



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 STATEMENTS OF THE MINISTRY
OF FINANCE**
FOR THE YEAR ENDED 31 DECEMBER 2017

Prishtina, April 2018

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 through quality audits strengthen accountability in public administration for an effective, efficient and economic use of national resources.

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 organizations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Ministry of Finance, in consultation with the Assistant Auditor General, Emine Fazliu, who supervised the audit.

The report issued is a result of the audit carried out by Blerim Kabashi (Team Leader), Ariana Rexhëbeqaj and Leonora Hasani (Team Members), under the management of the Head of Audit Department Samir Zymberi.

TABLE OF CONTENTS

Executive Summary	4
1 Audit Scope and Methodology	6
2 Annual Financial Statements and other External Reporting Obligations	7
3 Financial Management and Control	9
4 Progress in implementing recommendations.....	20
5 Good Governance	21
Annex I: Explanation of the different types of opinion applied by NAO	23
Annex II: Progress in implementing the recommendations of prior and previous years	26
Annex III: Letter of confirmation.....	30

Executive Summary

Introduction

This report summarizes the key issues arising from our audit of the 2017 Annual Financial Statements of the Ministry of Finance, which determines the Opinion given by the Auditor General. The examination of the 2017 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions (ISSAIs). 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 for 2017.

Our audit focus has been on:



The level of work undertaken by the National Audit Office to complete the 2017 audit is determined depending of the quality of internal controls implemented by the Management of the Ministry of Finance.

The National Audit Office acknowledges the Senior Management and Staff of the Ministry for cooperation during the audit process.

