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**ZYRA KOMBËTARE E AUDITIMIT
NACIONALNA KANCELARIJA REVIZIJE
NATIONAL AUDIT OFFICE**

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AUDIT REPORT

ON THE ANNUAL FINANCIAL REPORT

**OF THE MINISTRY OF AGRICULTURE, FORESTRY AND RURAL
DEVELOPMENT**

FOR THE YEAR ENDED 31 DECEMBER 2016

Prishtina, June 2017

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control which, according to the Constitution and domestic laws, enjoys functional, financial and operational independence. The National Audit Office undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

Our Mission is to contribute to sound financial management in the public administration. We perform audits in line with internationally recognized public sector auditing standards and good European practices.

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.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Ministry of Agriculture, Forestry and Rural Development in consultation with the Assistant Auditor General, Valbon Bytyqi who supervised the audit.

The opinion and report issued are a result of the audit carried out by Valbona Tolaj (Team Leader), Hysen Boqolli and Abdurrahmon Berbatovci (team members) under the management of the Audit Director (Bujar Sejdiu).

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Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2016 Annual Financial Report of the Ministry of Agriculture, Forestry and Rural Development, which determines the Opinion given by the Auditor General.

The examination of the 2016 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions. Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in our External Audit Plan¹ dated 30/10/2016.

Our audit focus (detailed in Annex 1) has been on:



The level of work undertaken by the National Audit Office to complete the 2016 audit is a direct reflection of the quality of internal controls implemented by the Management of the Ministry of Agriculture, Forestry and Rural Development.

Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

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

We would like to draw your attention to the fact that expenses for goods and services and for capital investments were misclassified, while the value of assets is not accurate.

For more, please refer to Section 1.1 of this report.

Annex II explains the different types of Opinions applied by the National Audit Office.

We would like to thank the Mayor and his staff for the cooperation during the audit process.

¹ The term External Audit Plan replaces the term Audit Planning Memorandum

Key Conclusions and Recommendations

The Emphasis of Matter reflects weaknesses in controls to confirm appropriate classification of expenses and assets management and reporting.



The Minister should analyse the reasons for the Emphasis of Matter for 2016 and identify actions required to enable a true and fair representation of assets. This enables clearer presentation of AFS. (see chapter 1).

The self-assessment process and response to prior year audit recommendations are not being addressed as required to ensure organisational development and improvement



The Minister should implement a rigorous process to ensure the self assessment process and prior audit year recommendations are proactively addressed with key issues/progress reported to senior management on a monthly basis. (see issues 2 and 3).

Although internal controls are effective in some areas, there are weaknesses exist in management of service contracts, and handling of subsidies.



The Minister should implement a detailed assessment of procurement and other areas of concern highlighted in this report to identify reasons for weaknesses and action needed to address these (See issues 8-10).

1 Annual Financial Statements and other External Reporting Obligations

Introduction

Our review of the Annual Financial Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information recorded in the AFS. We also consider the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance (MoF).

The declaration regarding presentation of the AFS incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the AFS. These declarations are intended to provide the Government with the assurance that all relevant information has been provided to ensure that a comprehensive audit can be undertaken.

1.1 Audit Opinion

Unmodified Opinion with Emphasis of Matter

We have audited the AFS of the Ministry of Agriculture, Forestry and Rural Development for the year ended on 31st of December 2016, which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement and the Explanatory Notes of the Financial Statements.

In our opinion, the Annual Financial Statements for the year ended on 31st of December 2016 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 of Budget Organisations issued by the Ministry of Finance.

Basis for the opinion

We conducted the audit 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 investment expenditures were overstated by €49,035 as the Kosovo Forest Agency out of the capital investment budget was supplied with goods (technological equipment, and furniture). In addition, the Kosovo Forestry Agency expenditures on goods and services were overstated as were purchased two water pumps and one transformer in the amount of €5,994, which belong to the category of Capital Investments; and
- The MAFRD does not yet have an accurate assets register, as the evaluation committee has evaluated as assets of the Kosovo Agriculture Institute (KAI) land properties in the amount of €8,378,478. This evaluation is based on the data of the Kosovo Cadastral Agency where the property title belongs to KAI, namely MAFRD, while these properties are not controlled and used by KAI. Properties of KAI are used by a private individual, while the MAFRD has initiated court proceedings to return its properties. In addition, assets in the amount of €22,658 for a completed project for renovation of KAI facility continues existing in the assets register as an on-going investment.

Our opinion is not modified for these issues

Responsibility of Management and Those Charged with Governance and AFS

The Secretary General of the Ministry of Agriculture, Forestry and Rural Development is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Modified Cash based Accounting and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law number 03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

The Minister is responsible to ensure oversight of 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 always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

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

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

1.2 Compliance with AFS and other reporting requirements

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

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
- Requirements of LPFMA no. 03/ L-048, as amended and supplemented with Law no.03/L-221, Law no. 04/L-116 and Law no. 04/L-194;
- Compliance with Financial Rule no.01/2013;
- Compliance with Financial Rule no.02/2013;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures;
- Progress reports on capital projects with value of €10,000; and
- Draft and final procurement plan in time.

