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**ZYRA KOMBËTARE E AUDITIMIT  
NACIONALNA KANCELARIJA REVIZIJE**

**NATIONAL AUDIT OFFICE**

**Document no: 21.23.1-2016-08**

**AUDIT REPORT**  
**ON THE ANNUAL FINANCIAL REPORT OF MINISTRY OF  
DIASPORA 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 Diaspora 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 Riza Spanca (Team Leader), Florë Berisha and Hysen Restelica (team members) under the management of the Head of Audit Department Arvita Zyferi.

## TABLE OF CONTENTS

Executive Summary.....	4
1 Annual Financial Statements and other External Reporting Obligations .....	6
2 Governance.....	9
3 Financial Management and Control .....	13
Annex I: Audit Approach and Methodology .....	21
Annex II: Explanation of the different types of opinion applied by NAO.....	22
Annex III: Prior Year Recommendations .....	25
Annex IV: Letter of confirmation .....	27

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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 Diaspora, 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 Plan<sup>1</sup> dated 04/11/2016.

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 Diaspora.

### Opinion of the Auditor General

#### Qualified Opinion

In our opinion, except the issue related to misstatement of expenditures for subsidies in the amount of €38,456 which were paid and reported in the category of Goods and Services, Annual Financial Statements *present a true and fair view* in all material respects.

For more, please refer to Section 1.2 of this report.

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

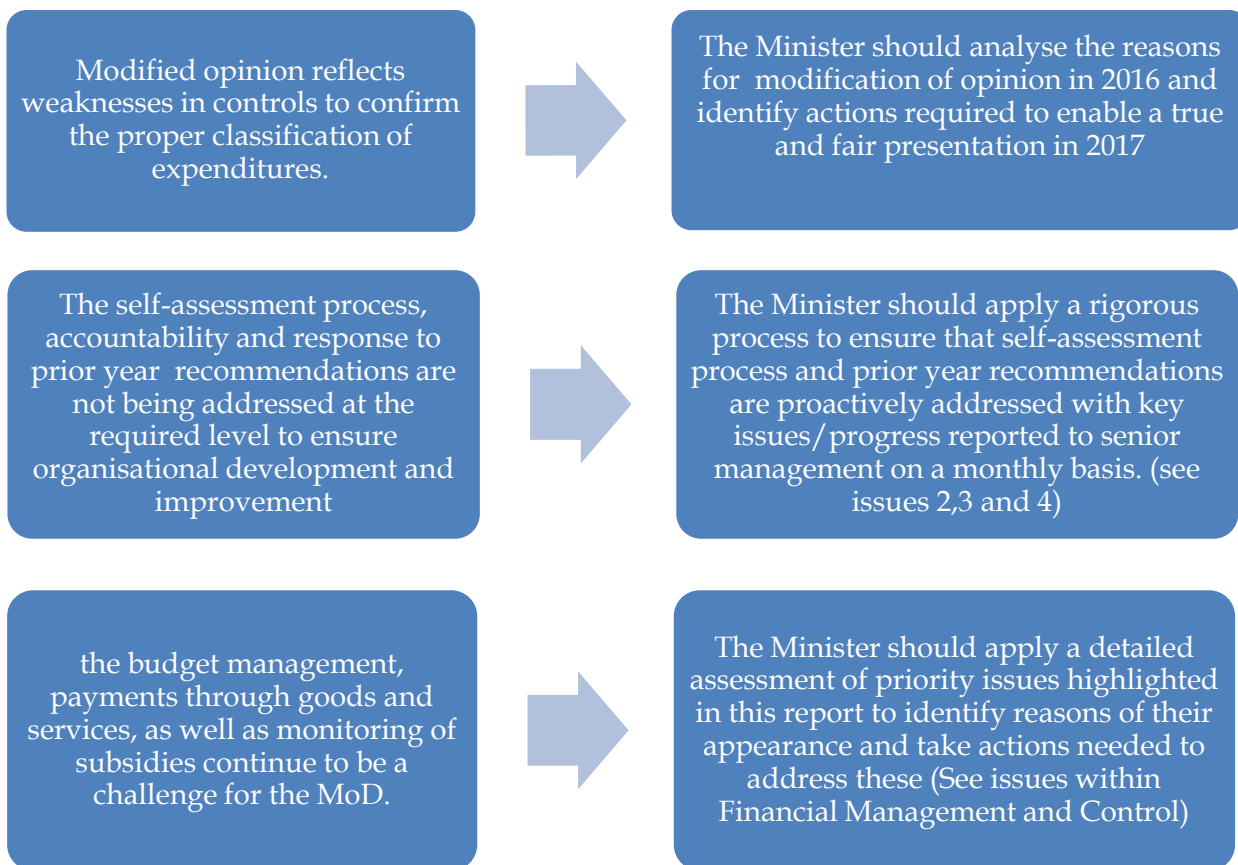
We would like to thank the Minister and his staff for the cooperation during the audit process.

