



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
ECONOMIC DEVELOPMENT FOR THE YEAR ENDED 31
DECEMBER 2016**

Prishtina, June 2017

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

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

The reports of the National Audit Office directly promote accountability of public institutions as they provide a base for holding managers' of individual budget organisations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability.

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

The opinion and report issued are a result of the audit carried out by Faruk Rrahmani, (Team Leader) and Fatlinda Podvorica, and Albesa Ramosaj (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 Economic Development, which determines the Opinion given by the Auditor General. The examination of the 2016 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions. Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in our External Audit Plan¹ dated 25.10.2016.

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 Economic Development.

Opinion of the Auditor General

Unmodified Opinion

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

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 thank the Minister and his support 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

The Minister has considered and agreed on most of the detailed audit findings and conclusions. Comments partially agreed upon or not agreed at all are detailed in Annex IV.

1 Annual Financial Statements and other External Reporting Obligations

Introduction

Our review of the Annual Financial Statements (AFS) of the Ministry of Economic Development (MED) 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

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

In our opinion, the Annual Financial Statements for the year ended on 31st of December 2016 present a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (cash based Accounting), Law no.03/L-048 on Public Finance Management and Accountability (as amended and supplemented) and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations issued by MoF.

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 FS" section of our report. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.

Responsibility of Management and persons in charge with Governance and AFS

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

The Minister is responsible to ensure oversight 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

MED 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;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures;
- Quarterly reports, including nine-month financial statements in time;
- Progress reports on capital projects worth over €10,000;
- Reports on outstanding invoices;
- Draft and final procurement plans; and
- Reports on signed procurement contracts;

All requirements in the context of both AFS and external reporting have been fulfilled and with a good quality and we have no issues to raise in this regard.

A number of financial adjustments were required to the draft AFS and we have made suggestions to improve them. Following our suggestions, MED adjusted the AFS, but they still contained some non-material errors as follows:

- *In Article 13 – Note 6, Capital Investments* – Budgeting and spending on the project "Identification of Mining Activities Side Effects in the Community" in the amount of €49,000 was wrongly budgeted and executed from the category of Capital Investment (intangible asset code). By type, this activity belongs to the research (study). According to the International Accounting Standards no. 38² on intangible assets - research, studies or search expenditure shall not be capitalised and not recognised as intangible assets but should be classified as operating expense; and
- In Article 19 – Non-capital assets – the net value of assets under €1,000 was understated by €17,027. Non-capital assets were reported in the amount of €54,000 whilst their value in the

² International Accounting Standard no. 38: "all expenditures on study/research shall be classified as operating expense and shall not be capitalised because it is impossible to tell whether or not there will be future economic benefits. Studies are at the initial stage of identifying the mineral, which determines the possibilities for investments".

assets register was €71,027. Moreover, closing balances of 2015 were incorrectly carried forward to the AFS of 2016 under the column of 2015.

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 correct in all material aspects.

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 the budgeting and classification of projects are well analysed and that they belong to the adequate category in order to avoid misclassification. Moreover, the Minister should ensure that non-capital assets under €1,000 are correctly reported.

2 Governance

Introduction

Effective governance arrangements are fundamental to MED 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 MED provides a framework for developing enhanced Governance arrangements. It is important that the answers provided by an individual budget organisation are supported by appropriate evidence.

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

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

Overall Governance Conclusion

In relation to the good governance we acknowledge the progress made by MED in drafting the lists of risk, which was prepared as an initial document. Even though, there is still a number of governance weaknesses within MED, especially in relation to the recommendations that weren't fully implemented from the previous year, lack of a plan for risk management, as well as low influence of the internal audit on increase of efficacy of internal controls.

2.1 Progress in the Implementation of Prior Year Recommendations

Our Audit Report on the 2015 AFS has resulted in ten (10) recommendations. Four (4) of them were fully implemented, three (3) of them are in process and three (3) were not implemented.

For a more thorough description of the recommendations and how they are addressed, see Annex III.

Issue 2 – Implementation of Prior Year Audit Recommendations – High Priority

Finding MED has implemented requests in order to draft an action plan within the timeline, although this was not supported by a monitoring for full implementation of General Audit’s recommendations. MED had limited progress in addressing the recommendations, as a number of recommendations were not addressed completely. Unaddressed recommendations are related with the areas as: internal audit’s system, low level of capital budget execution as well as compensation for wages and salaries from the category goods and services.