The issues raised in the Audit Memorandum dated 08/12/2016 regarding the reporting framework have been addressed by the Management.

A number of financial adjustments were required to the draft AFS and we have also made other suggestions to improve their quality as follows:

- In the 'Budget Execution Report', the amount of initial and final budget was overstated by €3,026,000, while execution by €2,028,000, as was presented the amount of borrowing, while the borrowing should be recorded by the MoF;
- In the 'Statement of Cash Receipts and Payments' was not reported the return of a donation in the amount of €107,184; and
- Contingent liabilities were not disclosed, as was not done an estimation of their potential amount.

These errors were corrected in the final AFS.

Given the above, the Declaration made by the Chief Administrative Officer and Chief Financial Officer upon submitting AFS to the Ministry of Finance can be considered correct.

In the context of other external reporting requirements, we have identified that quarterly reports on capital projects were not submitted within the deadlines in the MoF.

1.3 Recommendations for the first part of the report

For two abovementioned issues we give the following recommendations:

Recommendation 1 The Minister should ensure that an analysis is undertaken to determine the causes of emphasis of matter. Actions should be taken to address the underlying causes in a systematic and pragmatic manner to ensure adequate classification of expenses, accurate evaluation of assets, and their correct reporting in the AFS for 2017. In addition, other requirements should be met fully.

2 Governance

Introduction

Effective governance arrangements are fundamental to MAFRD for successfully managing the challenges it faces and ensuring that service delivery is optimised for the benefit of taxpayers and other service users.

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. Similarly, the self-assessment checklist completed by all Budget Organisations provides a framework for developing enhanced Governance arrangements. It is important that the answers provided by an individual budget organisation are supported by appropriate evidence.

The remainder of our review of governance arrangements reflects a consideration of:

- those areas of Governance Arrangements where significant improvements are required and where we believe that our recommendations can generate positive improvements including consideration of the Internal Audit system; and
- areas of Financial Management and Control identified through our audit work including specific work directed at compliance issues in key income and expenditure systems (these areas are considered in Section 3 of this report).

Overall Governance Conclusion

Governance arrangements in the MAFRD have marked progress. The entity in general has good controls related to financial management and control, as well as implementation of legislation and other control processes. The risk management process was established although further development is required in order to have it fully operational.

However, there are still some weaknesses related to adoption of strategic objectives and consolidation of functional bodies. The self-assessment questionnaire completed by the MAFRD, only partially reflects this situation.

2.1 Progress in the Implementation of Prior Year Recommendations

Our Audit Report on the 2015 AFS of MAFRD resulted in 12 key recommendations. The Ministry had prepared an Action Plan stating how all recommendations will be addressed.

At the end of our 2016 audit, four recommendations have been implemented, four are in the process of implementation, and four have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex III.

Issue 2 - Addressing Prior Year Audit Recommendations - High Priority

Finding Although the management has implemented a formal process to manage and monitor implementation of recommendations of the Auditor General (AG), it has not yet managed to implement the Action Plan fully. Despite the progress made in this regard, recommendations related to personnel management, contract management and monitoring of subsidised projects have not been implemented yet, and as a result, the same shortcomings were repeated this year as well.

Risk Failure to implement recommendations poses a risk of continued shortcomings, and may result in weaknesses in management and in reporting of expenditures.

Recommendation 2 The Minister should ensure that a revised action plan is implemented which 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.

2.2 Self-Assessment Checklist of FMC components

The Ministry of Finance has produced a detailed self-assessment checklist for Budget Organisations to support effective governance arrangements. For all audits, we undertook we have tested the quality of FMC self-assessment submissions made to the Ministry by assessing one key question in each component of the checklist. We have summarised our findings for MAFRD below and the summary of our work across all audits will be consolidated in our Annual Audit Report. This is not intended to give a commentary on the quality of the whole self-assessment questionnaire submission but will provide a 'snapshot' across a number of key questions to support the Ministry of Finance in its attempts to increase the effectiveness of the process and develop the FMC system as a whole.

Issue 3 – Self Assessment Checklist – High Priority

As part of our audit we have considered key questions related to the five components of the self-assessment checklist. For the questions considered we found that:

1. The MAFRD has not yet produced a comprehensive strategic plan, although this was considered as established in the self-assessment questionnaire, by referring to the MTEF 2017-2019. The Strategic Plan for Rural Development of Agriculture 2014-2020 has not been sent for approval to the Government and the Assembly as required, while it is being implemented; and
2. Effective processes of regular monitoring related to the progress in achievement of objectives are considered in place, but the evidence supporting these conclusions is poor.

