



REPUBLIKA E KOSOVËS / REPUBLIKA KOSOVA / REPUBLIC OF KOSOVA

**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
FINANCE 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 Finance 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 Besa Morina, (Team Leader) and Shqiponja Krasniqi/Veton Misiri and Bekim Mikullovc (team members) under the management of the Head of Audit Department Emine Fazliu.

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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 Finance, 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 21.10.2016.

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 Finance.

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.

Emphasis of Matter

We would like to draw your attention to the fact that:

- Membership expenditures of €716,500 were incorrectly budgeted and paid from the category of Goods and Services.

For more please refer to section 1.1 of this report.

This Opinion is issued on the Ministry of Finance, excluding the Customs of Kosovo and Tax Administration of Kosovo for which we conduct separate audits and prepare individual audit reports including the audit opinions.

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

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

We thank the Minister and his staff for the cooperation during the audit process.

Key Conclusions and Recommendations



Minister's Response

The Minister has considered and agreed on the detailed audit findings and conclusions and has committed to address all given recommendations.

1 Annual Financial Statements and other External Reporting Obligations

Introduction

Our review of the Annual Financial Statements (AFS) of the Ministry of Finance (MoF) 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 Executive Officer and Chief Financial Officer when the draft AFS are submitted to the Government.

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 Finance 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.

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:

- Expenditures of €716,500 for the membership of the Republic of Kosovo in the Council of Europe Development Bank (CEB) have been incorrectly budgeted and paid from the Goods and Services category. According to the content of this Agreement, these expenditures should have been paid from the Economic Category – Other Payments.

Responsibility of Management and Those Charged with Governance and AFS

The Secretary General of the Ministry of Finance 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 of Finance is responsible to ensure 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 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 of Finance (MoF) 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 Law no. 03/ L-048 on Management of Public Finance and Accountabilities (as amended and supplemented);
- Compliance with Financial Rule no.01/2013 and Financial Rule no.02/2013;
- Quarterly reports, including nine-month financial statements in time;
- Draft and final procurement plans in time;
- Reports on signed procurement contracts;
- Progress reports on capital projects worth over €10,000;
- Reports on outstanding invoices;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures; and
- Annual Performance Report.

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 Article 14 of the Budget Execution Report – Notes 9 and 10 – tax and non-tax revenues were not presented according to the format required in Rule no. 01/2017 on Annual Financial Statements; and*
- *In Article 14 – Note 14 – Other/Deposits, Column C – the deposit was presented in the amount of €262,950 instead of €119,002 which represents the salaries in trust (account operated by Treasury). In addition, in Article 13 Statement of Cash Receipts and Payments – Note 8 Other payments – the same situation was presented.*

Notwithstanding these improvements, our examination of respective categories has identified that AFS contained some errors which we have disclosed in the Emphasis of Matter of our audit opinion.

1.3 Recommendations for the first part of the report

In regard to the abovementioned issue, we issue the following recommendation:

Recommendation 1 The Minister should ensure that required measures and actions are undertaken to determine the causes of the qualification and Emphasis of Matter. In this aspect, a new economic code should be opened- Payments for in charter capital/equity when getting membership into International Financial Institutions. Further on, budgeting, expenditures and reporting should be made according to the public sector accounting standards and within this code. The 2017 AFS preparation process should include the Management review of draft AFS and only after securing controls in AFS review, the Declaration made by the Chief Administrative Officer and Chief Financial Officer can be signed and submitted.

2 Governance

Introduction

Effective governance arrangements are fundamental to MoF 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 (OBs) 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. We have therefore applied a consistent approach across all audits to determine the quality of the completed self-assessment checklists and to assess the accuracy of the picture being presented on Governance in Kosovo.

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.

Overall Governance Conclusion

We acknowledge the progress made by MoF in terms of financial reporting, accountability and preparation of the risk management report. In addition, the implementation of half of prior year recommendations indicates the Management's efforts to further develop the processes.

The MoF had established a Coordinating Team to coordinate and monitor the implementation of 2016-2020 Strategy and the 2017 Action Plan. Moreover, Internal Audit has provided a clear snapshot on the functioning of internal controls, for which they gave recommendations for improvement.

