auditor and has recommended the cancellation of the competition and until the moment of completion of the audit, no such decision has occurred.

Impact

Failure to select the internal auditor as one of the most important positions in the company leaves much to be desired in the efficient and effective functioning of internal audit. Also, the contestation of the auditor selection process by the Labor Inspectorate dilutes the functioning of this position given the importance that IA has in the company and the role of this position which should be with integrity, professionalism, professional competence, and according to the principle of code of ethics.

Recommendation

The Board of Directors, respectively the Audit Committee must exercise its competencies according to the Law on Publicly Owned Enterprises, exercising its duties and responsibilities according to Article 18 Supervision by the Board of Directors, Article 21 Election and Appointment of POE Officers, and Article 25 Function and Competencies of the Audit Committee, will ensure that the internal audit office is organized and equipped with regular and adequate staff, and will regularly verify the adequacy and regular functioning of this office, as well as will exercise continuous supervision and strict on the Internal Audit Officer and the internal audit office under Article 25 Function and Competencies of the Audit Committee.

Management Comment:

According to the decision number 02/550 dated 30.06.2016 of the Local Public Enterprise Bus Station JSC, the employment contract has been extended to the Internal Audit Officer Mrs. Saranda Sadriu Mehmeti from 01.07.2016 to 01.07.2019, therefore officially LPE Bus Station JSC, Prishtina has not been covered in this high position until March 2020.

Proof: Decision 02/550 dated 30.06.2016

The Audit Committee and the Board of Directors have addressed two complaints in response and objection to the decision of the Labor Inspectorate dated 21.21.2021 with the protocol stamp of the Labor Inspectorate 6211 and 6212 which, among other things, clarifies the legal deadline of

these complaints of candidates, while according to legal deadlines the time for returning responses from LI has already expired as well.

Proof: Two complaints registered with the Labor Inspectorate on 21.12.2020 and with protocol numbers 6211 and 6212.

8c) Property management

Findings

From the real estate LPE "Bus Station" JSC, Prishtina, for 2020, it has been noticed that there are problems in the management and collection of revenues, where it is noticed by the number of some cases sent to the courts or to the private bailiff. According to the Regulation on management of non-financial assets, fixed assets, assets of LPE, Article 6.1; every organization must create and update the register of non-financial assets that it has in its management. The register must be kept separately for each asset and in aggregate form according to the categories classified according to the chart of accounts, as well as the article 6.4 defines; the Chief Executive Officer must establish an accounting register of non-financial assets, where in addition to the information required by the Law on Public Financial Management and Accountability, the following elements will be included: name of public enterprise, name of the property, description, serial number, bar code number, date of receipt, location, category, source of funding, initial or estimated value, depreciation of the current year and accumulated depreciation, book value, date of alienation, and reference number of the receipt document.

Impact

Failure to complete registrations according to legal requirements, affects the company not to identify and verify the existence and valuation of assets, liabilities and capital. The stocktaking should be reconciled with the accounting ledgers.

Recommendation

The management of the company must ensure that it complies with the requirements of Law no. 06/L-032 on accounting, financial reporting, and auditing, article 12.1 requires companies to verify at least once a year, the existence and valuation of assets, liabilities, and capital through the inventory of these elements and supporting evidence through the stocktaking process and this stocktaking should be reconciled with the accounting ledgers. Also, the regulation on financial assets management, Article 18, provides for the formation of a commission for the stocktaking of assets.

Commission for registration of fixed assets, equipment, stocktaking, and warehouse for the business year 2020 - This commission is responsible for drafting a final report on the verification and condition of the assets of the enterprise. This is due to the negligence of the commission for the registration of fixed assets.

Management Comment:

8d). Human resource

Findings

From the checked samples, it was noticed that there are the following shortcomings: Audit files do not contain a list of required documents as to what documents the personnel file should contain.

Employee performance appraisal is not found in all employees' records. Not all employees have medical examination certificates in their files. There is no certificate from the court that they are not under investigation.

Impact

The lack of necessary documentation in the personnel files leaves much to be desired for not managing these resources that are primary in generating revenues, as well as leaves the possibility of penalties or fines in case of control of state authorities due to lack of documents in the file.

Recommendation

Management to ensure that everything is in order it is necessary to compile a comprehensive list of personnel files so that management and completion will be very easily manageable and files will be completed with the necessary documents according to legal requirements.

Management Comment:

Report for the Audit Committee (continued)

8e). Annual management report

According to Law no. 06/L-032 On Accounting, Financial Reporting, and Auditing, Publicly Owned Enterprises are required to apply IFRS regardless of size, and in addition to the FS, the auditor must also audit the Annual Management Report.

During the phase of receiving and analyzing the comments, we also received the annual management report.

Report for the Audit Committee (continued)

Statement of responsibility

This Letter contains recommendations for improving the internal control procedures and other aspects of your Company arising from our audit. We emphasize that our review in the Company of the internal financial control system has been done only concerning our audit in terms of our responsibilities under International Standards on Auditing. We make these recommendations as part of our Audit, but they do not, in any way, modify our audit opinion on the financial statements as a whole.

We look at this Letter as part of our service to you, for the use of Management to improve the Company's governance.

Restrictions of our review

The issues raised in this Letter are only those that came to our attention during our Audit work and are not necessarily a complete statement of any weaknesses that exist or any improvements that can be made. Recommendations for improvement should be evaluated by you for their full impact before they are implemented. Classifications of our findings have been completed in cooperation with Management for the purpose described on it, and have been produced only as a general indication of the relevance of the issue, rather than as a final fact about the potential impact.

This Letter is prepared for your use only as a Guide and should not be quoted in whole or in part without our prior written consent.

We sincerely wish your company every success in the future and hope that you will not have anomalies in evidences and procedures, even if they are not material and negligible.

With all due respect for the audit team.

Licensed auditing company "H&N" L.L.C".

April 15, 2021

Prishtina

Members of the audit committee of LPE "Bus Station" JSC. Prishtina.

- Fatmir Miftari – Chairman

Signature

- Anita Morina – Saraci – Member

Signature

- Afërdita Syla – Ismajli – Member

Signature