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<sup>1</sup> The term External Audit Plan replaces the term Audit Planning Memorandum

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## Key Conclusions and Recommendations



## Management of MoD Response - 2016 audit

The detailed audit findings and conclusions in this report have been considered and agreed by the management of MoD, who also are committed to address the given recommendations.

# 1 Annual Financial Statements and other External Reporting Obligations

## Introduction

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

### Qualified Opinion

We have audited the AFS of the Ministry of Diaspora for the year ended on 31<sup>st</sup> 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, except for the effects of the issue described in the Basis for Qualified Opinion paragraph, the Annual Financial Statements for the year ended on 31<sup>st</sup> of December 2016 present a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (cash based Accounting), Law no.03/L-048 on Public Finance Management and Accountability (as amended and supplemented) and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations issued by the Ministry of Finance.

### Basis for Qualified Opinion

In order to support different organizations, MoD executed 10 payments totalling €38,456. These types of payments substantially belonged to the category of Subsidies (Article 36 of the Financial Rule no.01/2013/MoF - Expenditure of public money), instead they were paid and reported in the category of Goods and Services. These shortcomings were presented to the Management by the Certifying Officer, but the Management considered this as important organizations for the Diaspora and continued with approval. It is worth mentioning that MoD has made efforts to increase the budget for Subsidies aiming at the fulfilment of Ministry's objectives directly related to the activities of diaspora, but this was not approved by MoF.

Misstatements have led to the overstatement of Goods and Services and understatement of Subsidies.

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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. NAO is independent of the Ministry in accordance with the ethical requirements that are relevant to our audit of the annual financial statements of Budget Organisations in Kosovo and we have fulfilled other ethical responsibilities in accordance with these requirements. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the qualified opinion.

### **Responsibility of Management and Those Charged with Governance and AFS**

The Secretary General of the Ministry of Diaspora 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

MoD 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.

## 1.3 Recommendations for the first part of the report

We give the following recommendation for the abovementioned issue within the basis for the opinion:

**Recommendation 1** The Minister should ensure that a detailed analysis is undertaken to determine the causes for qualifying the opinion. In this aspect, actions should be taken to address the causes related to misstatements of expenditures, to ensure a proper budgeting according to economic categories. Further on, the Management should thoroughly review the draft AFS with specific focus on high risk areas and/or areas where errors have been identified.



## 2 Governance

### Introduction

Effective governance arrangements are fundamental to the Ministry of Diaspora (MoD) 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; and
- areas of Financial Management and Control identified through our audit work including specific work directed at compliance issues in key expenditure systems (these areas are considered in Section 3 of this report)

### Overall Governance Conclusion

There is a number of governance weaknesses within MoD particularly related to implementation of recommendations, reporting and risk management, where shortcomings in identification, assessment and analysis of risks make the objectives difficult to achieve.

The self-assessment checklist completed by MoD does not recognise this situation fully. Poor governance arrangements hinder the achievement of strategic and operational objectives, and thus weaken the quality of services provided to citizens through inefficient and ineffective activities.

