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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
CULTURE, YOUTH AND SPORTS**

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 Ministry of Culture, Youth and Sports 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 Igballe Halili (Team leader) Krenare Pirana and Vjose Bojku (Team members) under the management of the Head of Audit Department Bujar Bajraktari.

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Executive Summary

Introduction

This report summarises the key s arising from our audit of the 2016 Annual Financial Report of the Ministry, 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 20/10/2016.

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.

Opinion of the Auditor General

Qualified opinion with emphasis of the matter

According to our opinion, the Annual Financial Statements completed on 31st December 2016, *present a true and fair view* in all material aspects, except the effects of the issues prescribed in the paragraph of Basis for Opinion .

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 Minister 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



Minister's response – audit 2016

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

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 Executive Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance.

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

Qualified Opinion with Emphasis of Matter

We have audited the AFS of the Ministry of Culture, Youth and Sports 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 by the Ministry of Finance.

Basis for the qualified opinion

The audit opinion was qualified due to the following errors:

- The payments of €373,808 for employees engaged in special service agreements (SSA) were made from the budget of Subsidies and Transfers, whilst €96,695 were paid from the budget of Wages and Salaries. The payments for SSA do not highlight elements of expenditures that would meet the definition of "Subsidies and Transfers" or "Wages and Salaries";
- Payments in the amount of €254,792 for employees engaged for fieldwork, were made under a regulation which was abrogated by a governments decision; and

- Supply of secondary schools with sports equipment in the amount of €17,231 was made from Capital Investments, whilst these items belong to the category of Goods and Services, as well as compensation in the amount of €3,483 for overtime work was done from the category of Goods and Services.

The Ministry did not manage to correct these errors during the audit, since the expenditures had already incurred. These have resulted in material errors in the Annual Financial Statements, and for this reason we have qualified our 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. According to the ethical requirements which are relevant to our audit of the Annual Financial Statements of Budget Organizations in Kosovo, NAO is independent from Ministry, whereas other ethical responsibilities are fulfilled in accordance with these requirements. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the qualified opinion.

Emphasis of matter

We draw your attention to the fact that the lack of systematic approach to confirm the value of non-financial assets has resulted in non-assurance on the net asset value. This issue occurred because the Ministry did not take the necessary actions to evaluate all its assets while the assets stocktaking at the end of the year was not done. Our opinion did not qualify for this issue.

Responsibility of Management and Those Charged with Governance and AFS

The Secretary General of the MCYS 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 of Culture, Youth and Sports and its subordinate Institutions 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

MCYS 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; and
- Requirements of Financial Management and Control (FMC) procedures.
- Other requirements (budget requests, quarterly reports, including the nine month financial statements and procurement plan)

In the context of AFS, apart from the issues raised in the audit opinion and the emphasis of the matter, we have identified that some financial adjustments were needed to be made in AFS draft. We have also provided other suggestions to improve their quality. In addition, no adjustments were made to the following issues:

- In the Budget Execution Report, note 10, the revenues of the year along with the carried forward revenues were presented in the final budget column, while only the cash inflow in the treasury account over the year should have been presented;

Moreover, there were errors in the disclosure of financial statements as follows:

- Assets over €1,000 disclosed in AFS do not contain the exact value because the payment of €40,000 related to the "Harilaq Fortress" and the payment of €40,000 for the "Sport Hall in Dardana, Phase II" were not registered in KFMIS. Additionally, a traffic light purchased for the youth and sports palace in the amount of €27,800 was recorded in the register, whilst it should have been transferred to the Municipality, as the manager of the youth palace.
- The unpaid liabilities were not reported correctly, since the obligation to participate in Biennial from 2014, in the amount of €55,903, was not disclosed in AFS;
- The disclosed contingent liabilities did not contain the estimated amounts, and there was no total value of all contingent liabilities;
- The information on the number of contracted employees for specific services was not disclosed; and
- Donations received by the subordinate institutions, worth €142,530, were not disclosed in AFS.

Given the above - the Declaration made by the Chief Executive Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance can be considered to be incorrect given the material errors and other issues identified during the audit.

In the context of other external reporting requirements we have no issues to raise on these matters. MCYS has managed to submit in due time all reports which are required with the applicable legal framework.

1.3 Recommendations for the first part of the report

For the aforementioned issues of the basis for the opinion, and to other disclosures of AFS, we provide the following recommendations:

Recommendation 1 The Minister should ensure that a comprehensive analysis has been conducted to determine the causes for the Qualification of the Opinion and the Emphasis of Matter. Actions need to be taken to address the causes in a systematic and pragmatic way to remove errors in misclassifications, to avoid irregular payments and to make accurate estimates of capital assets; and

Recommendation 2 The Minister should ensure that effective processes have been established to confirm that the 2017 AFS preparation process addresses all compliance related issues. This should include the management review of the draft AFS, with particular focus on areas where errors have been identified. The declaration made by the Chief Administrative and Financial Officer should not be submitted unless all the necessary controls have been applied to AFS draft.