Opinion of the Auditor General

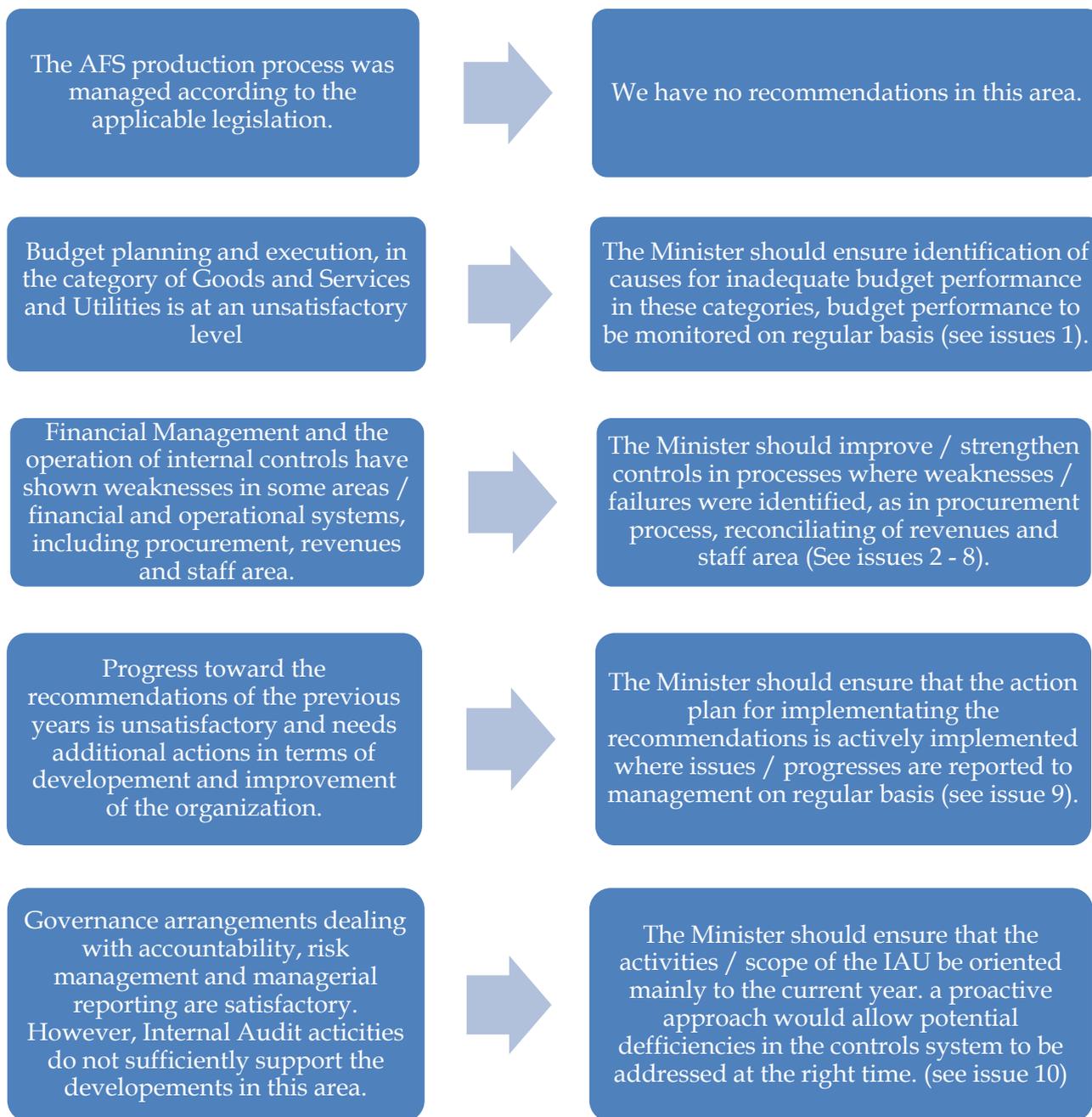
Unmodified Opinion

The Annual Financial Statements for 2017 *present a true and fair view* in all material aspects.

For more, please refer to Section 2.1 of this report.

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

Key Conclusions and Recommendations



Management response to audit 2017

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

1 Audit Scope and Methodology

Introduction

The National Audit (NAO) is responsible for carrying out a Regularity Audit which involves the examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

Audit work undertaken reflected our audit risk assessment for the Ministry of Finance (MoF). We have analyzed the Ministry's business to the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the Auditor General's (AG) opinion.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review. Management's responses to our findings can be found in Annex III.

Our procedures included a review of the internal controls, accounting systems and related substantive tests and related governance arrangements 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.

2 Annual Financial Statements and other External Reporting Obligations

Introduction

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

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 assertions are intended to provide the Government with the assurance that all relevant information has been provided to ensure that an audit process can be undertaken.

2.1 Audit Opinion

Unmodified Opinion

We have audited the AFS of the MoF for the year ended on 31st of December 2017 which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement, Disclosure and other accompanying reports.

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

Basis for the opinion

The audit is carried out 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 Financial Statements' 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 Charged with Governance for AFS

The Secretary General of the MoF 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

no. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented).

The Minister is responsible to ensure the oversight of 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 detect every material misstatement that might exist. Misstatements may 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 the Management, as well as evaluating the presentation of the financial statements.

2.2 Compliance with AFS and other reporting requirements

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

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organizations;
 - Requirements of LPFMA no. 03/ L-048, (as amended and supplemented);
 - Compliance with Financial Rule no.01/2013 and 02/2013;
 - Action Plan on implementation of recommendations;
 - Requirements of Financial Management and Control (FMC) procedures; and
 - Draft plan and final procurement plan in time.
-

Declaration made by the Management of MoF

Given the above - the Declaration made by the Chief Administrative and Chief Financial Officer, when the draft AFS are submitted to the MoF, is correct and fair. During the audit we have not identified any material errors.

Recommendations

We have no recommendations in this area.

3 Financial Management and Control

Introduction

Our work related to Financial Management and Control (FMC), reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Budget Organisations. Specifically, the focus of the audit was Budget management, Procurement issues, Human Resources as well as Assets and Liabilities.

Financial Management and Control Conclusion

Due to the consistent non-compliance with regulations, the procurement field continues to be the most concerning area, followed by weaknesses that may result in poor value for money. In the context of financial systems, revenues are generally managed well except for the lack of monthly reconciliations with Treasury, while controls over expenditures require continuous/further improvement. The main areas where deficiencies were noticed are Budget Execution, Procurement Processes, and Personnel Area.

3.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ¹	2017 Outturn	2016 Outturn	2015 Outturn
Sources of Funds	50,527,899	27,136,408	23,125,136	21,936,786	24,207,614
Government Grant -Budget	50,527,899	26,811,872	22,813,721	21,479,420	23,412,058
Financing from Borrowing	0	0	0	87,935	350,021
External Donations	0	324,536	311,415	369,431	445,535

The final budget in relation with the initial budget was decreased by €23,391,491. This decrease is after budget review and in line with Government decisions.

