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AUDIT REPORT

ON THE ANNUAL FINANCIAL STATEMENTS OF THE TAX ADMINISTRATION OF KOSOVO FOR THE YEAR ENDED 31 DECEMBER 2017

Prishtina, June 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 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 Tax Administration of Kosovo 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 Berisha Rexhëbeqaj and Leonora Hasani (team members), under the management of the Head of Audit Department Samir Zymberi.

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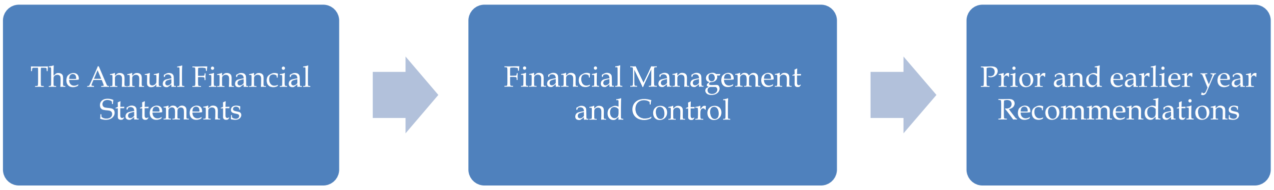
TABLE OF CONTENTS

Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Statements of the Tax Administration of Kosovo, 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 Tax Administration of Kosovo (TAK).

The National Audit Office acknowledges the TAK's Senior Management and Staff for cooperation during the audit process.

Opinion of the Auditor General

<u>Unmodified Opinion</u>

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

The AFS production process was managed in complaince with applicable laws.	We have no recoomedation in this area.
Planning of projects by inadequate economic codes was a challenge for this year.	The Director General should ensure that an effective system has been established for management and project orientation in the budget system (see chapter 3).
Revenues, reimbursement, area of personnel, payment procedures and asset management and accounts receivables are still accompanied by shortcomings and require further monitoring and development.	The Director General should enhance/ strengthen controls in processes where weaknesses/failures have been identified, in the procurement process,as well as in the area of personnel (see chapter 3).
Progress towards recommendations of the previous years is unsatisfactory and requires additional actions for development and improvement of the organization.	The Director General should ensure that the action plan for implementation of the recommendations is actively implemented where key issues/progress are reported to management on a regular basis (see chapter 4).
Governance arrangements realted to accountability, risk management and managerial reporting are satisfactory. However, the process of assessing the achievement of the objectives and execution of the tax control plan and the scope of the IAU was partially focused in the current year, and therefore require further development.	The Director General should ensure that the IAU's scope is directed through a proactive approach, which would allow addresing of possible shortcomings in the control system. (see chapter 5).

Management response to audit 2017

The Director General 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 Tax Administration of Kosovo (TAK). We have analysed the TAK's business to the extent to which management controls can be relied upon when determining the overall testing required providing 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.

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 TAK 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 Organisations.

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 the AFS' 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 Director General of the TAK 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 of Finance and Director General are responsible to ensure the oversight of the TAK'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

TAK 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);
- Compliance with Financial Rule no.01/2013 and 02/2013;
- Action Plan on implementation of recommendations; and
- Requirements of Financial Management and Control (FMC) procedures.
- Draft and Final Procurement Plan in time.

Declaration made by TAK Management

Given the above - the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance can be considered to be fair and correct. During the audit the material errors were not identified.

Recommendations

We have no recommendations related to the AFSs.

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

In the context of financial systems, controls are in general good but, some shortcomings have been observed in miss-orientation of budget projects, processing of cases for payment, area of revenues, personnel and asset management. These areas require further improvement.

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	**9,889,944**	**8,951,857**	**8,807,446**	**8,858,097**	**8,079,103**
Government Grant -Budget	9,889,944	8,951,857	8,807,446	8,858,097	8,079,103

The final budget is lower than the initial budget by €938,087. This increase is a result of budget review and in line with Government decisions.

TAK has used 98% of the final budget in 2017 or €8,807,446, same as in 2016.