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## 2.1 Progress in the Implementation of Prior Year Recommendations

Our Audit Report on the 2015 AFS of MoD resulted in nine (9) key recommendations. MoD prepared an Action Plan stating how all recommendations will be implemented.

By the time of our audit, two (2) recommendations have been implemented; four (4) were in process of being implemented and three (3) others have not been implemented yet. For a more thorough description of the recommendations and how they are addressed, see Annex III.

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### Issue 2 - Low level of implementing prior year recommendations- High Priority

**Finding** Despite the Management's involvement in preparing the Action Plan for implementing the recommendations, the level of implementation was very low. Most of the recommendations are in process of implementation or have remained unimplemented. This reflects the lack of Management's commitment to ensure that the recommendations are implemented in time and that barriers for action are identified and addressed in a timely manner. Such an approach is required in order to manage continuous improvement throughout the Organization. Consequently, the same issues have been repeated this year as well.

**Risk** Failure to implement the recommendations increases the risk for continuous presence of the same shortcomings and may have an impact in weaknesses in management and reporting of expenditures.

**Recommendation 2** The Minister should ensure that the Action Plan for implementing the recommendations is being monitored regularly and implemented in line with the foreseen timeframe. Primary focus should be on recommendations that affect the most important areas of financial management and controls.

## 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 questionnaires submitted to the Ministry by assessing each component. We have summarised our findings for MoD below and the summary of our work across all audits will be consolidated in our Annual Audit Report. This is intended to support the Ministry of Finance in its attempts to increase the effectiveness of the process and develop the FMC system as a whole.

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### Issue 3 –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. Based on this we found that:

1. Appropriate procedures for managing risk were not put in place by the MoD. This is due to the lack of training for MoD officials on drafting the risk register based on FMC Regulation; and
2. Effective monitoring processes and comprehensive development strategy (including liaison with stakeholders and ensuring full cost strategy) are considered as in place by the MoD, however, weaknesses were noticed in process of monitoring its implementation due to shortcomings in the reports provided by the Heads of the Units.

**Risk** Poor governance arrangements make strategic and operational objectives hard to achieve and in this way weaken the quality of services provided to citizens through inefficient and ineffective activities.

**Recommendation 3** The Minister should negotiate with MoF when it comes to the training of officials involved in drafting the risk register, within the shortest time possible. This way, a qualitative risk management register would be finalised facilitating the monitoring process. In addition, a rigorous review should be implemented to complete the self-assessment checklist in order to ensure that areas with weaknesses are addressed. It should apply a formal mechanism to confirm the accuracy of the assessments given in the checklist and secure supporting documentation.

## 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 MoD operates and the challenges that it faces.

### 2.3.1 Managerial reporting and Accountability

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

Based on examination of management controls applied over this area, we may conclude that the Management has put in place an adequate organisation structure, has delegated duties and responsibilities and was informed on the processes developed within the Ministry.

Departments and Divisions prepare regular reports to the Secretary General, who organises regular working meetings with the heads of units.

## 2.4 Internal Audit System

For an effective audit a comprehensive work program is needed which reflects financial and other risks and provides sufficient assurance on the effectiveness of internal controls.

MoD has no Internal Audit Unit established, and as a result the Management had insufficient assurance related to the operation of controls.

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### **Issue 4 - Internal Audit Unit not established - High Priority**

**Finding** The MoD still has no Internal Audit Unit (IAU) established, and therefore has no Audit Committee established, although it was recommended in the 2014 report by AG. Due to the lack of internal audit, the Management has insufficient assurance regarding the effective operation of internal controls.

However, upon request of the MoD, the Internal Audit Department within MoF performed an audit for 2016.

**Risk** Lack of Internal Audit System reduces obtaining the assurance by the Management when it comes to operation of the internal control systems, and reduces the quality of financial management.