2 Governance

Introduction

Effective governance arrangements are fundamental to MCYS 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. 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 compliances in key income and expenditure systems (these areas are considered in Section 3 of this report)

Overall Governance Conclusion

Even though MCYS has marked some improvements, there is still a number of governance weaknesses particularly related to accountability, and the quality of management reporting. The self-assessment checklist completed by MCYS only partially recognises this situation with some positive comments about existing arrangements not evidence based. Other arrangements which would support the development of governance such as an effective response to audit recommendations and the operation of a high quality internal audit unit are not in place. Appropriate action is considered the termination of special service agreements, although this was done at the end of the year, and the expenses for persons engaged in these agreements were reflected in AFS and have impacted in the modification of the audit opinion.

Furthermore, the monitoring of subordinate institutions remains a challenge, even though they report to ministries, they have no good financial management, and their bank accounts in commercial banks continue to function without authorization of treasury. Controls were weak in expenditure management, particularly in subsidies area.

In terms of compliance with legislation, our audit has revealed the existence of several weaknesses, which mainly incorporates payments to field workers and non-compliances with applicable regulations in the areas of subsidies, procurement and personnel.

2.1 Progress in the Implementation of Prior Year Recommendations

Our Audit Report on the 2015 AFS of MCYS resulted in 24 key recommendations. MCYS prepared an Action Plan stating how all recommendations will be addressed.

At the end of our 2016 audit, only three (3) recommendations have been implemented; nine (9) are in the process of implementation ; and twelve (12) have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex III.

Issue 3 - Addressing of Prior Year Audit Recommendations - High Priority

Finding Only a portion of prior year recommendations have been implemented because MCYS did not follow any formal process to manage and monitor the way the AG recommendations are implemented.

Risk Constant weaknesses in management controls and other controls in key financial systems, such as subsidies, transfers; capital investments, wages and salaries have resulted in:

- Constant organizational inefficiency and poor governance practices;
- Inefficiency in managing capital projects;
- Non-application of the regulation for granting and justifying the subsidies;
- Misclassification of expenditures; and
- Improper presentation of assets in AFS.

Recommendation 3 The Minister should ensure that a revised action plan is implemented setting out the timelines for implementing the recommendations made by the Auditor General (AG) with the identified responsible staff , focusing primarily on the most important areas.

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 MCYS 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 4 - Self Assessment Checklist - High Priority

Finding

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 Self-Assessment questionnaire completed by MCYS acknowledged that required risk management systems were not yet in place. This occurred because the risk management plan was drafted for the period 2017-2019 and did not cover 2016;
2. Effective monitoring processes and Comprehensive strategy development (involving stakeholder liaison and ensuring a fully cost estimated strategy) are not in place, since there is no strategic plan established at the organization level. Although, Department on Heritage and Department on Youth have approved strategies for their activities; and
3. Links between the procurement plan and budget and the production of adequate reports on a timely basis are considered in place by MCYS and the evidence we were provided with supported this conclusion although reports were not always produced on a timely basis.

Internal Audit did not highlight the above issues. Furthermore, the action taken to address issues identified in the 2015 self-assessment checklist is limited. This situation has occurred because of a lack of clarity within MCYS regarding both the importance of this checklist and who is the responsible officer for using it to support operational improvements.

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

Recommendation 4 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 MCYS operates and the challenges that it faces.

2.4 Setting of Strategic Objectives

MCYS did not set out strategic objectives, but it has an annual working plan along with working program plans for departments that relate to the work of subordinate institutions monitored by MCYS. Apart from provision of the budget for the functioning of subordinate institutions, the Ministry also supports financially their various cultural, youth, sports and heritage projects. These financial means are expected to be justified with reports and supporting evidence. However, this is not the case for most projects, as the same are not reported on time.

Issue 5 - Lack of Strategic Plans

Finding The Ministry does not have an overall strategy of objectives in place, and it lacks clear responsibilities for the coordination and development of the strategic plan, including the cost estimation strategy as well.

Risk Obscurities over the strategy implementation makes the follow up on objectives' achievement impossible in the light of the Municipality's vision, as one of the essential requisites of good governance.

Recommendation 5 The Minister should draft the action plan for monitoring the achievement of objectives by establishing effective oversight functions.

2.5 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.

Issue 6 – Weaknesses in Management Controls – High Priority

Finding Despite the fact that departments within MCYS make regular performance reporting, we have noticed that the reports do not contain complete information, assuring the management with regard to all activities within the organization.

Within MCYS, there are 17 functional subordinate institutions. Formally, all institutions have reported on a regular basis (with the exception of Kosovo Film), but despite this, the audit has identified many deficiencies in budget management by subordinated institutions, including cash withdrawal from the bank, cash payments and misclassification of spending, which results in weak management controls.

Risk Poor quality of financial and activity reporting to senior management has reduced the management's ability to proactively manage the operations and undermines effective budgetary control. This can result in unplanned over or under spending and delay necessary actions to address these.