[1] Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

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	**9,889,944**	**8,951,857**	**8,807,446**	**8,858,097**	**8,079,103**
Wages and Salaries	7,012,775	6,881,449	6,881,449	6,889,254	6,585,102
Goods and Services	1,188,597	1,632,436	1,528,474	1,423,735	1,196,993
Utilities	168,572	174,972	166,070	184,339	202,898
Capital Investments	1,520,000	263,000	231,453	360,769	94,110

Explanations for changes in budget categories are given below:

- The initial budget for Wages and Salaries for 2017 was €7,012,775, whereas at the end of the year, with the decision of the Minister of Finance, this budget was reduced by €131,326, since the process for recruitment of 30 inspectors was sent to court, and no expenditure was expected to incur in 2017. The budget execution was 100%;
- The final budget for Goods and Services compared to the initial budget has increased by €443,839, with Government decision. Despite the increase, the budget execution was 94%;
- The final budget for Capital Investments compared to the initial budget has been reduced by €1,257,000, with budget review and Government decisions. This reduction relates to the transfer of the *'New Taxation System'* project for 2018', the planned value for this project was €1,200,000, which was co-financed by EU support through IPA[2] 2017 SBS funds. The *'Call Centre'* project in the amount of €50,000 was carried forward in 2018, while the *'Software'* project has been reduced by €7,000.

[2] IPA-Pre-Accession Instrument

Issue 1 – Misclassification of Budget

Finding According to the Financial Rule. No. 02/2013 on Management of Non-Financial Assets – 'Capital Assets - shall mean all non-financial assets with a lifespan of more than one year, and with a financial value less than €1.000, whose ownership and control remains with the budget organization'.

The payment in the amount of €50,998 for extension of annual maintenance of Oracle licenses was executed by the category of Capital Investment, but according to treasury rules it is qualified by the category of Goods and Services.

Risk Improper presentation of the data in the financial statements leads to a misunderstanding of TAK's financial information.

Recommendation 1 The Director General should ensure that there are proper controls in place to assure adequate planning/classification of projects, based on the accounting plan approved by the Treasury-MoF.

3.2 Revenues

The tax revenues planned by the Kosovo Government/MoF for 2017 were €423,000,000, while incurred revenues by TAK were €414,355,302; there is a setback in accomplishment of the plan by 2%. However, compared with 2016, TAK in 2017 has collected higher amount of gross revenues by €27,969,813 or 7% more. While net revenues were in the amount of €365,916,273.

Table 3. Collected revenues for the Budget of Kosovo - outturn compared to budget (in €)

Description	Initial Budget	Final Budget	2017 Receipts	2016 Receipts	2015 Receipts
Gross Revenues	423,000,000	423,000,000	414,355,000[3]	386,385,187	332,772,000
Reimbursements	(36,000,000)	(36,000,000)	(48,439,000)	(31,005,000)	(28,769,000)
Net Revenues	387,000,000	387,000,000	365,916,000	355,380,187	304,003,000

TAK in the monitoring report on the implementation of the annual plan explained that the increase in revenues in 2017 was also the result of undertaking actions by TAK management, strengthening controls and additional actions to achieve the objectives.

[3] The values presented in this table are rounded with zero-0,

3.2.1 Management of Revenues and Reimbursement

Revenues from TAK in 2017 are €414,355,302. The main sources of revenues are: Value Added Tax (VAT) with 47.5%, then Personal Income Tax (TAP) by 29.4% and Corporate Income Tax (TAK) by 23.2%.

Table 4. Collected Revenues and Reimbursement by economic codes

Description	**Economic Codes**	**2017**	**2016**
Presumptive tax	40010	8	21,000
Profit Tax	40020	-	1,000
Value Added Tax	40030	198,340,829	179,203,000
Deferred VAT	40035	0,00	90,000
Withhold income tax	40040	85,635,355	79,850,000
Individual business tax	40050	32,547,167	32,125,000
Rent tax and intangible property tax	40060	595,812	819,000
Interest withhold tax, copyrights	40065	18,145,526	11,187,000
Corporate tax	40070	75,276,998	80,797,000
Transit Account – Tax Administration	40090	(8,073)	7,000
Revenues - fines	40095	3,426,234	2,187,000
Compensation of damages by Insurance Companies	50109	30	1,000
Licences for games	50210	393,848	96,000
Revenues from the sale of waste	50416	844	1,000
Revenues from the sale. Goods. Confiscation	50421	723	0,00
Total		**414,355,302**	**386,385,000**

The value of reimbursement/tax returns for 2017 was €48,439,102.