Risk Delays in requested corrections of the operational processes can affect continuous inefficacy resulting in:

- ineffective work of Internal audit as an important chain of the internal control;
- Low level of budget execution of capital investments; and
- keeping a number of employees outside payment lists.

Recommendation 2 The Minister should ensure that the action plan is reviewed while analysing the causes behind incomplete implementation of recommendations and set out a new timetable for their implementation with initial focus on most important areas and implementation of 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. We have tested the quality of FMC self-assessment submissions made to the MF, by assessing each component of the checklist.

We have summarised our findings for MED 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:

- Although MED has shown progress in completing the self-assessment questionnaire compared to previous year, risk management was still not in line with the set requirements;
- Strategic processes are considered to be in place. MED did not produce an overall strategy, but there were some sectorial strategies with clear strategic objectives set. A process of monitoring the achieved level of meeting the strategic objectives, through quarterly reports, was also in place;
- Links between the procurement plan and budget and the production of adequate reports on a timely basis are considered in place by MED; and
- Internal Audit did not highlight the above issues. Furthermore, the action taken by MED to address issues identified in the previous year self-assessment checklist was in progress.

Issue 3 – Incomplete Implementation of Risk Management Requirements – Medium Priority

Finding The Self-Assessment questionnaire completed by MED proved that required risk management systems were in the initial stage. We acknowledge the progress made, given that MED produced the list of risks for the first time. However, we found that needed actions to draft the risks management plan and concrete actions to manage them have not been taken.

Risk The lack of effective risk management affects the quality and achievement of objectives given that risks are not addressed in time. This may occur because pro-active actions to prevent or avoid the impact of such issues will not be undertaken in planned and systematic manner.

Recommendation 3 The Minister should ensure that the risk management plan is drafted based on the identified risks and provided for regular reporting on the implementation of requirements in this area by monitoring the risks management on a continuous basis.

2.3 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 as a result of the work of internal audit and AC. The Internal Audit Unit (IAU) operates with two (2) staff members - the Head of IAU and one (1) auditor.

In 2016, IAU planned five (5) regular audits, one (1) upon request and one(1) on the implementation of recommendations. The plan was prepared based on risks assessment and priorities.

Issue 4 - Shortcomings in the Internal Audit System - High Priority

Finding

There are some issues related to the internal audit system:

- IAU did not manage to fulfil its annual audit plan;
- One of the reports (Audit of Human Resources) was challenged by the audited unit;
- Audited units had not prepared the actions plans for implementation of recommendations after having received the report; and
- Reporting to the Central Harmonisation Unit was not made on quarterly basis.

In 2016, IAU operated in the context of internal controversies within the IAU itself, including AC and management. AC, in meetings held over the year, has shown it was not satisfied with the quality of work done by IAU and continuously recommended them to improve. On the other hand, the Head of IAU expressed her concerns about the obstacles in the auditing process. All these elements have led to ineffective work of IAU.

Risk

Identified shortcomings weaken the IAU's effective performance and increase the risk of inefficient controls in preventing shortcomings in MED's operational activities. This may result in continued ineffective practices and repetition of the same shortcomings.

Recommendation 4 The Minister should analyse the causes behind IAU's failure to operate effectively and influence on the elimination of obstacles between the relevant actors, by making IAU, as a very important internal control component, operational.

3 Financial Management and Control

Introduction

Our work on FMC outside of the Governance areas referred to in 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, assets and liabilities.

Financial Management and Control Conclusion

MED has put in place 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 2016, MED used 90% of the final budget, almost the exact percentage of the previous year. In general, MED had a good budget performance, except for capital investments.

However, further improvement is needed in a number of other expenditures areas. The main areas where further improvements are required are: a more efficient management of procurement processes, monitoring of subsidies and capital transfers of POEs including Trepça, as well as budgeting and classification of assets in adequate categories.

3.1 Budget Planning and Execution

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

Table 2. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ³	2016 Outturn	2015 Outturn	2014 Outturn
Sources of Funds	31,485,094	32,275,883	29,011,107	23,609,109	26,518,897
Government Grant -Budget	27,490,094	28,215,883	28,166,408	22,097,977	26,015,230
Loan Financing	3,995,000	4,060,000	844,699	1,473,723	0
External Donations ⁴	0	0	0	37,409	503,667

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

⁴ External Donations – UNDP

The final budget increased by €790,789 compared to the initial budget. This was as a result of budget review according to Government decisions.