2.1 Progress in the Implementation of Prior Year Recommendations

Our Audit Report on the 2015 AFS has resulted in eight (8) key recommendations. MoF prepared an Action Plan stating how all recommendations will be addressed.

At the end of our 2016 audit, five (5) recommendations have been fully implemented and three (3) were partially implemented. For a more thorough description of the recommendations and how they are addressed, see Annex III. This report has been considered by the Committee for Oversight of Public Finance.

Issue 2 - Addressing Prior Year Audit Recommendations - High Priority

Finding Regardless of the prepared action plan on implementation of recommendations and the commitment of MoF to implement them, a proportion of recommendations have remained partially implemented.

Incomplete implementation of all recommendations has led to repetition of previous year's shortcomings. This was noticed in Human Resources management and procurement process.

Risk Incomplete implementation of recommendations increases the risk of continued shortcomings which may lead to weaknesses in financial management and controls.

Recommendation 2 The Minister should secure an analysis of the causes behind incomplete implementation of recommendations and set out a new timetable for their implementation with initial focus on most important areas of financial management and controls. This plan should be monitored on an ongoing basis.

2.2 Self-Assessment Checklist of FMC components

The Ministry of Finance has produced a 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 each component of the checklist.

We have summarised our findings for MoF 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.

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:

- The Self-Assessment questionnaire was completed by MoF presenting an accurate situation of the organisation and it was supported with respective evidence;
- MoF has produced the Comprehensive development strategy for 2016-2020, including the financial cost which is pending approval. By the end of the year, the Minister established the Coordinating Team to coordinate and monitor the implementation of this Strategy and the Action Plan for 2017; and
- In order to undertake adequate measures to prevent or effectively manage identified potential risks, MoF has produced the risks management plan and the risks monitoring plan.

2.2.1 Management Reporting and Accountability

A range of internal controls are applied by Management 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.

The Executive Agencies operating under MoF are: Customs of Kosovo (CK), Tax Administration of Kosovo (TAK), Central Procurement Agency (CPA), and Financial Intelligence Unit (FIU). These agencies prepare financial statements which are consolidated in the AFS of MoF. The consolidation process is effective, however a greater cooperation between the agencies is required to ensure a higher quality of the consolidated AFS. Agencies have their own management structures wherewith the management of daily operations is organised.

The management and functioning of all activities of CK and TAK will be handled in individual audit reports produced by the National Audit Office.

According to the requirements of the Law on Public Procurement (LPP), the procurement procedures of independent agencies reporting to the Assembly of Kosovo with less than 50 employees shall be carried out by CPA. In addition to these procurements, CPA has conducted centralised procurements during 2016 as well.

MoF should pay greater attention to the management of expenditures for Goods and Services and for Capital Investments made through procurement process because controls were not at the proper level.

2.2.2 Internal Audit System

The Internal Audit System is a key part of internal control. We consider the scope of internal audit work and Audit Committee (AC) activities. In addition, we consider the actions taken by the top management and CA as a result of the internal audit work.

The Internal Audit Unit (IAU) operates with eight (8) staff members - the Head of IAU and seven (7) auditors. This unit is organized in two (2) divisions, for audits within the MoF, as well as division for external audits, for entities that have not established IAU.

The annual audit plan was comprehensive and reflected financial risks in order to provide sufficient assurance on the effectiveness of internal control. In 2016, this unit managed to finalise all planned audits, 16 in total. In addition to the implementation of the plan, IAU has carried out two (2) other audits upon management's request.

A total of 65 recommendations were given in the internal audit reports, out of which 46, or 71% were implemented. We encourage the Management to produce a plan for their complete implementation.

During 2016, CA held four (4) meetings where IAU recommendations and the NAO recommendations for 2015 were discussed.

Recommendation

We have not recommendation in this area.

3 Financial Management and Control

Introduction

Our work on FMC outside of the Governance areas referred to chapter two (2) reflects the detailed work undertaken on revenue and expenditure systems 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

MoF has generally put in place sound controls in relation to its statutory obligations. Financial Management and Control have proven there has been a good review process and assurance in the implementation of the legislation and other control processes.