Table 5. Reimbursement by economic codes

Description	Economic Code	2017	2016
Reimbursement Value Added Tax	40031	45,141,800	30,133,575
Reimbursement-Withhold Income Tax	40041	867,465	61,862
Reimbursement-Business Tax	40051	94,932	185,042
Reimbursement – Rent, profit, lottery, property rights	40061	112,274	967
Reimbursement-Corporate Tax	40071	2,219,630	621,445
Reimbursement –TAK revenues-fines	40096	3,000	1,653
Total - Reimbursement		**48,439,102**	**31,004,544**

The most part of reimbursements derives from VAT in the amount of €45,141,800 or 93%, and corporate tax with €2,219,630 or 5%, while returns from other taxes are with lower amount. We have tested revenues and returns and we have identified the following issues:

Issue 2 – Non-reconciliation of revenues according to legal requirements

Finding

According to Regulation No. 03/2012, TAK is obliged to carry out reconciliation of revenues with the Treasury on a monthly and quarterly basis, and provide explanatory notes about the non-reconciliations between TAK Accounting Registers and Treasury records.

The revenue officer had performed reconciliation with the Treasury on a monthly and quarterly basis. However, in the reconciliation reports no explanatory notes were provided for non-reconciliation between the KFMIS and TAK Accounting Registers. The value of non-reconciliation for period January-December 2017 was €2,788,533. According to TAK, the reasons for the disagreement arise as a result of incorrect reporting of payments by Commercial Banks (payment without UNIREFF, reporting of tax payments to pension accounts and vice versa etc.)..

Risk

Failure to provide explanatory notes in relation to the differences between Treasury records and TAK Accounting registers constitutes uncertainty and lack of information on TAK revenues and reimbursements in general.

Recommendation 2

The Director General should ensure that controls are in place and actions are undertaken so that reconciliation of revenues and reimbursement are followed by explanatory notes in relation to non-reconciliation between Treasury and Accounting records, so that the process of reconciliation is in line with legal requirements.

Issue 3 – Shortcomings in fiscalisation process

Finding

One of the main objectives that are determined by TAK in 2017 risk management plan TAK is identification and fiscalisation of businesses, which are required to be fiscalized and not yet equipped with fiscal cash registers.

According to TAK records, the total number of businesses performing business activities is 65,745, out of which 46,558 are declarants in TAK taxpayers' system in 2017.

TAK does not have an accurate or approximate data concerning the number of businesses that are not equipped with fiscal cash registers, which according to the legislation are required to be fiscalized.

TAK in 2017 had made some progress in fiscalisation of fuel-trading businesses. According to TAK records, the number of fuel trading in Kosovo is 356, with a total of 605 fuel station, out of which 584 stations are equipped with fiscal cash registers or about 97%, while 21 stations still operate without fiscal cash registers.

Risk

Failure to properly identify businesses that are not equipped with fiscal cash registers may result with tax evasion, which subsequently leads to unequal competition between businesses that conduct certain activities.

Recommendation 3

The Director General should ensure a better management, increased controls and undertake necessary actions, for the businesses are equipped with fiscal cash registers according to the legal requirements.

Issue 4 – Delays in review of returns (reimbursements)

Finding The Law on Tax Administration and Procedures, Article 30, requires TAK to approve a valid application on return (reimbursement) within 60 days from the date of receipt of the request by TAK. If the request has not been reviewed within this deadline, in these cases TAK, in addition to reimbursement, must also pay interest to taxpayers.

TAK has shown progress this year in making shorter deadlines for addressing of claims for reimbursement. But, in spite of this we identified that in five cases, the claims for reimbursement were not reviewed within the legal deadline, and TAK had not paid interest to taxpayers for delays.

Risk Delays in reimbursements may constitute financial problems for the businesses to exercise their operational activities, and may result in budget loss for TAK, as a result of entering into interest obligations for businesses.

Recommendation 4 The Director General should ensure adequate management and control of return/reimbursement process for the claims are reviewed within the set deadline, and in accordance with the legal requirements.

3.3 Wages and Salaries

Wages and Salaries are paid through a centralised system managed by the Ministry of Public Administration (MAP) and MoF. According to KFMIS records, the budget for the category of Wages at TAK in 2017 is €6,889,254, and it was used 100%.

Issue 5 – Managerial Positions covered by Acting beyond legal deadlines

Finding Article 30 of the Law on Civil Service No.03/L-149 stipulates –"If a position in the Civil Services becomes vacant, acting civil servants in that position shall not be appointed for a period exceeding three (3) months".