In 2016, MED spent €29,011,107 or 90% of the budget. explanations for the current position of each category are detailed below.

Table 3. 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	31,485,094	32,275,883	29,011,107	23,609,109	26,518,897
Wages and Salaries	1,081,345	1,110,351	1,073,641	947,753	875,000
Goods and Services	3,763,669	3,106,559	3,036,043	3,728,096	3,115,134
Utilities	46,210	33,994	22,341	43,144	42,593
Subsidies and Transfers	9,433,870	10,802,649	10,802,604	9,831,120	14,984,691
Capital Investments	17,160,000	17,222,330	14,076,478	9,058,996	7,501,479

Explanations for changes in budget categories are given below:

- Based on Government decisions, the budget of Wages and Salaries increased by €29,006, an increase of €125,888 compared to the previous year. This was as a result of the increase in the number of employees for 16 job positions based on Government Decision no.06/39 dated 22.07.2015 regarding the integration of civil protection in North Mitrovica. In addition, the application of work experience had a smaller impact.
- Following the budget review, the budget of Goods and Services was cut by €896,129 and increased by €239,019 following the Government decision. The budget execution for this category was at 98%;
- Based on Government decisions, the budget of Utilities was cut by €12,206. Expenditures related to the coverage of utilities expenses of Gjakova Airport and some other sub-stations. However, the amount of €11,653 had remained unspent;
- Following the budget review, the budget of Subsidies increased by €439,533 whilst based on Government decisions it increased by another €929,246. The budget execution for this category was at 100%; and
- Following the budget review, the budget of Capital Investments increased by €87,274, whilst based on Government decisions it was cut by €24,944. Budget spending of CI at 82% shows an unsatisfactory performance. While funds allocated to POEs were spent at 98%, the level of spending in MED projects was quite low.

Issue 5 - Low Budget Execution in Capital Investments - High Priority

Finding Budget execution in capital projects was a challenge for MED this year as well. Out of the budgeted amount of €3,167,000 of the energy efficiency project (Renovation of Five Buildings) only €223,191 or 7% was spent. This project led to the generally low level of capital investments percentage. The procurement process for this project lasted 15 months until the contract was signed (July 2015 - October 2016).

This project was initially planned to be financed by World Bank loans⁵. Decisions were made that the project would be managed according to the procurement rules originating from the Law on Public Procurement and World Bank's procurement rules. The process was followed by many complaints from operators and disagreements between the World Bank, MED and PRB. In the end, as a result of these disagreements, the World Bank announced the procurement as poor and refused to finance this project. Subsequently, it was decided that the contract concluded in 2016 would be financed by the Kosovo Government budget, whilst other stages would be financed under the loan agreement.

Risk Failure to define procurement rules in time has led to the situation that the financing of the project by World Bank was put at risk and to failure to implement this part of the project. Failure to implement important capital projects has led to low level of budget execution and inefficient use of public sector resources.

Recommendation 5 The Minister should ensure that an assessment of the reasons behind the identified obstacles in the process of this project's implementation has been made and that lessons are drawn in order to prevent these practices from being repeated. In cases of financing from loans or other forms of co-financing, project management requirements should be clearly defined.

⁵ Loan Agreement between the Government of Kosovo and World Bank, in the amount of \$31mill. According the agreement, the Energy Efficiency Project would be financed, which is long-term one and will be implemented in some stages.

3.1.1 Wages and Salaries

Wages and Salaries are paid through a centralised system. The key controls confirm accuracy and completeness of payment of MED.

The approved number of employees in MED was 173, whilst the current number of employees at the yearend was 161. We have reviewed the payroll list and compared the data presented by Treasury, KFMIS, and their presentation in the AFS.

Issue 6 - Employees Outside the Payroll - High Priority

Finding Regulation no. 02/2011 on the Areas of Administrative Responsibility of the Office of the Prime Minister and Ministers stipulates the number of advisers that each minister and deputy minister is allowed to engage. Based on the Law on 2016 Budget, the planned number of staff for the Minister's Cabinet was 18. In the current year, 22 persons were employed in the Minister's Cabinet, 17 of whom were paid from the Payroll, whilst five (5) official with regular contracts were paid from the category of Goods and Services.