In 2017, MoF along with the Executive² Agencies has spent 85% of the final budget or €23,125,136. However, if we exclude funds from the Development Trust Fund in the amount of €2,705,782 (which is not managed by MoF) then the final budget execution is 95% compared to last year is an increase of 5%.

Despite progress, in some categories, budget execution still remains at an unsatisfactory level.

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

Description	Initial Budget	Final Budget	2017 Outturn	2016 Outturn	2015 Outturn
Spending of funds by economic categories	50,527,899	27,136,408	23,125,136	21,936,786	24,207,614
Wages and Salaries	32,307,238	15,121,935	15,034,273	15,023,227	14,369,590
Goods and Services	5,151,366	6,050,085	5,004,579	5,311,572	5,890,597
Utilities	488,592	394,792	311,315	316,892	342,825
Subsidies and Transfers	226,000	1,247,328	1,241,086	288,757	3,103,321
Capital Investments	12,354,703	4,322,268	1,533,883	996,338	501,281

In the following table and further in the report we present the budget and expenditures for MoF, excluding data on Customs and TAK.

¹ Final budget – the budget approved by the Assembly, subsequently adjusted by the Ministry of Finance

² TAK-Tax Administration of Kosovo and KC-Kosovo Customs

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

Description	Initial Budget	Final Budget	2017 Outturn	2016 Outturn	2015 Outturn
Spending of funds by economic categories	31,660,586	9,375,688	5,827,256	5,263,086	8,531,511
Wages and Salaries	19,455,749	2,585,565	2,497,902	2,546,677	2,537,488
Goods and Services	2,217,489	2,232,001	1,551,540	2,345,981	2,780,604
Utilities	126,645	55,445	37,735	35,956	47,927
Subsidies and Transfers	226,000	1,247,328	1,241,086	288,757	3,103,321
Capital Investments	9,634,703	3,255,349	498,993	45,715	62,171

Referring to this table, in 2017, the final budget of MoF (without KC and TAK) was spent 62% or €5,827,256. However, in final budget of MoF, a Trust Fund was not introduced, which is not managed by the MoF and does not appear to be executed. If we exclude this amount of €2,705,782³, then the final budget execution is 87% or 3% lower than last year.

Explanations for changes in budget categories are given below:

- The decrease of budget for Wages and Salaries is €16,870,184. The amount of €17,000,000 contingency for health insurance, with budget review is transferred from the MoF to the Ministry of Health. The amount of €185,302 is contingencies in wages from Brussels Agreement allocated to the MoF, with the Government's decision were transferred to the relevant Budget Organizations. There was an increase from donations for €324,000 and a decrease of €8,882.
- The budget for Subsidies and Transfers has increased for €1,021,328. This amount was allocated for subsidizing non-public entities and through transfers to other Governments⁴. The increase of budget appears in MoF/Treasury Department as this category of expenditures is mainly oriented/executed by the Prime Minister's decisions, and the Treasury makes the payment execution.
- The category of Capital Investments has undergone several movements: the initial budget was €9,634,703, while after budget review, with the Government decision, the project Construction of the Customs-TAK facility in the amount of €2,757,624 has been removed, the project Integration and Development of MoF systems in the amount of €2,327,512, and Trust Fund was reduced by €1,294,218. Further on, from the MoF final budget of €3,255,349, there are funds for the Trust Fund for Northern Municipalities in the amount of €2,705,782, which are not included in the execution because they are not managed by the MoF. Therefore, the final budget only for programs under the MoF management was €549,567, the execution is €498,993 or 91%.

³ These fund are for Development Trust Fund for Northern Municipalities

⁴ Other Governments outside of Kosovo, humanitarian aid / solidarity assistance.

Issue 1 – Poor Budget Performance at levels of economic categories

Finding For 2017, budget execution is at the level of 87% in relation to final/reviewed budget. A poor performance is noticed especially in the category of Goods and Services 70%, and Utilities 68%. This is due to the cancellation of some tendering activities as well as delays caused by economic operators in delivering supplies. This has negatively affected the overall budget performance.

Risk Poor budget execution results in inefficient use of available resources. As a result, they might not fulfill operational activities that risk the non-fulfillment of the Ministry's objectives.

Recommendation 1 The Minister should conduct an analysis and identify the reasons for the low level of budget execution for Goods and Services and Utilities, to determine practical options for improving its execution before setting the programs for the coming years.