In 2017, 31 managerial positions were covered by acting, and all had exceeded the legal deadline. At the beginning of 2018, 10 of these positions were covered by regular officials.

Risk Covering key/managerial positions with Acting longer then legally required, increase the risk for not meeting the objectives, and the accountability or performance for this positions is not at required level.

Recommendation 5 The Director General should ensure that all actions are undertaken in accordance with the legal requirements for the positions covered by the Acting are handled with a sustainable solution, by covering them with regular positions, in accordance with legal requirements.

3.4 Personnel Management

We tested management processes in relation to compliance with management of activities in the area of personnel, and we identified the following cases:

Issue 6 – Failure to fully operate organisational structure

Finding	Although TAK has approved the new regulation on systematization of job positions on 30.06.2016, there are still seven positions from different departments and divisions that are not functional[4] in 2017. This is due to the lack of initiative by TAK for announcement of vacancies to cover these positions. The Director General (DG) of TAK has raised the issue of organizational structure in MoF during the year. According to DG, The MoF has suggested that the organizational structure is in line with the new legislation and new planning (reorganization) that the Ministry plans to make.
Risk	Failure to fulfil, or delays in covering certain positions with the respective candidates increases the risk for the TAK planned organization will not be sufficiently functional and effective. It also risks for the set objectives are not met.
Recommendation 6	The Director General should ensure that continuous legal actions are undertaken so that vacant positions are managed with a sustainable solution, in accordance with legal requirements.

3.5 Goods and Services and Utilities

The final budget of Goods and Services in 2017 was €1,632,436, out of which €1,528,474 or 93% was spent. While the budget for Utilities was €174,972€, out of which €166,070, or 95% of the budget was spent.

From the Audit Interim Memorandum we have observed that in one case, the economic operator was awarded with a contract, although has not fulfilled all the required criteria[5] of the tender dossier for procurement "Translation services from Albanian, English and Serbian and vice versa according to the requirements and needs of TAK". Subsequently, on 29.12.2017 TAK has undertaken action by terminating the contract with the consent of both parties, and made a commitment to undertake actions in order to prevent such occurrence.

[4] At the beginning of 2018 TAK has covered four of these positions with regular officials.

[5] Copy of Diploma for one Associate of English Language and two of Serbian Language

3.6 Capital Investments

The final budget of Capital Investments was €263,000, out of which €231,453 or 88% were spent in 2017. These funds were used for execution of five projects that are related to supply with IT equipment and Software for TAK systems.

Recommendations

We have no recommendations in this area.

3.7 Common Issues on Goods and Services and Capital Investments

The following common issues relate to Goods and Services and Capital Investments. We have tested the process of payments in both categories and we identified the following non-compliances:

Issue 7 – Commitment of funds after receipt of goods and services

Finding	According to the financial rule 01/2013 on Public Funds Expenditure, the purchase, the commitment of the funds, the purchase order, the payment of the goods or the service must first be made, and after receipt of the invoice the payment is executed. We identified that in four payments[6] the commitment of funds was made after receipt of goods and services, for these payments commitment of funds was delayed from 3 up to 45 days. This was in the absence of budget and late allocation of funds, resulting in delays in commitment of funds.
Risk	Entering into obligations without commitment of funds may result in non-execution of obligations within deadline, and delays in implementation of the contracts.
Recommendation 7	The General Director should ensure that actions are undertaken so that controls in the payment execution process are being monitored on a continuous basis, for the process of supply of goods and services, and execution of payments is carried out in compliance with legal requirements.

[6] Payments in the amount of €21,150 and €24,715 "Office Supply" and payments in the amount of €37,250 and €22,350 for project "Fiscal Cash Register Software".

3.8 Capital and Non-Capital Assets

Asset management is an important part of financial management and control in public sector. The main Guideline for this area is Regulation no. 02/2013 on Management of Non-financial Assets in Budget Organizations. The value of non-capital assets over €1,000 presented in the AFS was €1,692,000, the value of non-capital assets under €1,000 was €46,000, and the value of stocks was €88,000.

Issue 8 – Failure to use e-Asset system

Finding	Despite the recommendation given in the previous year's report, to improve management of the asset under €1,000 and the stocks, entering them in e-Asset software, the situation was still the same. Non-capital assets and stocks are recorded and reported through an internal system, while the e-assets system is in process of being functionalised.
Risk	Failure to manage non-capital assets under €1,000 through the e-Asset system, as well as recording of assets on different databases hinders their effective management.
Recommendation 8	The Director General should ensure that all necessary actions are undertaken, and closely monitor the functioning of the e-Asset system, to ensure that non-capital assets and stocks are recorded and managed through this system.