This situation has occurred due to lack of clarity within MAFRD regarding both the importance of this checklist.

Risk

Poor governance arrangements weaken strategic and operational processes and reduce the quality of services provided to citizens through inefficient and ineffective activities.

Recommendation 3

The Minister should ensure that a review of the processes for completing the self-assessment checklist and proactively addressing areas of weaknesses is implemented. A revised mechanism to confirm the accuracy of the return and to ensure supporting documentation supports the submission should be applied.

2.3 Specific Governance Reviews

Our work on specific areas of governance arrangements has been informed by our audit planning which considered the context within which MAFRD operates and the challenges that it faces.

2.3.1 Management Reporting and Accountability

The Management has implemented a range of internal controls to ensure that financial systems and operational activities operate as intended. It is important that these include appropriate reporting to management to enable an effective and timely response to identified operational problems.

MAFRD has two Agencies: The Kosovo Agriculture Institute (KAI) and Agency for Agricultural Development (AAD). AFS of KAI are consolidated in the AFS of MAFRD, while the AAD has not completed the structure yet in order to function as an executive agency.

Issue 4 – Consolidation of the Agency for Agriculture Development – High Priority

Finding

The role of AAD is implementation of the program for development of agriculture, which includes operational planning, acceptance of applications from farmers, their assessment and approval, as well as oversight over the implementation of contracts with grant beneficiaries. The organisational structure and requirements that derive from the European Commission stipulate that the whole process should be carried out by AAD, including execution of payments.

We have identified that execution of payments for grants continues to be done by the central finance office within the MAFRD, while direct payments (subsidies) are paid by the MoF. This has occurred due to lack of finance staff and decentralized competencies for carrying out payments by the AADB. Due to delays in completing and functionalising the finance staff, in 2016 by the MoF have occurred double payments that amounted to €136,415 (€247,047 in 2015). This error was identified by the MAFRD and the return of funds was initiated while Treasury officials confirmed those funds were returned. Furthermore, the MoF had recorded payments in the amount of €290,655 in the incorrect code.

Risk

Due to delays in consolidation of staff and decentralisation of the payment execution function can result in payment delays to beneficiaries, requests for additional administrative work for AAD, and other double payments by the MoF. Furthermore, this can result in postponement of accreditation of this agency and as a consequence in potential loss of funds from the European Commission/IPARD.

Recommendation 4 The Minister should review the existing structure of AAD and determine the obstacles that hinder its consolidation and complete performance of duties. The Minister, in cooperation with the Minister of Finance should take necessary actions to ensure that supplementing with staff and decentralisation of payments execution function will be implemented during 2017.

2.4 Internal Audit System

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

During 2016, the IAU had planned to carry out 13 audits. By the end of the year it managed to complete 10 planned audits, and one additional audit at the request of the management. Audit reports are of good quality and had covered the last period of the prior year, current year and key areas.

Issue 5 – Weaknesses in the IAU system – High Priority

Finding	<p>Despite the existence of an effective IAU, our audit has identified a number of weaknesses that relate to current IAU operations:</p> <ul style="list-style-type: none"> • According to IAU report, only 42 out of 74 recommendations given by the IAU were fully implemented by the management, 27 are in the process of implementation and five (5) are not addressed yet; • Although the Audit Committee (AC) had held two meetings during 2016, their quality and contribution of AC in generally was not at the right level, and had not added value to improvements in governance and internal control of the organisation.
Risk	<p>Setbacks in implementation of IAU recommendations and ineffective AC may result in unaddressed weaknesses in internal controls and in operational inefficiency, as well as potential financial losses.</p>
Recommendation 5	<p>To achieve maximum benefit from the internal audit activity, the Minister should ensure an effective Audit Committee that critically reviews internal audit plans and results. Furthermore, should also review actions taken by the management in relation to implementation of audit recommendations.</p>

3 Financial Management and Control

Introduction

Our work on Financial Management and Control outside of the areas of Governance referred to in chapter 2 reflects the detailed work undertaken on Revenues and Expenditures in Budget Organisations. As part of this, we consider Budget management, Procurement and Human Resources issues, and Assets and Liabilities.

Financial Management and Control Conclusion

The Ministry understands the importance of a robust system of controls over expenditures and revenues. However, as a result of incomplete implementation of regulations and guidelines, our audit has highlighted existence of some compliance weaknesses that mainly relate to implementation of the program for agriculture and rural development. Other key areas where more improvements are needed are contracts management and management of non-financial assets.