3.2 Revenues

Within MoF, including KC and TAK for 2017, net revenues collected in the amount of €1,478,243,665. While only the MoF has collected €373,665, revenues from three sources, such as: a) revenues from fines imposed against financial institutions; b) revenues from licensing individual and free activities; and c) revenues from other fines collected by the Financial Information Center (FIC).

In the following table are the total revenues. But revenues from KC and TAK are not part of this audit, they are handled in specific audit reports.

Table 4. Revenues (in €)

Agencies/ Department	Gross Revenues	Returns	2017 Revenues	2016 Revenues	2015 Revenues
Customs	1,121,097,000	(9,144,000)	1,111,953,000	1,044,042,000	944,929,869
TAK	414,356,000	(48,439,000)	365,917,000	355,380,455	304,003,191
FIU	20,000	0	20,000	12,000	0
Treasury	265,200	0	265,200	282,750	1,468,297
Central Administration	88,465	0	88,465	79,231	74,464
Total	1,535,826,665	57,583,000	1,478,243,665	1,399,796,436	1,250,475,821

In 2017 total revenues in MoF, KC and TAK are €1,478,243,665, compared with the previous year they were executed €78,447,229 more or about 6%. The main increases are in tax revenues in Customs and TAK. From the testing performed on MoF revenues, we have noticed the following:

Issue 2 – The process of reconciling revenues not in compliance with legal requirements

Finding According to the financial regulation no. 03/2012, article 13 – reconciliations of revenues after each closure of the monthly period, the MoF is obliged to perform the reconciliation of revenues with the general account book in KFMIS.

The MoF had conducted quarterly reconciliations of revenues with the Treasury but lacked monthly reconciliations.

Risk Non-performing of the reconciliation process on a monthly basis does not ensure the reliability and accuracy of the reported MoF information/data.

Recommendation 2 The Minister should ensure good controls in reconciliation of revenues, identify causes for the lack of regular – monthly reconciliation between MoF records with revenues registered in the KFMIS and adequate actions to be taken.

3.3 Wages and Salaries

Wages and Salaries are paid through a centralized payment system managed by the Ministry of Public Administration (MPA) and MoF. According to KFMIS records, the budget for the category of Wages and Salaries for 2017 is €2,585,565, which was spent at the rate of 96%.

Issue 3 – Wages not in accordance with act of appointment

Finding Based on regulation no. 16/2016 on Internal Organization and Systematization of Jobs in MoF, the Senior Budget Execution Officer should have the multiplier eight (8)

In the case of restructuring of positions in accordance with this regulation, three cases have passed from the Sector Chief Position (multiplier 8) to Senior Budget Execution Officer (multiplier 8). However, they still continue to be paid at the highest multiplier (8.5).

Department of the Budget within MoF in order to achieve the objectives by deadlines, engages its officials for additional work outside regular working hours.

Payroll lists of employees for overtime work do not match the lists according to the electronic register. For two officials we have noticed that on the list of additional hours, the number of additional working hours was calculated, but the same official did not appear on the coming - going list for the given date.

Risk Non-reconciliation of multipliers in accordance with budget planning and grading system results in payments that is incompatible with budget rules and difficulties for the Ministry. Further, the poor functioning of controls in the process of additional or overtime work increases the risk of improper and irregular payments.

Recommendation 3 The Minister should ensure that adequate controls on the management of wages process and additional hours for the Ministry personnel are in place. Payments to be made in accordance with positions/multipliers and approved rules.

3.4 Personnel Management

We tested the management of processes in terms of compliance regarding the management of activities in the area of personnel, and we identified the following cases:

Issue 4 - Failure to fully put in place the new organizational structure

Finding After the approval of the new regulation on the systematization of MoF jobs, still certain positions in some departments are not covered by regular officials. This phenomenon is noticed in the budget department, economic policies, public - private partnership, property tax and legal office. The number of current employees in these departments is 75, while with the regulation and the budget law has foreseen 84 positions.

Position Director of Department of Macroeconomic Policies and International Financial Cooperation since 30.12.2014 is not covered by regular officer. Until June 2017, this position was followed by appointments / decisions for Acting. But as of 01.06.2017, the same official continues to perform his duties and be paid on the multiplier foreseen for this position, without any decision to cover this position.

Even the leading / manager position of the procurement division is covered with Acting from date 27.07.2016 until now. The case / process of the procurement manager is in judicial proceedings, therefore the MoF is awaiting a court decision regarding the regulation of this issue.