3.9 Receivables

Accounts Receivable at the end of 2017 was €322,588,297[7], including pension contributions in the amount of €23,989,691. TAK receivables, excluding pension contributions in 2017 are in the amount of €298,598,606, and compared to 2016 (€284,366,199) we have an increase in AR by €14,232,407 or 5%.

According to the Law no.05/L-043 and Law no. 05/L-119 on Debt Forgiveness, the amount of forgiven for January and August 2017[8] was in the amount of €22,302,219, while the revenues collected as a result of the Law on Debt Forgiveness were €9,204,679.

TAK has established an internal control system that oversees the process of accounts receivable, but the handling of receivables is still a challenge for TAK.

[7] Receivables for Pensions are made of Kosovo Trust Pension receivables but, since they are managed by KTA, they are reported in the AFSs of KTA.

[8] The law on Debt Forgiveness is not applicable as of 30 August 2017

Issue 9 – Inefficient management of Accounts Receivable

Finding	According to TAK's risk management plan and work plan, for 2017 it was planned to collect debts in the amount of €91,400,000. While around €66,800,000 or 73% has been collected. The percentage of debts (base tax) owed to TAK is planned to be decreased at 10% of the previous year revenues, the standard recommended by the IMF[9]. While the amount of debt (uncollected revenues) owed to TAK at the end of 2017 was in the amount of €121,977,774, or 32% of previous year revenues. While, due to the lack of timely/adequate action taking, by the end of 2017, the old debt amounted to €60,604,906[10].
Risk	The lack of sufficient efforts for collecting public receivables may result with non-encouragement of entities to meet their obligations on time. Statutory limitation of receivables hinders their collection.
Recommendation 9	The Director General should ensure that actions are taken to increase efficiency and strengthen controls on debt management and collection, and to ensure that they are in line with the recommendations deriving from the latest IMF report, and the standards of successful tax agencies.

3.10 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2017 was €30,065. These liabilities are carried forward to be paid in 2018. Testing of this category has revealed shortcomings in the management and reporting of liabilities and contingent liabilities.

Issue 10 – Delays in execution of payments, and failure to report liabilities regularly

Finding	Financial Rule No.01/2013/MoF art. 37 point 1e - stipulates that "All invoices received by a budget organisation should be paid within 30 days if not otherwise foreseen under the contract." TAK have not reported regularly to the MoF in relation to the outstanding liabilities, and have not produced monthly reports for January, February, March, April, May, September and December 2017.

[9] This IMF (International Monetary Fund) standard provides that successful Tax Agencies usually maintain their tax obligations at level of 10% of the previous year revenues.

[10] Old uncollectable debts – a debt is considered uncollectable if the latest declaration or assessment deadline have exceeded the 6 year period. Further on, the law On TAK provides some specifications for uncollected debts also expiring of 6 year period, such as: court cases, Business claims filed with Independent Review Board of Appeals. While, for Budget Organisations, Socially-Owned Enterprise, Publicly Owned Enterprises, PAK managed Enterprises, Pension Contributions, Agricultural Cooperatives, there is no statutory limitation of debts.

TAK is also late with settlement of its liabilities. In five[11] executed payments, delays in payment of invoices vary from 22 days to 133 days.

Risk Failure to regularly report liabilities suggests that management does not have a clear statement of obligations, which increases the risk for the invoices are not paid in time. Further on, delays in payment of liabilities may carry over additional costs.

Recommendation 10 The Director General should ensure proper management and control, in order to provide regular reporting of liabilities, and that these reports provide accurate and complete information to the Management and Treasury. Further on, listing by chronological order of unpaid invoices should be supervised in monthly reporting, in order to be paid in time.

Issue 11 – Contingent Liabilities

Finding Contingent liabilities in the AFSs of TAK for 2017 were presented in the amount of €76,352, while in 2016 they were in the amount of €61,000. While, in the State Advocacy Office (SAO), there were 116 cases or rulings for the lawsuits against TAK. These cases from SAO lists are not presented in the AFS. As a result, there is a lack of proper coordination between TAK and SAO concerning court cases /information about contingent liabilities.