**Recommendation 4** The Minister should ensure that the IAU is established, which through a comprehensive work program will incorporate financial risks and assess the effectiveness of internal controls. In addition, we recommend to establish an effective Audit Committee as well, which should critically review IAU plans and outcome.

## 3 Financial Management and Control

### Introduction

Our work on FMC 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 issues, and Assets and Liabilities.

### Financial Management and Control Conclusion

Financial Management and Control have proved a relatively good review process and assurance when it comes to implementing the legislation and other control processes.

In 2016 same as in the previous year, the MoD managed to fully execute its budget. This is a good budget performance. In the context of financial systems, assets and liabilities were managed in line with the legislation.

However, despite the controls identified in the above mentioned fields, additional actions to improve financial management and control are needed. This mainly includes compliance with the legislation on expenditure management.

Travel expenses abroad were overspent in relation to budgeting. Expenditures for the awareness campaign on diaspora registry were made without procurement procedures. Furthermore, all the payment was made in advance. This may cause insufficient assurance whether or not the agreements will be implemented.

While, in terms of lower importance we identified irregularities in the management of subsidies and personnel management.

### 3.1 Budget Planning and Execution

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

**Table 1. Sources of budgetary Funds (in €)**

Description	Initial Budget	Final Budget <sup>2</sup>	2015 Outturn	2014 Outturn	2013 Outturn
<b>Sources of Funds</b>	<b>1,606,803</b>	<b>1,755,509</b>	<b>1,752,549</b>	<b>1,531,203</b>	<b>1,780,305</b>
Government Grant - Budget	1,606,803	1,755,509	1,752,549	1,531,203	1,780,305

The final budget in relation to the initial budget was increased by €148,706. This increase was the result of Government decisions and budget review.

In 2016, the MoD used 100% of the final budget. Similar level of execution was in 2015 as well.

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

Description	Initial Budget	Final Budget	2015 Outturn	2014 Outturn	2013 Outturn
<b>Spending of funds by economic categories</b>	<b>1,606,803</b>	<b>1,755,509</b>	<b>1,752,549</b>	<b>1,531,203</b>	<b>1,780,305</b>
Wages and Salaries	458,989€	478,803	476,868	424,884	397,123
Goods and Services	992,314	1,135,705	1,135,696	969,212	1,231,283
Utilities	25,500	11,000	9,984	9,718	8,825
Subsidies and Transfers	130,000	130,000	130,000	127,389	143,074

Explanations for changes in budget categories are given below:

- The budget in the category of Wages and Salaries increased by €19,814 in order to cover the costs of two deputy ministers appointed by the Government;
- The budget for Goods and Services increased by €143.391. This is a result of funds allocated by the Government for the project "Diaspora Registry" in the amount of €200,000 and the transfer from the budget for utilities in the amount of €14,500. On the other side, the same budget was reduced by the Government for savings by €71,109; and
- Budget for Utilities was reduced by €14,500. This amount was allocated for Goods and Services.

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

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**Issue 5 – Failure to consider budget appropriations - High Priority**

**Finding** According to the Law on Budget, the budget to be spent over the fiscal year should be estimated in the budget. During 2016, MoD has exceeded the budget planned for this sub-category under code “Abroad Travel Expenses”. This was as a result of increased activities organised by the Diaspora. Overspending on large percentage of a particular subcategory highlights poor planning of activities and expenditures.

**Risk** This increases the risk that other planned activities are not carried out by preventing the achievement of predetermined objectives.

**Recommendation 5** The Minister should ensure that funds are spent for the intended purposes based on budget ceilings defined for each subcategory. The process of budget assessment and planning should reflect all relevant information for expected annual needs, taking into account the parameters and preliminary results.

### 3.1.1 Wages and Salaries

Wages and Salaries are paid through a centralised government system. Controls that operate at the MoD level relate to verification of potential changes and updating the payroll, budget review for this category and reconciliations with the Treasury.