Recommendation 6 The Minister should ensure that a review is implemented to determine the format of financial and operational reporting to senior management which is required to support effective business management - and ensure that an appropriate solution is in place.

Issue 7 - Accountability Processes – High Priority

Finding MCYS is responsible for a variety of activities of subordinate institutions, which have obscurities with regards to reporting obligations. As a result, the reporting on accountability and follow up responsibilities are limited and are not implemented effectively. The bank accounts of subordinate institutions are in commercial banks, they are managed by directors and are not authorized by the treasury. The Ministry, periodically allocates funds to these accounts for the purpose of financing the various activities of these institutions. As a result, at the end of the year a considerable amount of unspent funds have remained in the accounts of the institutions, thus affecting the "fictitious" growth of the budget execution percentage.

Risk The lack of legal clarity on the mutual obligations of subordinate institutions and the Ministry, and poor accountability and financial reporting requirements have reduced the effectiveness of financial management. Allocation of funds into commercial accounts that do not have authorization from the Treasury may result in asset mismanagement.

Recommendation 7 The Minister should initiate a review of the current form of reporting and accountability from institutions, to assess weaknesses and determine

improved arrangements. In addition, the Minister should discuss with the Ministry of Finance, Treasury and with the Heads of Subordinate Institutions of MCYS in order to find the most appropriate options for managing the financial means of the budget, including the possibility of authorizing the current bank accounts by the Treasury.

2.6 Internal Audit System

The Internal Audit Unit (IAU) operates with two members of staff - the Head of IAU and one auditor. An effective audit requires a comprehensive work programme that reflects financial and other risks 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.

Issue 8 - IAU not functioning - High Priority

Finding

A number of weaknesses exist related to current IAU operations:

- Although IAU had executed the annual plan, and had conducted two (2) additional audits at the request of the management, this plan was not comprehensive, since the audit did not cover the subordinate institutions;
- Recommendations of internal audit were not implemented by the management; and
- The contribution of Audit Committee was not at the expected level, while the members of the Committee are not professionals of adequate fields, as required by the internal audit rules. In addition, from the minutes of the committee meetings, we have noticed that two (2) members of the committee except the signatures on the their participation, did not give any other contribution.

Risk

The non-involvement of all institutions in IAU activities disables the identification and prevention of errors as well as reduces the assurance provided to management with regard to the effectiveness of key financial controls. The non-professional Internal Audit Committee affects in the improper reporting to management.

Recommendation 8

In order to obtain maximum benefit from Internal Audit activity, the Minister should ensure an effective functioning of the Audit Committee. The Audit Committee should critically review the internal audit plans (to confirm that they are risk based and provide the required assurance to management) and internal audit outputs. It should also review actions taken by management on Internal Audit recommendations.

3 Financial Management and Control

Introduction

Our work on Financial Management and Control outside of the areas of Governance referred to above reflects the detailed work undertaken on Revenue and Expenditure Systems. As part of this we consider Budget management, Procurement and Human Resources, and Assets and Liabilities.

Financial Management and Control Conclusion

The major concern of MCYS remains Financial management where regulations are not being enforced with resultant poor value for money. In the context of financial systems, controls over revenue are generally strong and are being implemented effectively – but controls over a range of expenditure areas require further enhancement to prevent MCYS suffering from financial losses. The main areas where most improvements are required are in Budget Execution, subsidy management and asset management.

3.1 Budget Planning and Execution

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

Table 1 . Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2016 Outturn	2015 Outturn	2014 Outturn
Sources of Funds	19,876,704	17,088,487	16,773,166	18,874,393	16,780,838
Government Grant -Budget	19,833,084-	16,485,021	16,255,016	17,598,684	16,378,178
Carried forward from previous year ³ -	-	32,257	26,520	6,003	9,416
Own Source Revenues ⁴	43,620	43,620	26,671	4,224	4,869
External Donations	-	527,589	464,959	1,265,482	388,375

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.

The final budget compared to the initial budget was reduced by €2,788,217. This reduction was as the result of changes occurring during the year, upon revising the budget, with government decisions, including donation funds and own source revenues in the budget.

In 2016, MCYS used 98% of the final budget or €16,733,166, with the same level of the percentage with 2015. However, the budget execution remains at an unsatisfactory level, considering that in the bank accounts of 16 subordinate institutions at the end of the year there were unspent funds of €1,627,891. This implies that these funds in AFS of the Ministry are reflected as expenditures, but in fact they were not spent. Below we have listed the explanations for the current position.