Risk Coverage of positions with Acting out of time limits as well as delays in completing certain managerial positions with respective candidates, increases the risk that the new organizational structure not to be sufficiently functional and effective. It also risks the achievement of set objectives.

Recommendation 4 The Minister should ensure that all legal actions are taken to ensure that all positions in the Ministry, are regular and in accordance with the organizational structure and regulation for systematization of jobs.

3.5 Goods and Services and Utilities

The final budget for Goods and Services in 2017 was €2,232,001. Out of which €1,551,540 or 70% of the budget were spent. Those relate to other contractual services, fuel and rent expenses.

The final budget for Utilities in 2017 was €55,445. Out of which €37,735 or 68% of the budget were spent. Here come the electricity and telephony expenditures.

Issue 5 - Acceptance of services prior to the commitment of funds and processing the purchase order

Finding According to the Treasury Regulation no. 01/2013, you must first make the purchase order, the commitment of funds, purchase order is processed, then receive the Goods or Service and upon receipt of the invoice to execute the payment in question.

In the case of "IT Maintenance", the payment in the amount of €2,889, commitment of funds, purchase orders were made after the receipt of invoice and services, commitment was made on 11.07.2017, purchase order on 13.07.2017 while invoice was received on 18.04.2017. The other case was in the "Office Supply" payment in the amount of €986, where the commitment of funds was made on 11.10.2017 and the invoice was received on 06.10.2017.

Risk Entering liabilities without providing the necessary funds may result in delays in executing payments and increasing outstanding liabilities.

Recommendation 5 The Minister should ensure that controls in the payment execution process are being continuously monitored. The payment process should be done fully in compliance with the steps defined in the LPFMA, and with Treasury rules.

3.6 Subsidies and Transfers

The final budget of Subsidies and Transfers was €1,247,328. Out of which €1,241,086 or 99.5% were spent on subsidizing non-public entities and transfers to other Governments abroad for humanitarian/solidarity cases.

Recommendations

We have no recommendations in this area.

3.7 Capital Investments

The final budget for Capital Investments in 2017 was €549,567⁵. Out of which were spent €498,993 or 91%. With these funds, two projects were implemented related to the supply of IT equipment and the development of data storage systems and the integration of MoF systems.

Recommendation

We have no recommendation in this area.

3.8 Common Issues on Goods and Services and Capital Investments

The following common issues related to Goods and Services and Capital Investments. We tested five procurement procedures on both categories, and identified the following deficiencies:

Issue 6 - Weakness in the evaluation of bids - contract award to EO without meeting the criteria

Finding

According to the article 59.4 of the LPP, the contracting authority should consider a tender as responsive only if the tender in question is in compliance with all the requirements set out in the contract notice and in the tender dossier.

We identified that in two cases the Bid Evaluation Committee evaluated as accountable and recommended the signing of contracts with operators who meet the criteria defined in the tender dossier and in the contract notice:

⁵ In the MoF budget there are €3,255,349 of which €2,705,782 are trust funds for Northern Municipalities that are not managed by MoF. Therefore, the final budget only for programs in MoF management was €549,567.

The Contracting Authority (CPA) in tender dossier for “Translation and proofreading services for needs of Independent Agencies”, in the total indicative amount of the contract €112,842, among other criteria, was the testimony of “Preliminary agreement signed by both parties (company and translators) for simulative translations and written translations”. EO winner of the contract had provided a list of professional staff along with diplomas/certificates and CV, but had not provided the preliminary agreements. Therefore, the criterion is considered incomplete; and

The contract “Banking Services for the Treasury need of Kosovo” in the amount of €65,000, the winning operator did not meet the criteria set out in the tender dossier and in the contract notice.

The winning economic operator of the contract has not proved that it meets the criteria from CA on the technical and / or professional prospects. For four criteria of this type, the winning EO has brought two documents / evidence that were not complete and sufficient, the evidence provided only covers banks in Europe. While, the second document in electronic form (e-mail) does not prove the requirements of CA that EO has issued credit cards and for managing the accounts of public institutions in the last three years.

Risk Bypassing the criteria of tender dossier affects the reward of the non-accountable winning EO, thereby, risking the achievement of the objectives. Such evaluations reduce competition, transparency and could negatively affect the amount for money spent.

Recommendation 6 The Minister should ensure good controls and adequate management of procurement processes. Bid Evaluation Committees are properly supervised in order to enforce laws, rules and promote transparency and competition when evaluating bids.