3.1 Budget Planning and Execution

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

Table 1 Own Source revenues (in €)

Description	Initial Budget	Final Budget	2016 Receipts	2015 Receipts	2014 Receipts
Own Source Revenues	1,630,000	1,877,000	1,949,985	1,810,028	1,433,788
Total	1,630,000	1,877,000	1,949,985	1,810,028	1,433,788

Own source revenues of €170,769, including revenues carried forward from 2015 were spent on the needs of MAFRD. The rest of revenues collected were transferred to the Kosovo Budget. The total of revenues collected reflects an increase in revenue collection by 7% compared to the prior year.

Table 2 Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2016 Outturn	2015 Outturn	2014 Outturn
Sources of Funds	57,236,274	51,309,143	50,857,566	57,520,945	24,158,858
Government Grant - Budget	54,026,759	47,957,387	47,719,241	52,643,388	17,965,268
Carried forward from previous year ³ -	-	82,447	81,018	81,328	99,953
Own Source Revenues ⁴	183,515	183,515	89,751	146,428	158,520
Financing from Borrowing	3,026,000	3,026,000	2,927,584	1,206,512	2,886,473
External Donations	-	59,794	39,972	3,443,289	3,048,644

The final budget is higher than the initial budget by €5,927,131. This increase is a result of budget review and Government decisions, even though during the year the budget had marked an increase by €142,241, out of revenues carried forward, and external donations.

In the 2016 the MAFRD had used 99% of the final budget or €50,857,566, with an improvement of 1% compared to 2015. This shows a good budget performance for 2016.

Table 3. Spending of funds by economic categories - (in €)

Description	Initial Budget	Final Budget	2016 Outturn	2015 Outturn	2014 Outturn
Spending of funds by economic categories	57,236,274	51,309,143	50,857,566	57,520,945	24,158,858
Wages and Salaries	2,069,235	2,229,230	2,180,904	1,956,696	1,781,599
Goods and Services	2,981,681	3,703,182	3,570,786	3,692,171	3,217,591
Utilities	118,768	134,806	99,572	98,207	95,368
Subsidies and Transfers	47,383,922	44,130,533	43,894,912	50,724,157	18,338,302
Capital Investments	4,682,668	1,111,392	1,111,392	1,049,714	725,996

Explanations for changes in budget categories are given below:

- The budget for wages and salaries had initially increased by €180,841 (donations €6,960, Government decision €137,341, own source revenues €36,540) then reduced by €20,847 with the Government decision, as the planned number of staff was not completed by the end of the first six months;

² Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

³ Own Source Revenues unspent in previous year carried forward into the current year.

⁴ Receipts used by the entity for financing its own budget.

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- The budget for goods and services is higher by €721,501 than the initial budget. Initially, it increased by €1,101,749 (donations €4,749, transfer from subsidies €1,051,093, and own source revenues €45,907), then it was reduced by €380,247 (as a result of budget review €87,785 and Government decision by €292,462);
 - The final budget for subsidies and transfers is lower by €3,253,389 than the initial budget. The budget for this category during the year had increased by €44,785 from donations, while on the other hand it was reduced by €1,051,093 which were transferred to the category of Goods and Services and by €2,247,080 based on Government decision; and
 - The budget for capital investment was increased by € 3,301 from donations, while it was reduced by €2,130,376 with budget review, and €1,424,200 with Government decisions, while €20,000 were transferred to the category of Utilities. This was because some projects were not implemented according to the plan, and some projects were implemented with a lower value than planned.

3.2 Revenues

Revenues generated by the MAFRD in 2016 were €1,949,985. Around 87% of revenues were collected by the KFA, while the rest was collected from services provided by other departments of MAFRD that relate to wood taxes, rent, issuance of licenses, etc.

Issue 6 – Weaknesses upon management of revenues – Medium Priority

Finding

Our audit has identified some weaknesses in revenue management system, mainly in the KFA, which are presented in the following:

- In one case the Economic Operator (EO) was approved the request for change of land destination seven months after reviewing the case by the commission, without giving any reasons for this delay;
- The data on rent contracts and environmental consents for quarries are kept by a single official in an Excel spreadsheet, while there is no adequate reporting on the information that this register contains. Furthermore, financial officers do not have continuous access to this register; and
- Recording of revenues by the KFA and Central Administration of MAFRD is done in inadequate economic codes. One of the cases is recording of revenues for issuance of licenses for import and sale of artificial fertilisers in the code of revenues from plant inspection.

Risk Due to delays to review cases within the KFA results in ineffective oversight of businesses, and in potential financial losses. Keeping data in an Excel spreadsheet and the restricted access can result in unauthorised changes of registers and impossible for financial officers to apply controls. Furthermore, recording revenues in inadequate economic codes results in incorrect disclosure of revenues in financial statements.

Recommendation 6 The Minister should analyse the causes behind identified incompatibilities and confirm the design of internal controls to ensure that challenges faced are being addressed by the KFA, by adhering to legislative requirements. Restricting access to all relevant information/ documents to financial officers should be treated with high priority to ensure a required flow of information as a prerequisite for effective governance.