In the context of financial systems, MoF has established sound controls over subsidies management as well as reporting and management of outstanding liabilities.

In 2016, MoF used 78% of the final budget. However, if we exclude the €4mil. budget (which are presented under the MoF's final budget but not under the execution because they are not managed by MoF) that belong to the Trust Development Fund, the final budget execution is then 90%, which represents a good percentage, but compared to last year we have a decrease of 7%.

However, projects carried forward from year to year leading to a low level of budget execution in Capital Investments category still remains a challenge. Shortcomings were found in Human Resources management, procurement and assets recording.

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 1, 2 and 3:

Given that CK and TAK collect over 90% of overall revenues of the budget of Kosovo, we conducted separate audits thereon and drafted individual audit reports, which will be published on our website.

Table 1. Sources of budgetary Funds – outturn against budget (in €)²

Description	Initial Budget	Final Budget ³	2016 Outturn	2015 Outturn	2014 Outturn
Sources of Funds	31,155,636	28,284,786	21,936,786	24,207,614	29,296,591
Government Grant -Budget	25,258,890	22,253,491	21,479,420	23,412,058	28,508,889
Funding from loans	95,000	95,000	87,935	350,021	119,871
External Donations	342,286	476,836	369,431	445,535	667,831
Financing of borrowing for investment clause	5,459,459	5,459,459	-	-	-

The final budget was reduced by €2,870,850 compared to the initial budget. This was as a result of budget changes made by the Government.

Table 2. Spending of funds by economic categories at Ministry's level (in €)

Description	Initial Budget	Final Budget	2016 Outturn	2015 Outturn	2014 Outturn
Spending of funds by economic categories	31,155,636	28,284,786	21,936,786	24,207,614	29,295,000
Wages and Salaries	15,340,591	15,245,227	15,023,227	14,369,590	14,023,000
Goods and Services	5,841,585	5,501,808	5,311,572	5,890,597	7,392,000
Utilities	428,592	348,741	316,892	342,825	401,000
Subsidies and Transfers	95,858	288,757	288,757	3,103,321	2,662,000
Capital Investments	9,449,010	6,900,253	996,338	501,281	4,817,000

MoF, including the executive agencies, spent 78% of the final budget for 2016. However, if we exclude the €4mil. budget (which are presented under the MoF's final budget but not under the execution because they are not managed by MoF) that belong to the Trust Development Fund, the final budget execution is then 90%, which represents a good percentage, but compared to last year we have a decrease of 7%.

This table presents the budget and expenditures of MoF, excluding the data of CK and TAK.

² Amounts in this table are the budgets and executions of MoF together with CK and TAK. For CK €7,929,481 were budgeted and €7,838,762 executed whilst for TAK €8,930,523 were budgeted and €8,834,937 executed.

³ Final budget – the budget approved by the Assembly which was subsequently adjusted for by the Ministry of Finance.

Table 2a. Spending of funds by economic categories

Description	Initial budget	Final Budget	2016 Outturn	2015 Outturn	2014 Outturn
Spending of funds by economic categories	10,846,771	8,430,795	5,263,086	8,531,511	12,127,888
Wages and Salaries	2,506,137	2,763,488	2,546,677	2,537,488	2,483,717
Goods and Services	2,527,489	2,382,447	2,345,981	2,780,604	3,550,734
Utilities	126,645	40,552	35,956	47,927	52,639
Subsidies and Transfers	20,000	288,757	288,757	3,103,321	2,662,000
Capital Investments	5,666,500	2,955,551	45,715	62,171	3,388,446

Regardless of the final budget reduction by €2,415,976 compared to the initial budget, the budget execution was quite low, 62%.