Issue 7 – Delays in signing the contract**Finding**

The rules and operating guidelines for public procurement determines that, the validity period of the tender specified in tender dossier will change depending on the complexity of the procurement. The required validity period should be no more than necessary and it will be sufficient for the CA to make the evaluation of the tenders received and to award and sign the contract.

The contract “Supply with ten computers and monitors” in the amount of €9,540 was signed late, beyond the validity of the bid.

The notice for the announcement of the winner was made on 14.07.2017, the validity of bid was until 23.08.2017, while the contract was signed on 20.09.2017, or after 28 days. According to the procurement officer the delay of signing the contract was due to the lack of commitment of funds.

Risk

The delay in signing the contract has affected the bid’s validity to exceed the foreseen deadline, and this could risk the implementation of the project on time and the implementation of the budget according to the cash flow.

Recommendation 7

The Minister should undertake actions to strengthen controls so that after the announcement of the contract winner and the expiration of the deadlines for the complaints, the contracts to be signed, timely/without delay.

3.9 Capital and Non-Capital Assets

Asset management is an important part of financial management and control in the public sector. The main guideline in this area is regulation no. 02/2013 on the management of non-financial assets in Budget Organizations. The value of non-financial assets over €1,000 presented in the AFS was €6,545,052, the value of non-financial assets only for MoF, excluding the Customs and TAK was in the amount of €512,411.

Recommendation

We have no recommendation in this area.

3.10 Outstanding Liabilities

The statement of liabilities not paid at the end of 2017 was €12,677. These liabilities are carried forward to be paid in 2018. We tested the monthly reporting of Liabilities as well as five invoices of obligations presented in AFS. Our tests in this category disclosed that management and reporting of liabilities is made in accordance with the legislation. While deficiencies are noticed in contingent liabilities.

Issue 8 - Contingent Liabilities

- Finding** The MoF has not disclosed contingent liabilities to the AFS of 2017. While, according to the lists/data taken from the State Advocacy (Ministry of Justice), we have identified 26 cases or decisions where lawsuit we filed against the MoF. These subjects/cases do not contain financial value. Further on, MoF does not have sufficient information on subjects or contingent liabilities.
- Risk** Failure to disclose/report contingent liabilities increases the risk that the MoF will be faced with financial difficulties. Further on, the lack of reporting/disclosures indicates a poor level of control in this area.
- Recommendation 8** The Minister should ensure adequate controls in this area, to ensure quality reporting and cooperation with State Advocate for the purpose of adequate representation of the institution in courts.

4 Progress in implementing recommendations

Our Audit Report on the 2016 AFS has resulted in six recommendations. MoF had prepared an Action Plan stating how all recommendations given will be implemented.

By the end of our 2017 audit, one recommendation has been implemented, three were in process and two have not been implemented yet. The unimplemented recommendations are the coverage of the most acting positions outside the legal deadline and the opening of a new economic code for Payments for investments in share capital/equity, upon the membership in International Institutions (this is related with the Treasury).

Moreover, from the year 2015, two recommendations were carried forward, which were partially addressed. But in 2017, results as not implemented yet, such as, the evaluation process of bids not in compliance with the requirements of the LPP and coverage of position with Acting outside legal requirements.

Issue 9 – Implementing prior and earlier year recommendations

Finding	From the recommendations given for 2016 – 2015, three have not been implemented yet. The Ministry has drafted plans for implementing the AG recommendations, but has not been properly followed and monitored. Therefore, still have not been implemented the recommendations relating to: coverage of positions with Acting, opening of new economic code for capital investments in share capital/equity, bid evaluation process.
Risk	The continued weakness of management and other controls in key financial systems and operative, could have impact in implementation of objectives, and negatively affect in the value for money spent.
Recommendation 9	The Minister should ensure that the action plan is implemented, which clearly sets out a timetable for addressing the recommendations made by the AG, with initial focus on those of greatest significance.

5 Good Governance

Introduction

Good Governance implies basic principles of accountability, effectiveness of controls, risk management, independence of internal audit, coordination of NAO with internal audit and good governance with public assets.

We appreciate the progress made by the MoF in terms of managerial reporting and accountability, as well as preparation of report for risk management. Moreover, the level of implementation previous year's recommendations, is an indicator of efforts for further development of the processes by the MoF management. The level of compliance with FMC requirements from MoF is also being monitored by completing the self-assessment checklists.