3.3 Wages and Salaries

Wages and Salaries are paid through a centralised system. The key controls that operate at the Ministry's level are: authorisation of the payroll, changes to the payroll list, and reflection of changes occurred. The planned number of employees was 354, while the current number at the end of 2016 was 346.

Issue 7 - Personnel Management - Medium Priority

Finding Management of personnel is followed by several challenges that are presented below:

- Five leading positions continue being held by Acting as of 2014. Holding positions with Acting for more than three months is in violation with the Law on Civil Service;
- The number of positions in the Budget Law is higher by 25 employees than the number of positions specified in the internal regulation for systematisation of jobs. With the Budget Law have been approved 32 positions in the Kosovo Agricultural Institute, while this is not foreseen under the regulation; and
- Eight sectors in the KFA that have been approved under the regulation in 2014 are not operational yet. In addition, the position of the Certifying Officer in the KFA is not specified in the regulation for systematisation of jobs.

These differences are due to delays in employee recruitment and failure to review the regulation against created circumstances.

Risk Due to weaknesses identified in personnel management can result in reduction of performance of employees and bodies of MAFRD, and in delays/failures in development of primary operations and in achievement of objectives established.

Recommendation 7 The Minister should review the causes behind weaknesses in personnel management. Effective actions should be taken to address internal organising and recruitment process for vacant and acting positions, by ensuring compliance with the regulation on job systematisation.

3.4 Goods and Services and Utilities

The final budget of Goods and Services in 2016 was €1,923,072, out of which €1,984,177 were spent. Those relate mainly to operational expenses such as travelling, rent, goods and services, and utilities.

Issue 8 – Non-systematic weaknesses in service expenses - High priority

Finding Our audit of payments for goods and services has identified that managerial controls were not implemented effectively in the following cases:

- In 2014, a framework contract for “Development of rural areas through advancement of advisory services” was signed. One of the contract criteria was engagement of 45 advisors with a cost of €9,000. In the receiving report we have found that the EO had not fulfilled this contract obligation and engaged only 34 advisors, while the payment was done only for 47 advisors. Moreover, the contract manager was not able to document qualifications of experts engaged in providing professional advices that were compensated in the total amount of €36,000;
- The MAFRD in 2013 had signed a framework contract for “Regulation of Agricultural Land” with a price of €470 per hectare. Regulation of agricultural land in Municipality of Vitia was planned in four stages and included 18 points. We have identified that the last two stages from point 12 to 18 present key points of the project wherein is also foreseen recording in the Immovable Property Rights Register (IPRR) was not done. This was due to the expiration of the contract and reflects poor management of the project; and

- The MAFRD in 2013 had signed a framework contract for “Prevention of haemorrhagic fever and elimination of ticks” for €200 per hectare. Our audit has identified that the Acceptance Commission accepted services totalling €442,920 for 2,229 sprinkled hectares based only on data provided by the GPS of the EO.

Risk Paying for advisors in disagreement with number in the contract and lack of documentation of their profiles can result in poor quality services and low value for money. Weaknesses in contract management result in reduced project effectiveness and potential deviation from achievement of objectives.

Recommendation 8 The Minister should review controls related to management of contracts and, as needed, to strengthen them to ensure that projects are implemented in line with the purpose and with effective oversight by the MAFRD. Payments for advisory services should be done only if terms of the contract have been met and documentation should be complete and qualitative.

3.5 Subsidies and transfers

Subsidies relate to development of agriculture and rural development that aim expansion and improvement of their productivity through direct payments (subsidies) and grants. Policies and budgets are prepared by the Managing Authority in co-operation with the Minister and the Secretary General (SP), while implementation of policies is done by the AAD. Direct payments are executed by the Treasury Department/MoF, while grant payments are executed by the finance office at MAFRD.

The Managing Authority and AAD are in the accreditation process to be beneficiaries of funds of IPARD II. Significant progress has been made in this regard by preparing documents and procedures for approximation with European Commission standards. One of the challenges in this process has been addressed in Issue 4 of this report.

Issue 9 - Management of applications - High Priority

Finding Our audit of applications management system for subsidies and grants has identified the following issues:

- It is a legal requirement⁵ that data on farmers and the process of management checks (inspections) passes from the manual system into the electronic system, in order to provide a more advanced control and easier monitoring over the management of subsidies and grants. AAD still does not have the Integrated Administration and Control System (IACS);

⁵ Law No. 03/L-098 on Agriculture and Rural Development, amended and supplemented by the Law No. 04/L-090

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- AI 02/2016⁶ specifies that time for application review up to the information letter lasts three months, while evaluation and scoring of received applications should be completed within 45 calendar days. We have found that for the item “fattening of calves” the process was delayed for 25 days, while for the item “Irrigation” the process was delayed for 53 days. According to AAD, these delays have occurred due to the high number of applications and limited staff to handle them; and
 - According to the Operational Plan 2016, the administrative check (field inspection) for confirmation of areas planted with grain, for which subsidies are given begins at the end of May and lasts about three months. We have identified that this control was going on even during November, although the areas planted with grain were harvested during July. This was due to late approval of the Program for Direct Payments (PDP), which was approved in March 2016.