MED exceeded the allowed staff number for the Minister's Cabinet with four (4) job positions. Remunerations of officials who have regular employment contracts from the category of Goods and Services is in contradiction to Article 11 of Law no.05/L-071 on Budget and Article 33 of Treasury Rule no.01/2013 stating that all employees shall be paid through Payroll.

Risk Exceeding the budgeted number of employees and having them paid from Goods and Services may lead to the situation that the budget of this category will be spent for other unplanned purposes. This puts the achievement of objectives set in the planned budget.

Recommendation 6 The Minister should ensure that the legal framework is adhered to when it comes to the budgeted number of staff and that all officials who have regular contracts are paid from the Payroll.

3.1.2 Goods and Services and Utilities

The 2016 budget of Goods and Services was spent at 98%. Major expenditures from this category relate to payments for the Transaction Advisor for Kosova C Power plant, defence in arbitration courts and other operating expenses. Our tests revealed the following issue:

Issue 7 - Payments made for articles non existing in the contract - Medium Priority

Finding While testing the payment of €3,129 for "Office Supply", we found that some items, amounting to €710, which were received and paid were not included in the contract. The invoice was received and certified despite irregularities in this process.

Risk Acceptance and payment of goods not in accordance with the contract increases the risk that controls established to prevent these deficiencies are not effective, thus resulting in low value for the money spent.

Recommendation 7 The Minister should ensure that controls over the payment execution process are effective and prevent any irregularities before the payment is made. A continuous monitoring of the effectiveness of established controls could also be provided by the IAU.

3.1.3 Subsidies and Transfers

The budget for Subsidies and Transfers was €10,802,649. All funds for this category were spent. Out of these, €10,766,704 were allocated to public entities, whilst €35,900 to non-Public entities. Subsidies for public entities are allocated based on budget appropriations and Government decisions, whilst those for non-public entities are allocated based on the Minister's decision. There is no regulation defining the criteria for their allocation.

Issue 8 - Subsidy not Paid According to the agreement - Medium Priority

Finding The subsidy payment of €20,000 made to the "Uniteti" Regional Waste Company in Mitrovica (Northern part) for the second quarter, although budgeted and spent from the Water and Waste sub-program, was not executed in accordance with the Monitoring and Control Agreement, entered into by MED and POE "Uniteti".

Article 5, section 1.1, of the Agreement states that the subsidy payment shall be made after the POE's request has been justified and approved by the POE Policy and Monitoring Unit (POE/PMU) within MED. The payment was made without the approval of POE/PMU within MED.

Risk Bypassing the approval by the PMUI which is established for this purpose increases the risk of improper payments and may affect mismanagement of budget funds.

Recommendation 8 The Minister should ensure that any subsidy payment has been previously approved by POE/PMU and fully in compliance with the signed monitoring agreement.

3.1.4 Capital Investments

The budget of Capital Investments (transfers) was €17,222,330, out of which €14,076,478 or 82% were spent. Major expenditures from this category mainly relate to the capital transfers to POEs and Trepça.

Issue 9 – Criteria Established in the Tender Dossier – Medium Priority

Finding In the Contract Notice "Identification of Mining Activities' Side Effects in the Community" the required criterion on economic and financial capacity related to the revenues of three years (2012-2014), but those of 2015 were not required. Article 68 of the Law on Public Procurement (PPL) stipulates that requirements for the economic situation should refer to the maximum of last three years at least.

Risk Establishing criteria not in line with the law and unclear specifications for meeting those criteria increases the risk that contracts will be awarded to those economic operator that do not meet the criteria.

Recommendation 9 The Minister should, through the Procurement Manager, ensure that the established criteria are fully in line with the LPP and that evidence that established criteria can be met are clearly specified.

3.2 Assets

3.2.1 Capital and Non Capital Assets

According to the accounting register in KFMIS, the net value of capital assets was €11,873,388, whilst the value of non-capital assets was €71,027.

We tested assets originating from capital investments during 2016 and the accuracy of recording the available assets. We have conducted physical examination in order to verify the existence of assets.

Our audit on assets management revealed the following issues:

Issue 10 - Weaknesses in Assets Management and Reporting - Medium Priority

Finding The e-assets system did not calculate the depreciation of non-capital assets and MED did not take the necessary actions to ask for this problem be avoided in time. The Assets Officer had calculated the depreciation in Excel format where errors can be occurred. As a consequence, net assets under €1,000 were understated in the AFS for €17,027. Non-capital assets were reported in the amount of €54,000, whilst according to the assets register we found that their value was €71,027.