Our testing identified some weaknesses on the issues presented as follows:

**Issue 6 – Special Service Contracts – Medium Priority**

**Finding** According to the Law on Civil Service, employment through Special Service Contract is not allowed for more than six (6) months. Such appointments are subject to the Law on Obligations, for which simplified recruitment procedures are applied. In the past years, MoD established the Culture Centres in Diaspora upon the Government’s decision. The Directors of these Centres were still getting paid from Goods and Services because MoF has not approved the budget request stating their inclusion in budget for wages and salaries. Payments for two directors in 2016 were €48,682.

**Risk** The practice of entering into special service contracts without conducting recruitment procedures does not provide transparency and competitiveness and increases the risk hiring candidates with no professional experience and skills as required.

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**Recommendation 6** The Minister should ensure that actions are taken for stopping such engagements/recruitments and that they are not paid in contraction to the law. He should also ensure that the following year's budget for wages and salaries include the salaries of all the needed employees and that they are all paid through the payroll.

**Issue 7 - Holding the position as acting beyond the legal limit - Medium Priority**

**Finding** Article 30 of the Law on Civil Service stipulates that no senior management position can be covered with acting staff for more than three (3) months. During the audit, we noticed that one (1) managerial position is held by Acting since December 2015. This was due non-compliance with the Regulation on job systematisation with the Law on Budget and Regulation no.02/2011 on fields and Administrative Responsibilities of the Prime Minister's Office and Ministries<sup>3</sup>. Changes are noticed in the number of employees in the Office of the Minister, but it does not reflect to the total Organization.

**Risk** Holding the position as acting duty more than three (3) months does not ensure that duties are carried out with competence and responsibility.

**Recommendation 7** The Minister should negotiate with MoF to ensure additional budget for Wages and Salaries in the Administration according to the Rules for systematisation of jobs. Further on, recruitment procedures should be developed to cover specific positions.

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<sup>3</sup> In regulation on systematization within MoD, 11 employees were planned in the Cabinet and the Administration 55 (total 66). In Reg 02/2011 the number assigned to each minister and deputy minister, for the MoD was estimated to be 17 employees, and the remaining 49 were left for administration (total 66).

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### 3.1.2 Goods and Services and Utilities

The final budget for Goods and Services in 2016 was €1,135,705. During 2016, €1,135,696 or 100% of the budget were spent. These expenditures relate to expenditures through the procurement process and those incurred without procurement process (advances, utilities, etc.).

The procurement rules aim to ensure that public funds are used transparently and efficiently to achieve value for money. The legal framework clearly defines the rights, duties and responsibilities of all parties involved in the procurement management.

Based on our tests we conclude that the implementation of the public procurement procedures was in line with the rules laid down for public procurement. Contracts signed with EO were managed in line with legal requirements, while the following shortcomings were noticed in terms of substantive testing:

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#### **Issue 8 - Entering into agreement without adhering to the procedures established by law - High Priority**

**Finding** The Law on Budget 2016, Article 12 stipulates that Budget Organizations may make advance payments to contractors for capital projects up to a maximum of 15% of the contract value, while larger amounts require Government (up to 30%) and Assembly approval (100%). Only cases handled through the Law no.04/L-052 on International Agreements are the only ones where the abovementioned procedures can be overlooked.

MoD entered into a co-financing agreement with UNDP, avoiding the procurement procedures for the project "Awareness Campaign for Diaspora and registry"<sup>4</sup> without adhering to the procedures stipulated in the abovementioned laws. The contract value was €75,000, according to the agreement where all the value was paid in advance. The Certifying Officer notified that such payments without procurement procedure and in advance is not in line with the legal framework, but despite this, the Management continued further. The reason for this continuation, was UNDP's commitment to contribute with their funds to the project.

**Risk** Giving funds as advance payment creates no reasonable assurance whether the agreement will be achieved and increases the risk that the Ministry not provide complete evidence of spending. Avoiding the tendering process for executing these expenditures threatens the achievement of best value for money.