Risk

Delays in preparation of the program and processing of applications besides being in disagreement with the AI can result in avoidance of effective controls and in errors in evaluation of applications. In addition, due to these delays can result in payments for unworked areas and low value for money. In addition, contract/financial obligations can be carried forward for payment in the following year, by being a further burden to the balance of liabilities.

Recommendation 9

The Minister should analyse why IACS is not used and ensure that it will start being used within a reasonable timeframe. Controls related to preparation of the PDP and processing of applications should be reviewed to ensure that all processes are completed within legal deadlines law and relevant regulations. All programs should be implemented at an adequate time to ensure effective achievement of objectives for development of agriculture.

⁶ Administrative Instruction (MAFRD) NO. 02/2017 on the Measures and Criteria of Support in Agriculture and Rural Development for 2016.

Issue 10 - Monitoring of projects (grants) - High priority**Finding**

Monitoring implementation of programs for grants and direct payments is a key and important activity to ensure achievement of MAFRD objectives. Our audit of this process has identified the following weaknesses:

- The Report on monitoring of grants for 2015 was prepared by the Division for Monitoring, Evaluation and Reporting, and is still a draft as it has to be approved by the Monitoring Committee (MC), which has not been established yet. This committee should be established no later than six months after the approval of the Program for Agriculture and Rural Development (PARD) in the Kosovo Assembly. This has happened as PARD 2014-2020 has not yet been submitted to the Kosovo Assembly for approval. While the monitoring report for 2016 had not yet been prepared;
- According to AI 02/2016, all projects (grants) will be monitored by ex-post controls, five years from the receipt of the grant to ensure project sustainability. The ex-post control committee had selected 90 sample cases to monitor, while the Division of Approval and Execution had provided only 49 of them due to technical difficulties. The ex-post control report had identified cases of alienation of agricultural equipment benefited from grants; and
- In certain items, grant beneficiaries receive 50% of the amount at the moment of project approval and the rest after the completion of investments. From field inspections carried out, AAD had identified three grant beneficiaries for investments in physical assets (fruit and vegetable processing sector) that had not implemented investments in the amount of €215,302 (50% of the grant) within the timeframe. AAD has initiated procedures for reimbursement of funds, but has not placed effective mechanisms to prevent this risk.

Risk

Due to monitoring weaknesses over implementation of projects can result in deviations from the purpose of grants and in low value for paid money. Furthermore, lack of reporting weakens accountability of beneficiaries and staff of AAD when handling cases, and reduces management's ability to undertake effective and timely actions.

Recommendation 10 The Minister, in cooperation with the Head of AAD should ensure that the responsibilities related to monitoring of projects are clear, and address challenges identified in this process. Effective mechanisms should be established to ensure that grants are used by farmers in accordance with the contract and project purpose.

Issue 11 - Other Subsidies - Medium Priority**Finding**

During 2016 has continued the support of activities for promotion and marketing of agricultural production in line with AI 09/2014⁷. Despite the progress made in managing these subsidies, MAFRD continues to face the following challenges:

- In eight cases that amount to €14,320, beneficiaries had not yet reported on spending of the funds. In 11 other cases that amount to €19,840, beneficiaries had not justified expenses in the amount of €8,808;
- MAFRD under a decision has subsidised wine producers to maintain summer stocks. Beneficiaries were conditioned to be supplied with grapes from Kosovo's winegrowers although this form of subsidies was not foreseen with the subsidy program. One of the criteria to benefit from this project was the license. Beneficiaries of subsidies were 11 companies although in Kosovo there are 24 licensed companies; and
- MAFRD supports farmers and agro-processors for participation in important international fairs. Kosovo had participated in the "Horticultural Fair - Expo 2016" in Antalya, Turkey, while expenditures in the amount of €33,756 were covered by the MAFRD. We have found that the second instalment of the project in the amount of €16,878 was paid without justifying the first instalment as foreseen under the contract.

Risk

Lack of complete documentation of expenditures can result in low value for money paid and reduces the assurance that objectives are achieved.

Recommendation 11 The Minister should conduct a review of controls related to the management of other subsidies and ensure that all procedures for selection and payment are in full compliance with requirements of laws and applicable regulations.

⁷ Administrative Instruction (MAFRD) No 09/2014 on Setting up the Supportive Criteria for Organizations and Associations of Producers and Processors of Agriculture and Agro Food Products

3.6 Capital Investments

The final budget for capital investments was €1,111,392. Out of them in 2016 was spent €1,111,392 (100%). They mainly relate to capital expenditures KFA, KAI, and department of viticulture and winery.