For the Geological Laboratory equipment were purchased in the amount of €583,985 during the current year. We verified that nearly half of the purchased assets had not yet been put to use were still packed due to lack of adequate conditions and space.

Risk Records outside the e-assets system may generate inaccurate information and increase the risk of assets being understated or overstated and their presentation in the AFS may not be correct. On the other hand, failure to put purchased assets to use increases the risk that the guarantee period expires and, as a consequence, eventual breakdowns will not be avoided at no extra cost during the guarantee period.

Recommendation 10 The Minister should ensure that registers are managed in line with general rules on assets management, i.e. to ensure that the e-assets system is operational. In addition, the Minister should take action to create the conditions in order that equipment for the geology laboratory are put to use.

3.3 Liabilities

The statement of liabilities not paid to suppliers at the end of 2016 was €64,000, whilst that of yearend 2015 was €130,000, a decrease of 50% compared to previous year. Outstanding liabilities were as a result of lack of funds and delayed acceptance of invoices. Liabilities were reported on time and the information thereon was complete.

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 constantly ensure that responsible persons are kept accountable as set out in the action plan for addressing AG's recommendations according to the timelines in the Action Plan		Four out of 10 recommendations given were fully implemented whilst the others were either in process of implementation or not implemented	
2.4 Self-assessment Checklist of FMC	The Minister should initiate drafting of an inclusive MED strategy followed by the financial cost that may impact the achievement of objectives intended. In addition, the Minister should take actions for addressing areas of weaknesses identified in the self-assessment checklist			No action taken
2.5.1 Risk Management	The Minister should ensure that risk registers are drafted and used by management as tools which will test the effectiveness of financial management and control system in supporting their objectives	Yes		
2.5.1 Internal Audit System	The Minister should analyse the reasons of timely preparation and qualitative preparation of the annual plan and non-completion of audits by IAU and should take measures for functionalization of IAU as an important internal control.			No action taken

3.3 Budget Planning and Execution	The Minister should ensure that reasons for non-execution of budget for capital investments and capital transfers of POE are analysed systematically during the year and undertake measure in cooperation with POE to eliminate weaknesses at the planning stage of budget execution.		The capital project for energy efficiency was implemented 7%, whilst other projects were well implemented	
3.3 Budget Planning and Execution	The Minister should ensure that planning and classification of certain projects is done by taking into account the chart of accounts approved by the Ministry of Finance		There was a study classified as capital project although it was not recorded as asset.	
3.5 Expenditure not related to Procurement	The Minister should enhance the level of controls on management of mobile telephony expenditures to rationalise them. In cases of exceeding need, possibility of preliminary approval should be considered or else the possibility of prohibitions from salaries should be considered	Yes		
3.5.1 Remunerations (Wages and Salaries)	The Minister should ensure that in cooperation with the Ministry of Finance they have included all officers employed with regular employment contract in the payroll list, always taking into account the number approved with the Budget Law			No action taken

3.5.2 Subsidies and Transfers	The Minister should ensure that in cooperation with Ministry of Finance they have reviewed the possibility to transfer budget for covering expenditures for electricity for social cases and families of martyrs in MLSW. Social cases schemes are MLSW activities and responsibility for administration of these lists belongs to this Ministry. Further, the transfer of funds to POE is done in accordance with timelines foreseen with the agreement	Yes		
3.6.1 Capital and Non Capital Assets	The Minister should ensure that assets register reflects only assets meeting criteria for their registration. Further, use of vehicles out of the working hours is done only after a preliminary approval by the Minister himself. In addition, evidence related to use of vehicles should be kept by each user to avoid using them for non-official needs	Yes		

Annex IV: MED comments on findings in the audit report

Finding /issues	Agree Yes / No	BO comments in case of disagreement	NAO view
Issue 2 - Prior Year audit recommendations	Partially	MED has managed to address those recommendations related to the improvement of budget execution, increased value for money, reduction of expenditures in goods and services, increased capital investments, and reduction of expenditures in subsidies and the list of MED assets.	The Ministry's comment does not deny the finding. It just gives explanations on the progress, which we ascertained under issue 2 and Annex III where we give explanations on each prior year recommendation, whether it is addressed or not. Therefore, the recommendation remains unchanged.
Issue 5 - Low Budget Execution in Capital Investments	Partially	This project is of a wider dimension and, in this case, there are many combined factors outside MED, such as the World Bank. MED has taken a series of actions to fully spend the money foreseen for 2016. But, procedures and claims made during the tendering process led to delays in the project and failure to deliver the project according to the law ratified by the Assembly.	The Ministry's comment does not deny the finding. It just gives explanations that are familiar to us and we presented in the draft report. Given that no additional fact is provided, our recommendation remains unchanged.