**Recommendation 8** The Minister should ensure that all goods and services are contracted in line with LPP and payments are executed only after considering all legal requirements. This would ensure transparency and more qualitative control of public money.

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<sup>4</sup> The procurement plan foresaw to develop procedures for this project in February 2016.

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**Issue 9 – Purchasing plane tickets without going through the Procurement Department - Medium Priority**

**Finding** MoD did not have a contract for abroad travel services and was instructed not to develop procedures since the signing of a centralized contract by the CPA was in the pipeline. During the nine months MoD received offers for each plane ticket requested, but these procedures were not developed through Procurement Office, but another officer was assigned to take bids for each plane ticket. This occurred due to the large number of applications and load that was in the Procurement Office. The total amount of payments was €41,314. However, this practice was stopped by 01.10.2016, when the contract of the CPA started.

**Risk** Purchase of tickets for travel services by employees outside the procurement department, increases the risk of non-adherence to legal requirements, as a result of lack of training in the procurement field.

**Recommendation 9** The Minister should ensure that for all purchases requiring procurement procedures should go through Procurement Department.

**Issue 10 –Delays in closing advances for travel - Medium Priority**

**Finding** AI 2004/07 on Official Travels, Article 8 specifies that advances must be closed 15 days after returning from an official trip, otherwise such a request is refused.

We noticed that two advance payments totalling €5,336 were not justified although several months have passed since travelling. Chief Financial Officer reported delays and made a request to close them, but despite this, the advances were left open.

However, after we submitted an audit memo for interim stage where we advised the Management to improve the management of advance payments, the concerning advances were closed.

**Risk** Lack of effective controls on closing advances increases the risk that funds are not returned to the Ministry and used illegally.

**Recommendation 10** The Minister should ensure that expenditures for official trips are managed fully in compliance with the legislation. In case of non-compliance with deadlines, measures should be taken.

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### 3.1.3 Subsidies and Transfers

The budget for subsidies aimed at supporting projects that have an impact on getting the Diaspora closer to the state of Kosovo.

While testing the subsidies we have noticed some shortcomings in controls implemented in the reasoning reporting) process (by the beneficiaries.

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#### Issue 11 - Poor monitoring of expenditure subsidies - Medium Priority

**Finding** Regulation no. 1/2016 on the criteria and the method of subsidising projects for Diaspora, as well as Article 5 of Agreements for subsidy, stipulates that within 30 days when the project is completed, the beneficiary submits official monitoring report, while Article 12 states if the project execution holder fails to submit the reasoning within the specified timeframe, MoD may require the return of funds, even with legal interest.

In seven (7) cases we have noticed that the subsidy beneficiaries have not reported within the prescribed timeframe, which delays varied up to four months. However, in none of the cases we saw that actions were taken in line with the regulation. However, MoD has produced a list of persons/entities having not honoured the agreement, as a basis for not allowing them to benefit subsidies for the Ministry in the future.

**Risk** Delays in reporting and reasoning of subsidies present a risk that the MoD remains uninformed in time on the development of projects that contribute to achieving its objectives. Further on, these delays increase the risk that funds are not used for the intended purposes.

**Recommendation 11** The Minister should ensure that all officials involved in the process of granting subsidies adhere to legal requirements in place for managing subsidies. If there is a need, training may be held for staff in order to act in line with the specified requirements. This would pave the way for a qualitative process of monitoring.

### 3.1.4 Assets

The total value of capital assets in the financial statements for 2016 was €64,000, while the value of non-capital assets was €70,000. The value of stocks at the end of 2016 was €20,000.

We have reviewed whether the recordkeeping process is in accordance with the requirements of MoF Regulation 02/2013 on management of government property, inventory process and the physical existence of assets. Based on this we conclude that the assets were managed in compliance with the requirements.

#### **Recommendations**

We have no recommendations in this area.

## 3.2 Outstanding Liabilities

The Statement of outstanding liabilities at the end of 2016 was €23,773. These liabilities are carried forward to be paid in 2017.