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

Description	Initial Budget	Final Budget	2016 Outturn	2015 Outturn	2014 Outturn
Spending of funds by economic categories	19,876,704	17,088,487	16,773,166	18,874,393	16,780,838
Wages and Salaries	3,525,364	3,680,695	3,560,945	3,390,057	3,156,936
Goods and Services	725,467	1,435,175	1,363,229	1,552,779	1,235,932
Utilities	294,323	318,698	308,555	292,866	275,099
Subsidies and Transfers	6,206,550	7,156,532	7,060,865	7,387,185	5,803,017
Capital Investments	9,125,000	4,497,387	4,479,572	6,251,506	6,309,852

The explanations for changes in budget categories are given below:

- The increase in the final budget for wages and salaries compared to the initial budget was € 155,331. This is the result of the increased funds for €60,666 during budget review, carried forward revenues of €11,621, and the donation from "Global Fund" of €83,044. The execution of the final budget was 97%;
- In the category of Goods and Services there was an increase of €709,708 compared to the initial budget, while the execution at the end was 95% of the final budget. The budget increase includes the transfer from capital investments of €313,431 from utility category €5,000, from the carried forward revenues €20,635 and €393,985 from external donors. Despite the aforementioned increases, at the end of the year with regards to savings, the Ministry of Finance had reduced the budget for €23,343. In this category at the end of the year there was a surplus of €71,876, while there were also unpaid liabilities with the reasoning that there was lack of funds;
- The budget for utilities increased by €24,375. As a result of the budget review, €22,000 were added for National Library, €7,350 were added from the capital investment line and global fund €25. At the same time there was a transfer of €5,000 from this category of goods and services;

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- The final budget for subsidies and transfers was higher for €949,982 compared to the initial budget, while the execution at the end was at 99% of the final budget. Initially, there was an increase of the budget with a Government decision for €320,000, then from capital investments €690,000 were transferred, and from external donations €50,535. Within budgetary savings, the budget was reduced by €110,553; and
 - The final budget of capital investments was reduced to €4,627,613. Initially, according to the Government's decision there was an increase of €500,000, followed by a reduction in the transfer of goods and services in the amount of €313,431, transfer of €690,000 to subsidies and transfers, and €7,350 for utilities, and reductions by MoF upon budget review with €775,400 and on behalf of savings €3,341,432. Such major changes in this category have come as a result of inadequate planning and inadequate analysis of factors that have impacted in budget execution.
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Issue 9 – Budget Planning and Execution – High Priority

Finding Although the budget was executed at 98%, it cannot be stated that MCYS had good performance in this segment, due to the reason that during the year an adjustment need had emerged, particularly in Capital Investments. In addition, the increase of the percentage of budget execution was affected by the transfer of a considerable amount of funds to bank accounts of subordinate institutions, while these funds at the end have remained as unspent.

Another problem associated with budget execution was the misclassification of expenditures (see above, the basis for qualified opinion).

Risk Numerous needs for adjustments indicate that budget preparation is not based on the MCYS's real capacities to spend it. The non-completion of important capital projects increases the risk of not accomplishing the objectives of Ministry. Misclassification of expenditures affects towards the improper presentation of AFS expenditures and results in the audit modification.

Recommendation 9 The Minister should ensure that the preparation of budget requirements is preceded by a thorough analysis of all factors that have an impact on budget execution. Apart from this, the management of capital projects should be improved to ensure that they are completed within agreed terms and with optimal quality. Additionally, it should be ensured that the expenditures are executed in accordance with the appropriate economic codes, so that their reporting in AFS is fair and accurate.

3.1.1 Revenues

The revenues generated by MCYS in 2016 totalled €50,785. These relate to revenues generated from the sale of tickets for shows; concerts; consents etc. Due to the small amount of revenues, we do not have any other issues that we consider important to be raised in this report. The identified issues with regard to management and reporting have been treated as issues of low priority and the same were discussed with the responsible persons of the Ministry.

Recommendations

We have no recommendations in this area.

3.1.2 Wages and Salaries

Wages and Salaries are paid through a centralised government system (payroll). The key controls that confirm accuracy and completeness of payments are related to: Authorization of payroll; verification of possible changes; budget review for this category, reconciliation with treasury etc.

Issue 10 – Recruitments/engagements in absence of procedures – Medium Priority

Finding From three (3) personnel files engaged as employees with special services agreement, we noticed that the engaged individuals were hired without recruitment procedures, while for two (2) of them there were no requests from the respective departments.

Risk Failure to comply with staff engagement procedures jeopardizes the employment of non-competent persons for the relevant positions. This may result in operational inefficiency and failure to achieve the organization's objectives.

Recommendation 10 The Minister should ensure that employees with special services contracts are engaged only in cases when specific requirements emerge. These engagements should be developed in accordance with legal provisions.

Issue 11 – Irregular remunerations for employees of Ministry – Medium Priority

Finding We have identified four⁵ (4) cases of covering positions by employees that were not foreseen in the regulation on promotion and salaries of creators and cultural performers, as well as of professional employees of cultural heritage.

In one (1) case, a regular contract worker is not paid according to the act of appointment. The multiplier in the appointment act was seven (7), whilst in the payroll list it appears to be paid with the multiplier six (6). MCYS sent the request to MoF for changing the multiplier but it did not receive the approval.