Risk The lack of an adequate approach to the treatment of contingent liabilities increases the possibility of their transformation into obligations that would cause the organization's financial position to deteriorate

Recommendation 11 The General Director should ensure proper controls in this area of concern. Further on, should ensure quality reporting and cooperation/coordination with the State Advocacy Office, for the institution is properly presented in the courts.

[11] Payment for rent (2) in the amount of €7,122, Payment for refuelling of vehicles in the amount of €12,123, post service expenditures in the amount of €870, and phone use expenditures in the amount of €5,391.

4 Progress in implementing recommendations

Our Audit Report on the 2016 AFS of resulted in 13 recommendations. TAK had prepared an Action Plan stating how all recommendations will be implemented.

At the end of our 2017 audit, five recommendations have been implemented; four were in process; and four have not been addressed yet. Recommendations that have not been implemented are related to covering positions with Acting, misclassification of projects in budget, and management of non-capital assets under €1,000, not registering them through e-Asset system. Also, from the year 2015, two recommendations (that are not addressed) were carried forward, and they relate to the managements of assets under €1,000. For a more thorough description of the recommendations and how they are addressed, see Annex II.

Issue 12 – Implementing Prior and Earlier Year Recommendations

Finding	Despite the drafting of the plans for implementation of the Auditor General's recommendations, there are still recommendations from previous and earlier years that are not implemented. As a result, same non-compliances and shortcomings have occurred this year too.
Risk	Failure to fully implement recommendations will not prevent improvement of the identified shortcomings, and subsequently the risks and their produced effects may be greater, and may not be put under control.
Recommendation 12	The Director General should set up an effective process for monitoring implementation of the AG's recommendations, and it should set timeframe, and responsible officials. Recommendations that are not implemented by deadlines should be revised as soon as possible, and proactive actions should be taken against the obstacles that may arise during the process.

5 Good Governance

Introduction

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

Overall Governance Conclusion

In general, TAK has proper controls in place in relation to its legal obligations. Financial management and control has proved a good review process and assurance in implementation of legislation and other control processes.

Governance in TAK in the field of managerial reporting and accountability as well as risk management reflects a positive situation. TAK has prepared a plan for implementation of recommendations, and has fulfilled the requirement regarding the submission of the self-assessment checklist. The Self-Assessment checklist filled in by MoF had presented the current status of the Organisation, and it was accompanied by relevant documentation. TAK had drafted the institution's comprehensive development strategy for the years 2015-2020, the risk management plan, and the risk monitoring plan.

However TAK in the risk management monitoring reports provided no information on the reasons for non-fulfilment of the tax control plan, and the progress made in implementing recommendations is not sufficient.

5.1 Internal Audit System

IAU in the organizational scheme is one of the key segments of the internal controls.

An effective audit requires a comprehensive work programme that reflects financial and other risks, and provides sufficient assurance over the effectiveness of internal control. The impact of Internal Audit output should be judged by the importance that management places on addressing recommendations and the support and challenge provided by an effective Audit Committee.

The Internal Audit Unit (IAU) operates with four members of staff - the Head of IAU and three auditors. IAU had drafted a strategic and annual plan where eight regular audits were planned and two upon management request. During 2017 IAU carried out seven regular audits as well as two others upon request, while one of the planned reports to be carried out in 2017 for procurement procedures was carried out in February 2018.

The Directorates/Departments that are audited by the IAU are required to report on quarterly basis in relation to the level of implementation of the recommendations.

IAU reports about its work also to the CHDIA through quarterly reports, while the other line of reporting line is the Audit Committee, which was established within the Ministry of Finance.

The Audit Committee for the period January to December 2017 convened four times, discussing AG reports, findings and implementation of their recommendations.

Issue 13 – The Audit Scope covers mainly the previous year

Finding	Internal audit reports to a greater extent (about 57%) have covered the activities and operating systems of the previous year.
Risk	The focus of IAU scope was considerably placed in the previous year, reducing the assurance or the ability to undertake preventive actions, in order to provide management with information about the functioning of internal control systems.
Recommendation 13	The Director-General should ensure that the IAU plan is mainly focused on the current year's scope. Use of a proactive approach would allow timely addressing of irregularities or possible deviations in control systems.

5.2 Management Reporting, Accountability and Risk Management

In order to have a proper planning, supervise the activities on a regular basis and allow effective decision-making, the Management needs to have regular reports. Accountability as a process is the acceptance of responsibilities, holding persons into account for their actions and disclosing results in a transparent way. Whereas, risk management is a process related to identification, analysis, evaluation and actions/measures taken by the Management to control and respond to risks threatening the Organization.