We have carried out tests on liabilities at the end of the year as well as those reported in the monthly reports. Based on this we conclude that the MoD established a good system of management and reporting liabilities, in line with specified legal requirements.

#### **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.

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*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 1705<sup>19</sup> 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
Implementation of 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.			No measures taken
Self-Assessment Checklist	The Minister should ensure that a review of the processes for completing the self-assessment checklist, in particular risk management is implemented. To ensure when designing the new strategy that funds are initially ensured then to continue with its approval.		Checklist was completed, but there was no risk register and managerial reporting was not at an appropriate level.	
Risk Assessment	The Minister should ensure that immediate responsibility for production of risk management list is delegated to relevant officers accompanied by NAO monitoring.		MoD initiated a process for preparation of the risk register was not yet finalised this process.	
Management Reporting	The Minister should ensure that a review is implemented to determine the format of financial reporting to senior management where every manager reports and monitors activities towards objectives implementation and budget appropriated for the respective unit.			No measures taken
Expenditures through Procurement	The Minister should ensure that all purchases or services are contracted in compliance with LPP requirements, and that all payments are executed in compliance with the law and relevant regulations.			No measures taken.

Expenditure not related to Procurement	The Minister to ensure that agreements are signed only after all legal requirements to reach an agreement with external parties are considered. Also, all payments to be executed in compliance with the law. This will ensure a more effective control by MoD and high-quality services with more favourable prices.			No measures taken
Subsidies and Transfers	The Minister should ensure that the subsidies are given to eligible applicants who meet all criteria and requirements set by the regulations and that this is evidenced by relevant documentation. He should also enhance control actions on monitoring subsidized projects so there are regular reports from beneficiaries.		In process of being addressed. Even in 2016 we identified some delays in reporting by beneficiaries.	
Subsidies and Transfers	The Minister should review the effectiveness of the process placed on subsidies management. Decisions on subsidies should clearly identify beneficiaries' specific activities for which those subsidies are given. This would facilitate the reporting process by beneficiaries and their monitoring by the Ministry. MoD officers reporting on their attendance in activities organized by MoD would give an accurate picture on the impact of such events.	Yes		
Assets	The Minister should ensure that complete and accurate registries of assets under €1,000 are kept, and that the state of stocks in the warehouse is the same with the reports during their physical count.	Yes		

## Annex IV: Letter of confirmation

### LETTER OF CONFIRMATION

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

To: National Audit Office

Venue and date: 16.05.2017

Honoured,

We hereby confirm that:

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

Secretary General:

Mr. Osman Shahini

REPUBLIKA E KOSOVËS - REPUBLIKA KOSOVA - REPUBLIC OF KOSOVO MINISTRIA E DIASPORËS / MINISTRY OF DIASPORA / MINISTARSTVO ZA DIJASPORU			ZYRA KOMBËTARE E AUDITIMIT NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE	
Nr. i Prot. / Ser. Prot. / Prot. No. / 02	No. i Prot. / Ser. Prot. / Prot. No. / 722		16. 05. 2017	
Data / Datum / Date / 16.05.2017	Prishtinë / u			
Nr. i Prot. / Ser. Prot. / Prot. No. / 01	Prishtinë / u			
		Nr. i Prot. / Ser. Prot. / Prot. No. / 21	Nr. i Prot. / Ser. Prot. / Prot. No. / 21.23	Nr. i Prot. / Ser. Prot. / Prot. No. / 524
		Nr. i Prot. / Ser. Prot. / Prot. No. / 1		

**Republika e Kosovës**  
**Republika Kosova - Republic of Kosovo**  
**Qeveria - Vlada - Government**  
**Ministria e Diasporës/Ministarstvo za Dijaspору/Ministry of Diaspora**  
*Zyra e Sekretarit të Përgjithshëm - Ured Generalnog Sekretara - Office of the Secretary General*

### 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 Diasporës 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. Osman Shahini,

Sekretar i Përgjithshëm i Ministrisë së Diasporës

Data: 16.05.2017