Recommendations

We have no recommendations in this area.

3.7 Assets

3.7.1 Capital and Non Capital Assets

According to assets register, MAFRD has capital assets (over €1,000) with value on books in the amount of €37,978,800, while the value of non-capital assets (under €1,000) is €345,915. The value of the stocks is €27,726. The issue related to overestimation of assets is handled in subchapter 1.2 of this report.

Issue 12 - Assets management - Medium Priority

Finding Our audit has identified several incompliances related to assets management that are presented in the following:

- The Ministry has not issued internal procedures for assets management as foreseen in the Regulation 02/2013 on assets management. By the end of our audit, the inventory commission had not yet made reconciliations with the assets officer. The inventory had not included public lands and forests owned by the MAFRD; and
- The Head of AAD had established an inventory commission different from the one that had been established by the Secretary General. On the other hand, the commission established under the decision of the Secretary General had made a financial assessment of some assets. These actions are not in compliance with the Regulation on Assets Management.

Risk Due to lack of internal procedures on assets management, results in incompliance with the Rule on Assets Management and makes their management and preservation impossible.

Recommendation 12 The Minister should initiate writing of internal assets management procedures to ensure an effective management in full compliance with rules. Internal procedures should clearly define roles and responsibilities of staff related to assets management in a systematic manner.

3.7.2 Receivables

The value of Accounts Receivable presented in the AFS of 2016 was €346,060. The MAFRD has taken all measures to collect these receivables, including legal actions.

Recommendations

We have no recommendations in this area.

3.8 Outstanding Liabilities

The statement of outstanding liabilities owed to suppliers at the end of 2016 was €12,903,046. This amount consists mainly of subsidies and grants in the amount of €12,870,485, while the rest in the amount of €32,561 was for goods, services and utilities. The amount of liabilities for subsidies and grants is as a result of the manner and timing of their approval. The Minister has applied a gradual reduction of liabilities from 18.3 million Euros, how much they were at the end of 2014. We encourage the Ministry to handle liabilities with priority in the following years.

Recommendations

We have no recommendations in this area.

ANNEX I: Audit Approach and Methodology

The responsibilities placed on the Auditor and Those Charged with Governance are detailed in the Opinion set out in Section 1.2 of this report.

While a key output of our work is the audit opinion this report reflects the totality of our work with specific focus also on Governance Issues including Financial Management and Control. The latter is informed by our extensive, risk based, compliance audit programme.

The Executive Summary is intended to highlight the key finding of the audit and the key actions that the Minister should ensure are taken to address identified management/control weaknesses.

The detailed report provides an extensive summary of our audit finding with emphasis on determining the cause audit findings and providing appropriate recommendations to address these. For completeness we have included issues identified at the interim audit where they remain relevant. Our findings are defined as:

High Priority - issues which if not addressed may result in a material weakness in internal control and where action will offer the potential for improvements to the efficiency and effectiveness of internal controls; and

Medium Priority - issues which may not result in a material weakness but where action will also offer the potential for significant improvements to the efficiency and effectiveness of internal controls.

Findings considered low priority were reported separately to finance staff.

Our procedures included a review of the internal controls and accounting systems and associated substantive testing and associated governance arrangements only 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 which exist, or all improvements which could be made to the systems and procedures operated

Annex II: Explanation of the different types of opinion applied by NAO

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

152. The decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification – that is, whether the financial statements are materially misstated or, in the event that it was impossible to obtain sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

153. The auditor should express a **qualified opinion if**: (1) having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

154. The auditor should express an **adverse opinion if**, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

155. The auditor should **disclaim an opinion if**, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, the auditor concludes that the effects on the financial statements of any undetected misstatements could be both material and pervasive. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the audit scope that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705¹⁹ provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex III: Prior Year Recommendations

Audit Component	Recommendation given	Implemented	Under implementation	Not implemented
2.3 Prior Year Recommendations	The Minister should ensure that a revised action plan is implemented which 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 MAFRD has shown commitment towards implementation of recommendations, but their complete implementation remains a challenge.	
2.4 FMC Self-Assessment Checklist	The Minister should ensure that a review of the processes for completing the self-assessment checklist and addressing areas of weaknesses is implemented. A revised mechanism to confirm the accuracy of the return and to ensure supporting documentation supports the submission should be applied.		There are improvements in terms of completing the Self-Assessment List but some issues need to improve further.	
2.5.2 Risk Assessment	The Minister should ensure that the risk management process is reviewed regularly and risk register is updated, quarterly reviews are recommended to determine whether actions were taken as planned and whether any changes in the risk assessment were done.		The MAFRD has shown commitment towards preparation of the list of risks. However, this process should be advanced further.	