TAK is an agency that operates within MoF, has its organizational, management and accountability structure, and the Director General reports to the Minister of Finance on regular monthly basis. TAK departments have action plans in place for implementation of the objectives set forth in their operational activities, while on a monthly and quarterly basis they monitor or asses the achievement of the objectives set out in the strategic plan and the operational plan for the 2017.

Although, a range of internal controls are applied by Management, it should further pay higher attention in the area of revenue, personnel and asset management, and accounts receivable.

5.2.1 Tax Control

As a result of carried out tax controls, the collected revenues amounted to €53,000,000, and they are incorporated in TAK's total revenues. Collection of additional tax revenues is higher by €3,900,000 or 7.5% higher than in the previous year.

The largest number of audits is carried out at medium businesses , in a total of 498 audits or 34.5%, followed by the audit of large businesses with 380 audits or 26%, micro businesses with 285 audits or 20%, and small businesses with 191 audits or 13%, and "The Directorate of Biggest Tax payers (DBT) with 90 controls, or 6%. We have observed the following weaknesses:

Issue 14 – Failure to execute Control Plan

Finding	The 2017 work plan, has foreseen 1,976 controls, while 1,444 of them, or 73% of the plan was executed. The following regions have marked setbacks in execution of plan: Mitrovica, Prishtina 1, Prishtina 2, Peja and Gjilan. The main reasons behind non-implementation of the plan presented by TAK officials are: requests arising by other institutions such as from Police, Intelligence Unit at MoF, Prosecution, Mining and Mineral Inspectorate, Municipal Inspectorates for joint actions.
Finding	Initiation of audit cases should be done for those types of tax and tax periods that may constitute high levels of risk, taking into account risk assessment. According to the plan 2/3 of controls for 2017 will be initiated by the central office, and 1/3 of the open controls will be initiated by the regional assessment offices. However, out of 1,444 performed audits, 315 controls were carried out by the central office for risk assessment. According to the plan, while about 960 of proposed controls should be carried out by the head office. Controls carried out upon proposal of central office have resulted to be more effective in additional revenues.
Risk	Failure to execute controls according to the plan and defined criteria may result with non-initiation of cases for control of identified high risk businesses, and failure to settle tax obligations, or in failure to collect revenues for BRK.
Recommendation 14	The Director General should ensure that concrete actions are undertaken to allow implementation of the control plan. Further on, should ensure that control activities are undertaken based on assessments/planned priorities, in order to prevent tax evasion by entities/taxpayers.

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 1705[19] 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 II: Progress in implementing Prior and Earlier Year Recommendations

Audit Component	Recommendation carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
2.3 Prior Year Recommendations	The General Director should ensure that a revised action plan clearly sets out a timetable for addressing the recommendations made by the AG with accountable staff members for the previous year.		Under implementation during 2017.	
3.4 Revenues	The General Director should enhance measures for identification of the causes for inconsistent data and eliminate them in order to ensure harmonisation of data relating to reimbursements.		Under implementation during 2017. Compared with previous years the average number of days for reimbursement has been reduced, and the number of reported cases for delay has been reduced significantly.	
3.4 Revenues	The General Director should enhance controls to ensure that the requirements of taxpayers approved for reimbursement are reviewed within the specific time period.		Under implementation, the number of days for handling of requests for reimbursement has been reduced.	
3.7.1 Capital and Non Capital Assets	The General Director should review the existing controls in the asset management. Controls in this area should be strengthened so that assets are safeguarded from their loss or misuse.			Not implemented.
3.7.3 Handling of Receivables	The General Director should ensure that all needed actions are taken including legal actions in order to increase the efficiency in collecting public money.			Not Implemented.