Risk Irregularities identified in the salary remunerations without complying with the regulation and the compensation of employees, is not in accordance with the act of appointment and it may lead the MCYS into contingent liabilities.

Recommendation 11 The Minister should review identified cases and take the necessary measures to ensure that staff compensation is conducted in compliance with applicable regulations.

3.1.3 Goods and Services and Utilities

The final budget for goods and services and utilities in 2016 was €1,735,872. Out of them, €1,671,785 was spent. They relate to supplies with expenditure material; services; maintenance and utility services.

Issue 12 – Irregularities in the process of vehicle repair – Medium Priority

Finding In the payment done for "Vehicles Repair " in the amount of €9,186 we encountered the following irregularities:

- The towing of the vehicle from the location where it broke down to the auto-service in the distance of 182km was billed with €480. Also, the location from where and how far the vehicle was towed, is not known;
- In two cases, the billed price was higher than the contracted price. The billed price for engine oil was €14.24, and contracted price was €9, while for differential Semering, the billed price was €45.78, or almost twice the contracted price of €25;

⁵ Position; Warden of exposing hall- Scene employee; library man and security guard.

- In most cases, the admission of serviced vehicles was not done properly. Apart from the fact that there was no admission commission, there is no signature of the authorized person on the occasion of receiving the serviced vehicles. In three (3) cases, the admission letter had only a signature, whereas the name of the receiving officer was not clear, eight (8) admission letters had an inscription "MCYS official" and one (1) admission letter was not signed at all.

In addition, the vehicles donated by EULEX were serviced without a contract. The value of their servicing was €5,670.

These have occurred due to not application of effective controls.

Risk Failure to apply controls during the vehicle servicing process increases the risk of improper payments. This may cause eventual damage to the budget.

Recommendation 12 The Minister should initiate a review on the implementation of the contract on vehicle repair in order to determine the causes of these omissions. At the same time, management controls should be added to ensure that the vehicles are actually repaired and that the billing for their repair is done in accordance with the signed contract. No payment should be made if repaired cars are not admitted by the authorized persons.

Issue 13 - Procurement procedures not adhered to - Medium Priority

Finding Based on the Law on Public Procurement, the Procurement Officer shall be the only person authorised to sign a public contract on behalf of the Contracting Authority. We found that the ministry signed a contract for mobile telephony services with economic operator Ipko without applying appropriate procurement procedures. Instead, the SG authorised the Head of Finance and Corporate Service Department to sign the contract for such services following an evaluation of bids made by an ad-hoc commission appointed by the SG.

Risk Outsourcing of services without following proper procurement procedures reduces competition and discriminates other service providers.

Recommendation 13 The Minister should ensure that the matter in question is particularly reviewed in order to assess the legality of the agreement as well as assess whether contracted services are cost-effective and provide value for money.

3.1.4 Subsidies and Transfers

For 2016, the final budget for Subsidies and Transfers was €7,156,532. Out of them, €7,060,865 were spent. In addition to allocating subsidies to finance core activities of the subordinate institutions, the Ministry also finances various cultural, sports, youth and cultural heritage projects.

Issue 14 - Spending of funds by subordinate institutions of MCYS- High Priority

Finding Our audit has identified that expenditure management is not always done according to the applicable regulations. The Philharmonic and Ballet of Kosovo have compensated the internal staff, engaged in projects, without any regulation, until September when one regulation was adopted. Also, there was no tax withholding on personal income tax for the compensation of artists and technical workers. Moreover, these two institutions are making cash payments to solo artists engaged in projects. The audited value of cash payments is € 29,230.

Cultural institutions such as; the Ballet of Kosovo, Shota Ensemble etc, for the compensation of daily allowance costs on the occasion of traveling abroad do not apply the general rules for official travel. The daily allowance payment within the country and abroad is paid at a fixed fee of €40, although there is no written rule in this regard.

Risk The shortcomings in managing expenditures of subordinate institutions as well as lack of regulations / guidelines for employee engagement, reduces the efficiency and jeopardizes the achievement of objectives of certain projects and of the Ministry in general. Cash payments undermine transparency and accountability and represent improper spending.

Recommendation 14 The Minister should work closely with the steering councils of the subordinate institutions in order to draft a comprehensive regulation on the engagement and payment of staff for various projects, which will clearly determine the engagement and compensation procedure, whereas for daily allowances to comply with the applicable administrative instruction. Enhanced controls need to be implemented to ensure that all compensations of external engagements are made through a bank account.

Issue 15 - Poor reasoning of spending by federations- Medium Priority

Finding In 2016, MCYS had concluded memorandums of cooperation with 18 Sports Federations, and with the Olympic Committee as well. These memorandums are deficient in defining the obligations of federations to MCYS related to reasoning of expenditures.

Subsidies granted to eleven (11)⁶ sports federations and to the Olympic Committee of Kosovo, in the amount of €794,500 were not managed well. The audit identified that in two (2) cases, the funds of second instalment were allocated without fully justifying the previous instalment. Additionally, there were shortcomings in the reasoning of spending for lunches, conferences and clothing supplies for athletes, because there were no lists of participants in conferences / lunches and of those who were supplied with clothes. These shortcomings were due to poor monitoring of expenditures by MCYS, and failure to define mutual obligations in contractual agreements.