Specific areas of our governance related reviews have been the accountability and risk management process, while the other components are handled within the chapters or subchapters above.

Overall Governance Conclusion

MoF in general has good controls in relation to its statutory obligations. Financial and control management has proven good review process and assurance in implementation of legislation and other control processes.

Governance in Ministry regarding managerial reporting and accountability, and risk management reflects a positive situation. Ministry has timely addressed the implementation of recommendations, although progress is slow. MoF has fulfilled the request related with the submission of self-assessment checklist. The self-assessment checklist completed by MoF had presented the exact situation of the organization and was followed by relevant evidences. MoF had drafted a comprehensive strategy of institution development for 2017 - 2019, the risks management plan and risks monitoring plan.

5.1 Internal Audit System

MoF has a functional internal audit system that constitutes an important segment of controls in general. The Internal Audit Unit (IAU) consists of director and seven officials. It is organized in two divisions, in that for audits in MoF and Division for external audits, in entities that have not established the IA unit.

IAU for 2017 has planned to carry out 18 audits while 22 have been implemented. In the plan are foreseen 10 audits within the MoF and eight other audits outside the MoF, while the other four with ad-hoc requests.

These audits resulted with relevant findings and recommendations, but the scope of audits by mass of 70% covered the previous year's activities.

The MoF Audit Committee was active during 2017, holding four meetings in which IAU reports were discussed and implementation of recommendations from these reports, and the recommendations from the Audit Report of NAO for 2016.

Issue 10 –Audit Scope mainly covers the previous year

Finding Internal Audit reports have significantly handled or around 70% with the activities and operative systems of the previous year.

Risk The orientation of the IAU's scope significantly in the past year reduces the assurance or the ability to undertake preventive actions that can be provided to management in relation to the functioning of internal control systems.

Recommendation 10 The Minister together with the Audit Committee should ensure that the IAU's plan is supported significantly on the scope of current year. A proactive approach would increase benefits by IAU and would enable that irregularities/possible deviations in the controls systems to be addressed in a timely manner.

5.2 Management Reporting, Accountability and Risk Management

For a good planning, for oversight of activities in regular basis and to enable effective decision-making, management needs to have regular reports. Accountability as a process is the acceptance of responsibilities, holding persons responsible for their actions and disclosure of results in a transparent way. Whereas, risk management is a process that has to do with identifying, analyzing, evaluating and management actions/measures to control and respond to risks that threaten the organization.

The MoF management has implemented a range of internal controls to ensure that financial systems function properly. Within the MoF operate executive agencies, such as: Kosovo Customs (KC), Tax Administration of Kosovo (TAK), Central Procurement Agency (CPA) and Financial Intelligence Unit (FIC).

Executive agencies prepare financial statements, which are consolidated in the AFS of MoF. Agencies have their own management structure, through which is organized management of daily operational activities. The management and operation of all activities in KC and TAK will be handled in individual audit reports conducted by the National Audit Office.

Although, a range of internal controls are applied by Management to ensure that systems and operate as intended, the MoF should further pay attention the scale of budget execution, processes and developments in the area of procurement and personnel.

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

Annex I: 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 emphasized 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 emphasized.

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 judgment, 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 II: Progress in implementing the recommendations of prior and previous years

Audit Component	Recommendation carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
Issue 1 – Incomplete implementation of recommendations from previous year – High Priority	The Minister should ensure that a formal process of monitoring of implementation of recommendations made by AG is applied, in order to hold accountable staff members for addressing the recommendations according to the timetable set out in the action plan.	Yes		
Issue 2 – Self-Assessment Checklist – High Priority	The Minister should initiate the drafting of a comprehensive institution strategy, supported by potential risk management plan that would threaten the achievement of the intended objectives. Proactive measures should also be taken to address areas with highlighted weaknesses, identified in the self-assessment checklist.	Yes		
Issue 3 – Risk Management Processes – Medium Priority	The Minister should ensure that it will take concrete measures for the continuous updates of the risk management plan, in order to establish the necessary measures for eventual avoidance or effective management of risks identified.	Yes		