3.3 Budget Planning and Execution	The Minister, in cooperation with MoF, should ensure to handle all irregular payments of subsidies with emergency, including errors and other systematic uncertainties occurred during their processing to identify the source of problem arising, the size and measures required for adjustment and for returning the funds overpaid. Further, he should ensure that budget performance is monitored systematically and on timely basis to prevent and/or to identify on timely basis the repetition of irregularities while processing payments. At the same time, a joint treatment of the potential for delegation of these payments to MAFRD should be considered, if this would be more appropriate, in order to prevent and avoid these irregularities. On the other hand, before the list of farmers is processed for payment, AAD should ensure confirmation from each farmer beneficiary of the subsidy that the bank account presented is correct and active.	Yes		
	The Minister should ensure classification of transactions according to the economic codes set out by Treasury and strengthen financial control to avoid errors related to registration of expenditures and their reporting.			Not addressed
3.5.1 Remunerations (Wages and Salaries)	The Minister should consider continuing its attempts with MoF when conducting budget planning, and present reasons for the needs of the staff according to departments when budget approval is done, and ensure that budget requests related to the number of employees are in accordance with regulation on systematization of work positions.			Not addressed
3.5.2 Subsidies and Transfers	The Minister and Chief Executive Officer should ensure that the evaluation of applications for grants is done based on requirements and predetermined documentation, scoring should be supported on the analysis documented, and most appropriate applicants should be selected as beneficiaries for the achievement of objectives intended. They should also ensure that the applicants' complaints are reviewed and handled fairly in order to avoid potential irregularities.	Yes		

	The Minister and Chief Executive Officer should ensure that regional officers have applied adequate controls when accepting applications from farmers, in order to provide all farmers with the possibility to correct applications or to provide additional documents. This will lead to the achievement of the effect as is foreseen by the respective Instructions. On the other hand, it should consider sufficient staff to achieve the objectives set.	Yes		
	The Minister and Chief Executive Officer should ensure the increase of monitoring activities of grants, monitoring reflects the risk assessed and they should be carried out regularly and on timely basis. On the other hand, it should consider sufficient human resource capacities to achieve the objectives set.			Not addressed
	The Minister should ensure that the Management Authority in the Ministry and the Chief Executive Officer have reviewed the consistency with the Administrative Instruction, Guidance and checklists of the documents in order to require detailed specifications from farmers upon their application.	Yes		
3.6 Revenues (including own source revenues)	The Minister should ensure that an appropriate recording system is put in place, which supports collection and management of revenues. An assessment should be based on the known complexity of existing operations to determine whether this should be done through software.			Not addressed
3.7.1 Capital and Non Capital Assets	The Minister and Chief Executive Officer of KFA should ensure that capital investments made are recorded in the assets register as on-going investments and at the moment the project ends, the entire capital investment should be carried forward in the assets register where forests are recorded. Moreover, this issue should be addressed with the relevant entities that administer with forest lands.		Although prior year audit recommendations were addressed, other challenges in assets management have been identified in 2016 as well.	

Annex IV: Letter of confirmation

LETTER OF CONFIRMATION

For having agreed on the Auditor General's findings of 2016 and implementation of recommendations:

To: National Audit Office

Venue and date: 28.06.2017

Honoured,

We hereby confirm that:

- We have received the draft audit report of the National Audit Office on the 2016 Annual Financial Statements of Ministry of Agriculture Forestry and Rural Development, hereinafter referred to as the Report;
- Agree on the findings and recommendations and I have no comment on the content of the Report; and
- Within 30 days from receiving the final report, I will submit the action plan on implementation of recommendations including the deadlines and responsible staff for their implementation.

Secretary General:

Mr. Kapllan Halimi



Republika e Kosovës
Republika Kosova-Republic of Kosovo
Qeveria – Vlada-Government

Ministria e Bujqësisë, Pylltarisë dhe Zhvillimit Rural
 Ministarstvo Poljoprivrede, Šumarstva i Ruralnog Razvoja
 Ministry of Agriculture, Forestry and Rural Development

Zyra e Sekretarit të Përgjithshëm/Kancelarija Generalnog Sekretara/ Office the Secretary General

DATË/A:	28.06.2017
REFERENC-Ë:	ZSP-587 /17
PËR/ZA/TO:	Z. Valbon Bytyqi, Ndihmës Auditor i Përgjithshëm Z. Bujar Sejdiu, Udhëheqës i Departamentit të Auditimit
CC:	
PËRMES/PREKO/THROUGH:	
NGA/OD/FROM:	Z. Kapllan Halimi, Sekretar i Përgjithshëm i MBPZHR
TEMA/SUBJEKAT/SUBJECT:	Letër e konfirmimit për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm për vitin 2016 dhe për implementimin e rekomandimeve

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Ministrisë së Bujqësisë, Pylltarisë dhe Zhvillimit Rural për vitin 2016 (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 implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Me respekt,