Issue 8 - Subsidy not Paid According to the agreement	Partially	The payment is in accordance with the budget appropriation under the Law on Budget 2016 and is in the Water and Waste category and program where all Public Enterprises that handle these areas are included. The lack of a letter from POE/PMU in the payment file did not affect the legality of the payment and as such could be treated as a technical effect rather than a High-Priority issue as defined in the draft audit report of AFS 2016.	The Ministry's comment does not deny the finding. It just gives explanations that are familiar to us and we presented in the draft report. Moreover, this issue is given medium priority in the draft report rather than high priority as MED says. Given that no additional fact is provided, our recommendation remains unchanged.
Issue 9 - Criteria Established in the Tender Dossier	No	The finding of the auditor does not stand because the tender dossier documentation, mentioned in issue 9, included the report of 2014 financial statements. Find attached the evidence that prove the assertion.	This finding consisted of two issues handled, therefore we changed the finding we obtained evidence for, whilst the finding which MED agreed with remains unchanged.

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: 22.06.2017

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 Economic Development, hereinafter referred to as the Report;
- Agree on the findings and recommendations and I have no comment on the content of the Report; and
- Within 30 days from receiving the final report, I will submit the action plan on implementation of recommendations including the deadlines and responsible staff for their implementation.

Mayor:

Nazmi Zenelaj



REPUBLIKA E KOSOVËS - REPUBLIC OF KOSOVO Qeveria e Kosovës - Vlada e Kosovës / Government of Kosovo Ministria e Zhvillimit Ekonomik - Ministarstvo Ekonomskog Razvoja Ministry of Economic Development			
Mirësi Org. Org. Unit	02	Mirësi Post. Post. Box	1210
Mirësi Shprehje No. shprehje No. pages	10	Data Datum Date	22.06.17
PRISHTINE			

Republika e Kosovës
Republika Kosova-Republic of Kosovo
Qeveria -Vlada-Government
Ministria e Zhvillimit Ekonomik - Ministarstvo Ekonomskog Razvoja,
Ministry of Economic Development

Për: z. Valbon Bytyqi,
Ndihmës Auditor i Përgjithshëm - Zyra Kombëtare e Auditimit,

znj. Emine Fazliu,
Udhëheqëse e Departamentit të Auditimit - Zyra Kombëtare e Auditimit

Cc: Blerand Stavileci,
Ministër, Ministria e Zhvillimit Ekonomik

Nga: Nazmi Zenelaj,
Sekretar i Përgjithshëm, Ministria e Zhvillimit Ekonomik
Agim Thaci,
Drejtor i DFSHP, Ministri e Zhvillimit Ekonomik

Tema : LETËR E KONFIRMIMIT

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

E/I nderuar,

Prishtinë, 22 Qeshor 2017

Përmes kësaj shkrese, konfirmoj se:

- Kemi pranuar draft-raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Ministrisë së Zhvillimit Ekonomik, për vitin 2016 (në tekstin e mëtejshëm "Raporti").

- Pas shqyrtimit të draft raportit në takimin e zhvilluar me datën 21.06.2017 me zyrtaret e njësive përkatëse dhe përfaqësuesve të ZKA-se, konfirmojmë pajtimin për rekomandimin 1 - Çështja 3, Çështja 4, Çështja 6, Çështja 7 dhe Çështja 10.

Ndërsa pajtim të pjesshëm kemi për Çështjen 2, Çështjen 5, Çështja 8.

Gjithashtu nga takimi është konstatuar nga përfaqësuesit e ZKA-se, se Çështja 9 nuk do të jetë e pjese e RAPF për vitin 2016, ngase janë prezantuar dëshmitë mjaftueshme ligjore.

- 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.

Bashkangjitur keni komentet në draft raportin RAPFV.

Ju falënderojmë paraprakisht për bashkëpunimin tuaj.