Risk Inadequate memorandums and failure to properly specify the obligations of the parties as well as poor reasoning of spending, impacts on poor management of subsidies and increases the risk of misusing the public funds.

Recommendation 15 The Minister should ensure that all memorandums of understanding between the ministry and other parties, contain the obligations of both parties for reasoning and regular reporting on expenditure. Controls should also be added towards monitoring expenditures generated by federations.

Issue 16 - Delays in reasoning of subsidies- Medium Priority

Finding According to the agreements signed upon granting of subsidies for various projects, the project managers are obliged to justify the expenses incurred within 30 days after the implementation of the subsidized activities. We have found ten (10) cases worth €28,735, where subsidies were not justified, even though subsidized activities were already completed for a long time.

Risk Failure to justify subsidies may affect towards non achievement of objectives and goals of the Ministry, and also increases the risk of funds being used for other purposes, instead of those planned.

Recommendation 16 The Minister should ensure that subsidized projects are monitored by relevant department officials within the Ministry in order to comply with legal deadlines on reporting and justification of expenditures by project beneficiaries.

⁶ Federation; Handball, football, volleyball, kick boxing, ping pong, weight lifting, wrestling, basketball, athletic and chess.

Issue 17 - The approval of subsidies after conducting the activity- Medium Priority

Finding In seven⁷ projects subsidized by MCYS in the value of €16,514, the decisions, contracts and subsidy payments were made after the completion of subsidized activities. Despite the fact that the activities had already been carried out, the reasoning of the expenditures was not done in two cases in the value of €4,000. These cases have occurred due to poor cooperation between the Department of Culture and Youth, and the Legal Office, during the process of drafting contracts.

Risk The granting of subsidies after the completion of the supported activities affects inadequate budget management and may cause the usage of funds contrary to the planned intentions.

Recommendation 17 The Minister should ensure that, for financially supported projects, prior continuing with activities, to initially make decisions, contracts, payments, then subsequently after the activity justify the expenses.

Issue 18 - Failure to adhere to criteria for subsidy allocation - Medium Priority

Finding In two⁸ cases there were subsidies granted to Department of Youth in the amount of €3.805, which were in contradiction to the criteria set for the evaluation of the project proposal. The criteria which were not met, are: evidence of health education professionals, proven experience in implementing projects in education and health promotion, and the deadline for project implementation.

Risk Failure to respect the criteria set for financial support of the project, may cause non accomplishment of intended objectives by the ministry.

Recommendation 18 The Minister should ensure that projects in the future are not subsidized without meeting the criteria set by the respective department.

3.1.5 Capital Investments

The final budget for capital investments was €4,497,387 out of which €4,479,572 were spent in 2016. Those relate to construction of sport halls; cultural, youth centres and archaeological excavations.

⁷ Projects " Meetings of Dom Mikel" €2,000; " Steering from Athens" €2,000, " Guitar Festival" €6,000; " Promotion, Youth Motivation for supporting the volunteer work" €1,400: " Young and emancipated women" € 1,840; " Social mobility and Communication" €2,924" Participation in the Gallery Exhibition of Lucas Feichter" €350.

⁸ Projects " For the awareness of healthy feeding" €1855: " Observe, take part and learn" €1950.

Issue 19 – Irregular expenditures - High Priority

Finding Expenditures in the amount of €410,000 which were allocated for six⁹ projects of the Kosovo Archaeological Institute were made contrary to the legislation because:

- The staff who was working on the implementation of the projects was engaged without any recruitment procedure, while their contracts were signed after the completion of works; and
- Other project expenditures (consumables, work tools and other needed expenditures during excavation) were made without any procurement procedure, by avoiding public procurement law.

Moreover, the Kosovo Archaeological Institute (KAI) and MCYS have compensated the professional workers and support workers on the field, engaged in the execution of the aforementioned cultural heritage projects, in the amount of €254,795, according to regulation No. 01/2009 on the payment of workers on the field, which was abrogated with the Prime Minister's decision.

Risk Inadequate management of expenditure process by subordinate institutions, failure to implement procurement procedures, and lack of regulations on employee engagement, jeopardizes the achievement of the Ministry's objectives. The compensation of workers on the field based on abrogated regulation results in spending of public funds in illegal manner.

Recommendation 19 The Minister should ensure that procurement procedures are applied during the implementation of projects and ask from KAI steering committee to draft comprehensive policies or guidelines for the engagement and payment of staff for various projects, which will clearly determine the duties, obligations and compensations of employees.

⁹ Location Ulpiana; Harilaq fortress, Prizren fortress, Dresnik location, Novoberdo fortress and archeological excavations with rescue character

Issue 20 - Payment processing without completion of works - High Priority

Finding MCYS has continued with payments to EO who has not completed the works. It is about the Sport Hall in Istog, for which the amount of €46,680 was paid.