Issue 4 - Weaknesses in Procurement - High Priority	The Minister should ensure through the Secretary General, that internal control over tender dossier preparation and bids evaluation are strengthened, to ensure effective procurements and selection of the best possible bids.		Partially addressed recommendations, Compilation of tender dossiers is done in accordance with the requirements of the LPP, but the non-addressing of the bid evaluation process continues Even in 2017 we have identified procurement activities which were not developed in accordance with LPP requirements	
Issue 5 - Non-systematic weaknesses in processing payments - High Priority	The Minister should ensure that it has strengthened the existing controls upon the acceptance of goods and in the payment sector, to avoid acceptance of goods not contracted and the payment of unaccepted services.	Yes		
Issue 6 - Failure to respect LPP and TAK Law - High Priority	The Minister should ensure that it has been conducted a comprehensive review of this contract, and undertake appropriate actions that the contract is handled within the legal procurement framework.	Yes		
Issue 7 - Deficiencies in human resources management - High Priority	The Minister should ensure that all legal actions are taken to cover certain positions with regular employees. Further, the Minister should ensure that distribution of personnel within the institution is in line with the allowed limits of the employees, according to the programs foreseen by the Budget Law.		Partially addressed recommendation, the issue of personnel allocation according to the programs foreseen in the Budget Law. Unaddressed issue; the practice of covering positions with Acting continues.	

Issue 8 – Non-use of e-Asset program – Medium Priority	The Minister should ensure that the causes of non-functioning of the existing controls in this area have been identified, and appropriate actions are taken to record all assets in the e-Asset system. Responsible officials should be provided with the necessary trainings in using the e-Asset application.	Yes		
Audit Component	Recommendations given in 2016	Implemented	Under implementation	Not implemented
2. Financial Statements	The Minister should ensure that the necessary measures and actions are undertaken to improve the errors identified in the emphasis of the issue. In this aspect, a new economic code should be opened - Payments for investments in share capital / equity on the occasion of membership into International Institutions.			No
2.1 Progress in implementing the recommendations of previous year	The Minister should ensure that the causes of non-implementation of the recommendations are analyzed, and set a new timetable for their implementation, focusing initially on the most important areas of financial management and controls. This plan should be continuously monitored.		Yes, the plan and timetables have been drafted, however the progress in implementation is slow	
3.1 Budget Planning and Execution	The Minister should ensure that the preparation of budget requests preceded by a proper analysis of all factors that have an impact on budget execution and to ensure that budget performance is systematically monitored on a monthly basis. Despite this, management of capital projects should be improved to ensure that they are completed by contractual terms and with optimal quality.		This recommendation is partially addressed, the budget execution rate in the category of Capital Investments was satisfactory, while in the category of Goods and Services and Utilities the budget execution rate reaches 70%.	

3.1.2 Wages and Salaries	The Minister should ensure that all legal actions are taken to cover certain positions with regular employees and those payments for wages and salaries are made in accordance with job descriptions.			No
3.1.3 Goods and Services	The Minister should ensure that members of tenders' evaluation committees are appointed according to LPP requirements in order to eliminate the possibility of conflict of interest. Contracts should only be linked to EOs that meet all criteria set within the legal framework. Moreover, the prices paid should be based on contracted prices.		This recommendation is partially addressed, the appointment of the members of the Bid Evaluation Committee were made in line with the LPP requirements, however the evaluation committees have continued to make the bids evaluation not in compliance with the requirements set out in the tender dossier.	
Common issues for Goods and Services and Capital Investments	The Minister should ensure that appropriate and timely actions have been taken to appoint the responsible Procurement Officer who should possess all the qualifications based on the job description.	Yes		

Annex III: Letter of confirmation

ZYRA KOMBËTARE E AUDITIMIT / REPUBLIC OF KOSOVO NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE			
Dato: 16.04.2018			
03	401	587	1



REPUBLIC OF KOSOVO / REPUBLIC OF KOSOVO Qeveria e Kosovës / Vlada Kosova / Government of Kosovo Ministria e Financave / Министерство за Финанси Ministry of Finance			
Adresa - Adresa - Adresa			
01	776	16/04/2018	
PRISHTINE			

Republika e Kosovës
 Republika Kosova - Republic of Kosovo
 Qeveria - Vlada - Government
 Ministria e Financave
 Ministertvo Financija - Ministry of Finance

Zyra e Ministrit - Kancelarija e Ministertve - Cabinet of the Minister

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2017 dhe për zbatimin 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 Raportit/Pasqyrave Financiare të Ministrisë së Financave, për vitin e përfunduar më 31 dhjetor 2017 (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 zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Bedri Famza
 Ministër i Financave
 Data: 16. Prill 2018, Prishtinë