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries increased by €257,351 as a result of the merge of Central Budget Department with the Local Budget Department into one. This resulted in the increase of the multiplier for the Director of this Department, manning of vacancies and remuneration of commissions;
- The budget of Goods and Services was executed at 98% of the final budget. The final budget of Utilities was reduced by €86,093 compared to the initial budget, which were allocated to Goods and Services. The budget of this category was executed at 89% of the final budget;
- As a result of Government's decisions and Minister of Finance's decisions, the budget of Subsidies and Transfers increased by €268,757. This budget was executed at 100%; and
- Despite the reduction of the final budget for capital investments, the budget execution was at a very low level. This was due to the non-implementation of budgeted projects. In addition, the initial budget included €4,000,000 of the Trust Development Fund (TDF). These funds, following approval of specific projects by the Management Board of this Fund, are transferred to beneficiary municipalities. At the end of the fiscal year, the amount not transferred was €444,358. The Fund at the yearend (salaries in trust operated by Treasury) was €119,002. These funds are not managed by Treasury.

Issue 3 – Low Budget Execution in Capital Investments – High Priority

Finding Budget execution in Capital Investments category was at a very low level. This was due to the inclusion of TDF in the budget execution and projects which were carried out such as “Development of Data Warehouse System, integration of MoF Systems” and “Initiation of Construction Works for the CK-TAK Building in Prishtina” which were carried forward from last year, but in 2016 no payment had been made.

Risk Inadequate budget planning and a low budget execution level undermines the achievement of organisational objectives and makes the funding of these projects to become a burden in the future year budget.

Recommendation 3 The Minister should ensure that while preparing budget requests, a proper analysis precedes all factors that have an impact in budget execution and ensure that budget performance is systematically monitored on a monthly basis. Despite this, management of capital projects should be improved to ensure that they are finalised according to contracted terms and optimal quality.

3.1.1 Revenues

Revenues generated in 2016 by MoF, including executive agencies, were €1,438,177,981. They relate to tax and non-tax revenues. We only audited the revenues collected from Treasury and Central Administration of MoF, amounting to €373,981 as well as revenues from donations amounting to €265,200. Issues related to revenues collected from CK and TAK were not covered by this audit. They are addressed in individual audit reports.

Table 3. The total revenues collected for the Kosovo Budget

Agencies/ Department	Gross revenues	Refunds	2016 net revenues	2015 net revenues	2014 net revenues
Customs	1,051,419,000	7,376,927	1,043,042,073	944,929,869	868,570,436
TAK	386,385,000	31,004,545	355,380,455	304,003,191	272,586,344
FIU	12,000	0	12,000		
CPA	0	0	0	0	10,430
Treasury	282,750	0	282,750	1,468,297	201,100
Central Administration of MoF	79,231	0	79,231	74,464	74,928
Total	1,438,177,981	38,381,472	1,398,796,509	1,250,475,821	1,141,443,238

In regard to revenues collection and reporting, MoF has established an efficient control system. Revenues were recorded according to legal procedures and requirements. Regular reconciliations with bank reports have been made and the same are recorded in the KFMIS and classified under the respective codes.

Recommendation

We have not recommendation in this area.

3.1.2 Wages and Salaries

Wages and Salaries are paid through a centralised system. The key controls confirm accuracy and completeness of data presented in the AFS of MoF. The budget allocated for this category was spent at 92%. Regardless of the measures taken to strengthen controls, MoF should further enhance controls in order to ensure that management positions are not covered with acting staff beyond the deadlines and that staff are paid according to the Law on Budget. Our testing has identified the following shortcomings.

Issue 4 – Shortcomings in Human Resources management – High Priority

Finding

Our testing has identified the following shortcomings:

- **Positions covered with acting staff (AS) for a longer period than legally established.** Article 3.4 of the Law on Civil Service stipulates that in case of a vacancy in the Civil Services, the acting staff shall not be appointed for a longer period than three (3) months.

The position of Head of Fiscal Policy Division is still covered by acting staff since 2014; the Procurement Manager position was firstly manned through a substitute from January 2016 and later on with acting staff from July 2016. These positions continue to be covered by acting staff in 2017, i.e. as of March, time when we were in the final audit stage; and

- **Salaries continued to be paid based on earlier decisions.** In two cases, despite the abrogation of the Decision 39/2015 and Decision 41/2015 that return the officials to their previous positions, we found that the same continue to receive the salaries based on the multipliers set in earlier decisions.