Risk Conducting of payments for the unfinished work is in contradiction with legal norms and may result in non-completion of contracts. Irregular payments cause financial loss.

Recommendation 20 The Minister should initiate an internal review to determine why payments for uncompleted works have occurred. Consequently, necessary actions and increased controls should be undertaken to ensure that identified weaknesses are addressed.

3.2 Assets

3.2.1 Capital and Non Capital Assets

Although the ministry had made progress with regards to identifying its facilities and properties, by establishing a commission on this issue, the asset register still does not represent the total assets, and as such is not credible. This is because the work of the commission has not yet been completed and that the exact value of these properties is unknown. Moreover, the commission on inventory did not have a complete report in order to reflect the real situation of assets in AFS of 2016.

The value of capital assets in the previous year was €12,698,096, while the value of assets at the end of 2016 in AFS has increased to €16,989,632.

Issue 23 – Asset Management - High/Medium Priority

Finding	<p>Apart from the issue mentioned in the financial statements chapter, in asset management we have identified the following issues:</p> <ul style="list-style-type: none"> • The Commission for Asset Inventory, until the end of the audit, did not manage to make inventory of assets; and • Petty assets were difficult to be identified because they were not labelled with new barcodes.
Risk	The absence of assets inventory causes a lack of information on the state of the assets, by making it difficult to manage them. The lack of accurate records and barcodes may lead to their loss, misuse, or unauthorized use.
Recommendation 21	The Minister should ensure that in order for the management to have accurate information on asset status, the commissions on inventory and asset valuation should complete their work and report on timely manner

3.3 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2016 was €2,146,345. These liabilities are carried forward to be paid in 2017. However, this only reflects part of the budgetary challenge faced by MCYS and this is considered in more detail in the sub-chapter 3.3.

Issue 22 – Ineffective management of unpaid liabilities - High Priority

Finding	<p>The Ministry did not apply an appropriate bill collection process from subordinate institutions, which would then be reported as unpaid liabilities. As a result of ineffective management, there were two (2) cases when payment for the bill of €3,471 were executed directly by Treasury. In addition, the obligations disclosed in AFS were incomplete (see chapter 1.3).</p>
Risk	The lack of an appropriate process on collecting and reporting liabilities leads to their non-payment on timely manner and may result in budget impairment and failure to meet objectives, as other payments could be executed by the Treasury. The exact value of liabilities could not be presented in the AFS either.
Recommendation 22	The Minister should make a review of the reporting process on liabilities and conduct an immediate assessment of the obligations in order to take adequate measures towards improvement of the current situation.

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 1.2 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 s 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 s identified at the interim audit where they remain relevant. Our findings are defined as:

High Priority - s 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 - s 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 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. Financial statements	The Minister should analyse the reason for the 2015 Qualification and Emphasis of Matter and identify actions required to enable a true and fair representation of assets in 2016;			No measures taken
2. Financial statements	The Minister should ensure that effective processes are in place to confirm that the 2016 AFS production plan formally addresses all compliance issues related to the AFS. This should also include management review of the draft account with specific focus on areas where errors have been identified in previous years. The Declaration made by the CEO and CFO should not be submitted unless all necessary checks have been applied to the draft AFS.			No measures taken
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. Barriers hindering the implementation of recommendations should be reported to the Minister, and determine and undertake measures necessary for their addressing.			No measures taken
2.4 FMC Self-Assessment Checklist	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.		The weakness areas were not addressed , and the answers in the checklist were not supported with evidence.	

2.5 Specific Governance Reviews	The Minister should ensure that a review of existing accountability arrangements and reporting requirements placed on subordinate institutions is implemented with enhanced arrangements to achieve specified objectives.		From 17 subordinate institutions excluding National Library, only one institution does not report.	
2.5 Specific Governance Reviews	The Minister should consider developing a new management approach which would address potential risks that may hinder the achievement of Ministry's objectives. Production of a potential risk register would be the first step to be followed by necessary actions for management/mitigation of these potential risks.		It is related to the recommendation at self-assessment checklist.	
2.5 Specific Governance Reviews	The Minister should ensure that a review is implemented to determine the format of financial and operational reporting to senior management which is required to support effective business management - and ensure that an appropriate solution is in place by 1 October 2016.		The management reporting was improved, but there is a lack of documentation on reviewing management reporting.	
2.6 Internal Audit System	The Minister should pay greater importance to internal audit system by providing continued and necessary support for effective work. AC should critically review IAU plans (to confirm that they are risk based and provide the required assurance to management) and Internal Audit outputs. It should also review actions taken by management on Internal Audit recommendations and implementation of action plans.			No measures taken.
3.3 Budget Planning and Execution	The Minister should ensure that continued analysis on the flow of budget execution is done in order that expenditures are done in accordance with the budget plan and with the purpose of avoiding eventual irregularities, as a result of deviations from the plan. During planning of Capital investments, other external impacting factors should be considered.			No measures taken.