Audit Component	Recommendation given in 2016	Implemented	Under implementation	Not implemented
2.1 Progress in the Implementation of Prior Year Recommendations	The Director General should ensure that the action plan is revised, by analysing the causes behind unimplemented recommendations, and set out a new timetable with accountable staff members identified for their implementation. Initial focus should be put on those areas of greatest significance. Implementation of this plan should be continuously monitored		Under implementation during 2017, TAK has prepared within the legal deadline the plan for implementation of recommendations given in Audit Report by the NAO before 2016, at the end of the year had prepared a report on monitoring recommendations, providing information in relation to undertaken actions but some of the recommendations have not been addressed yet.	
2.3.1 Setting of Strategic Objectives	The Director General should ensure that necessary actions are taken to eliminate barriers with the MPA and that recruitment procedures that enable the filling of positions with regular officials are initiated within a reasonable time, in order to achieve the full operationalization of the organisation structure in TAK.			Not implemented.
3.1 Budget Planning and Execution	The Director General should ensure that reporting lines are strengthened in order to enable the planning and classification of certain projects according to the chart of accounts approved by Treasury.		Under implementation. One project was managed by the economic category of Capital Investment, instead of being managed by the category of Goods and Services, supply with one-year valid licenses.	

3.1.1 Revenues	The Director General should ensure that revenues reconciliation process is carried out in line with legal requirements and that explanatory notes on non-reconciliation of TAK's accounting records with Treasury reports is provided. This would enable the TAK management to make decisions based on accurate and complete information.		Under implementation The process of reconciliation with the Treasury was performed on a monthly and quarterly basis, but when comparing the data between the Treasury and TAK a, no additional clarification was provided about non-reconciliation of data in the area of revenues and reimbursements.	
3.1.1 Revenues	The Director General should, in coordination with Treasury Department, provide for additional controls in order to ensure complete reconciliation of refunds data.	Implemented		
3.1.1 Revenues/ reimbursement	The Director General should ensure that additional actions are taken in order to enable that claims for refunds are considered within the set deadline and In line with legal requirements.		Under implementation during 2017. Compared with previous years the average number of days for reimbursement has been reduced, and the number of reported cases for delay has been reduced significantly.	
3.1.1 Revenues/fiscal process	The Director General should ensure that controls are enhanced and necessary measures are taken to oblige all fuel trading businesses to get equipped with cash registers.	Implemented		

3.1.1 Revenues	The Director General should undertake all actions to ensure that deregistered businesses do not conduct business activities anymore and do not generate incomes on behalf of the deregistered business.	Implemented		
3.1.2 Wages and Salaries	The Director General should ensure that all legal actions are undertaken to find sustainable solutions in line with the legal requirements regarding the positions filled with acting staff.			Not implemented.
3.1.2 Wages and Salaries	The Director General should ensure that statutory deadlines for engaging staff on special service contracts are adhered to.	Implemented		
3.1.3 Goods and Services and Utilities	The Director General should ensure that legal requirements related to liabilities originating from the decisions of the Kosovo Court of Appeals are adhered to.	Implemented		
3.2.1 Capital and Non Capital Assets	The Director General should ensure that all necessary actions are taken in order to have non-capital assets recorded and managed through the e-assets system.			Not implemented.
3.2.2Accounts Receivable	The Director General should ensure that controls over receivables management are strengthened, efficiency is enhanced and that controls over their collection and management are strengthened. In this regard, the causes behind increased amount of receivables are analysed in order to take legal actions for collecting them.			Not implemented.

Annex III: Letter of confirmation

REPUBLIKA E KOSOVËS-REPUBLIKA KOSOVA-REPUBLIC OF KOSOVO
ZYRA KOMBËTARE E AUDITIMIT
NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE
26. 06. 2018
03 47 1180 1

REPUBLIKA E KOSOVËS / REPUBLIKA KOSOVA / REPUBLIC OF KOSOVO
Qeveria e Kosovës / Vlada Kosova / Government of Kosovo
Ministria e Financave / Ministarstvo za Financije
Ministry of Finance
Administrata Tatimore e Kosovës / Poreska Administracija Kosova / Tax Administration of Kosova
ARKIVA / ARHIVA / ARCHIVE
Nr. Prot. 09-06-2568
Data 26.06.2018

Republika e Kosovës - Republika Kosova - Republic of Kosovo
Qeveria - Vlada - Government
Ministria e Financave - Ministarstvo za Finansije - Ministry of Finance
Administrata Tatimore e Kosovës - Poreska Administracija Kosovo -Tax Administration of Kosovo

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 Pasqyrave Financiare të **Administratës Tatimore të Kosovës**, për vitin e përfunduar më 31 dhjetor 2017 (në tekstin e mëtejmë "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.

z. Sakip Imeri ....

Drejtor i Përgjithshëm – Administrata Tatimore e Kosovës,

Data: 25 Qershor 2018, Prishtinë,