Risk

Poor staff management including manning of positions with acting staff and failure to align multipliers with respective positions may lead to failure to discharge respective duties and responsibilities and bring the Ministry to financial difficulties.

Recommendation 4

The Minister should ensure that all legal actions are taken to man certain positions with regular staff and that remunerations for wages and salaries are paid in line with the job description.

3.1.3 Goods and Services and Utilities

The final budget of Goods and Services and Utilities in 2016 was €2,422,999, out of which €2,381,937, or over 98% were spent. Expenditures for this category mainly relate to information technology maintenance, outsourced services, security of buildings, vehicles maintenance, membership fees and other.

According to Article 21/A of LPP, for the purposes of economy, the procurement procedures of independent agencies reporting to the Assembly of Kosovo with less than 50 employees shall be carried out by Central Procurement Agency (CPA). We have tested eight (8) out of 36 procurement procedures carried out from CPA during the year 2016. From these tests we have concluded that the whole process was conducted in accordance with the law.

It is worth mentioning that €187,265 have been saved by conducting separate procurement activities for 2016 considering that the value of contracts foreseen by Contracting Authorities sent to CPA was €596,045 whilst the value of signed contracts was €408,779. Our tests on procurement (MoF expenditures) have identified the following shortcomings.

Issue 5 – Weaknesses in Procurement – High Priority

Finding

Our tests have identified the following shortcomings:

- For procurement activities “Official travel by plane services for the needs of the MoF” and “Supply with stationery for the needs of MoF”, the Acting Procurement Manager was appointed at the same time as Chairman of the Evaluation Commission for these tenders;
- According to Article 11 of the Law on TAK, any non-resident person who is subject to taxation in accordance with the tax legislation of Republic of Kosovo shall appoint a fiscal representative prior to starting any economic activity.

Treasury signed two (2) contracts, one in February and the other in April 2016 for KFMIS data management license services, but the contract did not specify payment of taxes. Treasury did not provide any evidence that the International Economic Operator (EO) had a fiscal representative registered in Kosovo for tax liability issues; and

- The margin value or the service price for one ticket as mentioned in the tender dossier including all tax liabilities was €0,30, whilst in the invoice no.207 archived on 22.07.2016 this service was billed by €1. The margin value is determinant when it comes to selecting the contract winner.

Risk Engagement of the Acting Procurement Manager in the position of the Chairman of the tender evaluation commission is not only in violation to LPFMA but it also affects the objective evaluation of tenders. Moreover, procedural omissions and paying for service fees more than the one stipulated in the contract undermine the quality of services and tax collection.

Recommendation 5 The Minister should ensure that members of tenders evaluation commission are appointed according to LPP requirements in order to avoid the possibility of conflict of interest. No contract should be entered into unless EOs meet all criteria set forth in the legal framework. Moreover, prices paid should be in line with contracted prices.

3.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €288,757, which was spent entirely. These funds were allocated to various cases according to Government's decisions. Compared to the previous year, the budget was lower for €2,814,564. This was as a result of the transfer of payment of bank provision for the distribution of pensions to social scheme beneficiaries from the MoF to Ministry of Labour and Social Welfare as well as the non-subsidisation of insurance policies.

Recommendations

We have no recommendations in this area.

3.1.5 Capital Investments

The final budget of Capital Investments was €2,955,551, out of which €45,715 were spent in 2016.

The reasons behind such a low level of budget spending for this category are: transfer of the project no.11286⁴ worth €400,000 from the Program 13300-CK to the Program 11301-Central Administration of MoF; projects carried forward from previous year and non-execution of any payment during 2016; delays in initiation of procurement activities; cancellation of procurement activities; PRB decisions to return tenders for re-evaluation etc.

Recommendations

We have no recommendations in this area.

⁴ Start of works on construction of TAK-CK facility in Prishtina

3.1.6 Common issues on Goods and Services and Capital Investments

Common issues related to Goods and Services and Capital Investments are the following:

Issue 6 – Contract Signed by the Procurement Officer – High Priority

Finding According to Article 26 of the LPP no. 04/L-42, the responsible Procurement Officer shall be the only person authorised to enter into or sign a public contract on behalf of the contracting authority.