3.4 Procurement	The Minister should initiate an internal review to determine why payments for unfinished works were made, and why all procurement requirements are not addressed for all cases mentioned. Subsequently actions required are taken and enhanced controls to ensure that the weaknesses identified are addressed.			No measures taken.
3.4 Procurement	The Minister should ensure that a review is undertaken to determine why Procurement requirements have been inconsistently applied in the above cases. Subsequently enhanced controls should be introduced to ensure that a similar situation is not repeated in future procurements.	Yes		
3.5 Expenditure not related to Procurement	The Minister should review cases identified and take measures necessary to ensure that remuneration of salaries for the MCYS staff is done in conformity with budget foreseen and in accordance with their contracts. Overtime work should be paid in line with legal norms and only after the request for such work is approved and documented		Compared to the previous year, there was a decline in after working hours and compensations contrary to the regulations.	
3.5 Expenditure not related to Procurement	The Minister should ensure that special service contracts employees should be engaged only in cases when there are specific requirements. These engagements should be conducted in conformity with Law on Liabilities, engagements for these services should not last longer than six months, and payment should be done from Goods and Services. While career positions should be covered with regular employees in conformity with Law on Civil Service, based on regular public advertisement procedures.		Partially, the practice of extension of contracts with SSA was intermitted.	
3.5 Expenditure not related to Procurement	In cases when vacant positions arise, the Minister should ensure to initiate adequate recruitment procedures as soon as possible to avoid the exercise of positions with acting civil servants beyond the time allowed.		The number of covering positions with acting staff has declined compared to previous year.	

3.5.2 Subsidies and Transfers	The Minister should ensure that when awarding of subsidies occurs, rules and criteria are adhered to, and subsidies, which are not in line with the plan and nature of the Ministry's work, should not be awarded.		Even in this year there were cases of granting subsidies after the completion of projects.	
	The Minister should ensure that execution of projects subsidised is constantly monitored to ensure the respect of the agreement and reporting on the way funds are used. This would ensure that the aims intended upon award of subsidies are achieved.			No measures were taken
	The Minister should ensure that projects subsidised are subject to regular monitoring from Ministry's officers to ensure the respect of requirements/ deadlines for reporting by beneficiaries on the way how funds are used. Where requirement and deadlines for justification of expenditures are not respected, necessary penalty measures should be taken.			No measures were taken.
	The Minister should ensure that execution of projects of NGOs financed by the Ministry should be monitored on regular monthly basis to ensure that purposes intended are achieved and expenditures are justified with relevant evidence.		MCYS has continued allocating financial means in the private bank accounts of individuals, but not of NGO's.	
	The Minister should work closely with the Steering Committee of subordinate institutions in order to draft a comprehensive regulation for engaging staff for different projects, which clearly sets out the procedure of engagement and compensation. Enhanced controls should be implemented to ensure that all compensation of the external engaged people are documented and should be done through bank account.			No measures were taken.

	The Minister should put in place stronger budget controls and ensure that expenditures are done in accordance with			No measures were taken
	the purpose and their planning in order to ensure adequate budget expenditures and appropriate classification of expenditures. The Minister should ensure that all payments are supported with complete evidence, including requirements and necessary approvals. All agreements for subsidising should be signed by competent persons. A review of more expensive contracts rather than other competitive offers is necessary to determine reasons, considering that these projects are not implemented according to agreements.	Yes		
3.6 Revenues	The Minister should ensure to put in place an appropriate system that supports the collection, recording, reconciliation and reporting of revenues. The possibility based on general rules should be considered, to create practical guidance for management/reporting of revenues by subordinate institutions to ensure that public money is being managed fairly and efficiently and reduces the possibility of their eventual misuse.	Yes		
3.7 Assets and Liabilities	The Minister should ensure that inventory and asset evaluation commissions finish their work and report on timely basis in order that the value of assets presented in AFS is complete and correct. Additional activities are needed to include all assets in the accounting registers, including the subordinate institutions assets.			No measures were taken.
3.7.2 Handling of Debts	The Minister should ensure that a review of process of outstanding obligations is done, and also immediately evaluate debts and take measures for the improvement of the current situation.			No measures were taken.

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: 27.06.2017

Honoured,

We hereby confirm that:

- We have received the draft audit report of the National Audit Office on the 2016 Annual Financial Statements of the Ministry of Culture Youth and Sport, 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:

Veton Firzi



Republika e Kosovës
Republika Kosova-Republic of Kosovo
Qeveria -Vlada-Government
MINISTRIA E KULTURËS, RINISË DHE SPORTIT
MINISTARSTVO KULTURE, OMLADINE I SPORTA
MINISTRY OF CULTURE, YOUTH AND SPORT

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 Kulturës, Rinisë dhe Sportit, 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.

Z. Veton Firzi

Sekretar i Përgjithshëm i MKRS-së

Data: 27 qershor 2017, Prishtinë