Because the substitute of the procurement manager did not have a license, the procurement officer (licensed) has signed the contracts for the procurement activities “Supply with server for Treasury-MoF needs”, “Plane travel services for the needs of the MoF” and “Supply with stationery for MoF needs”. This situation continued even after the appointment of the Acting Procurement Manager.

The new Procurement Manager (as Acting staff) was appointed in July 2016 and still continued to cover this positions (March 2017, by the time we were conducting the final audit stage).

Risk Unclear definition of the position of the Responsible Procurement Officer breaks the chain of accountability at CAO.

Recommendation 6 The Minister should ensure that adequate and timely actions are undertaken to appoint the responsible Procurement Officer who should own all the qualifications required in the job description.

3.2 Assets

3.2.1 Capital and Non Capital Assets

The net value of capital assets of MoF and its subordinate agencies was €6,827,861 for 2016. MoF has established two stocktaking commissions - one to carry out the stocktaking of Treasury assets and the other for the stocktaking of MoF assets.

Recommendations

We have no recommendations in this area.

3.3 Liabilities

The statement of liabilities not paid to suppliers at the end of 2016 was €67,170. This amount mainly relates to invoices on goods and services which are carried forward to be paid in 2017. Reporting was made in compliance with the Rule on reporting of liabilities.

Recommendations

We have no recommendations in this area.

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

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 1.1 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 action 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 formal process of monitoring of implementation of recommendations made by AG is implemented, in order to have accountable staff members for addressing the recommendations according to the timetable set out in the action plan		Some of the prior year recommendations were not fully implemented. These mainly relate to staff management and procurement	
2.4 Self-assessment Checklist	The Minister should initiate drafting of an extensive institutional strategy, supported by potential risk management plan, which would risk the achievement of intended objectives. In addition proactive measures should be taken for addressing areas with highlighted weaknesses identified in the self-assessment checklist		During 2016 the Working Group has been established and has drafted the Development Strategy Plan for 2016-2020 which has been approved but its financial cost is pending approval.	
2.5.1 Risk Management	The Minister should ensure that concrete measures are taken for constant update of the risk management plan in order to establish measures necessary for eventual elimination or for effective management of risks identified.	Yes		
3.5 Procurement	The Minister should ensure, through the Secretary General, that internal controls over tender dossier preparation and bids evaluation are strengthened in order to provide for effective procurements and selection of the best possible offers.	Yes		

3.5 Procurement	The Minister should ensure that existing controls are strengthened upon the acceptance of goods, and the payment sector should avoid the acceptance of goods not contracted and avoid the payment of undelivered services	Yes		
3.5 Procurement	The Minister should ensure that an overall review of this contract was made and undertake actions required that the contract is treated within legal procurement framework	Yes		
3.6.1 Remunerations	The Minister should ensure that all legal actions are taken for covering specific positions with regular contract employees. Further, the Minister should ensure that distribution of personnel within the institution is in line with the limits allowed for employees, according to programmes foreseen by Budget Law.		Staff was allocated according to the programs foreseen in the Law on Budget, but positions are still covered by acting staff.	
3.7.1 Capital and non-capital assets	The Minister should ensure that causes of non-functioning of the existing controls in this area are identified, and actions required are taken to record all assets in the E-asset system. Responsible officials should be provided with the needed trainings for using the E-assets	Yes		

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: 12.05.2017

Honoured,

We hereby confirm that:

- We have received the draft audit report of the National Audit Office on the 2016 Annual Financial Statements of the Finance Ministry, here in after 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.

General Secretary of the Ministry of Finance:

Naim BAFTIU



17 05 2017			
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Republika e Kosovës

Republika Kosova - Republic of Kosovo

Qeveria - Vlada - Government

Ministria e Financave

Ministarstvo Finasija - Ministry of Finance

Zyra e Sekretarit të Përgjithshëm - Kancelaria Generalnog Sekretara - Office of General Secretary

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm për vitin 2016 dhe për implementimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- Kam pranuar draft-raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Ministrisë së Financave, për vitin 2016 (në tekstin e mëtejshëm "Raporti");
- Pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; dhe
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