Republika e Kosovës
Republika Kosova
Republic of Kosovo

Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

**Document No: 24.1.1-2017-08**

# AUDIT REPORT

# ON THE ANNUAL FINANCIAL STATEMENTS OF THE KOSOVO CUSTOMS

# 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 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 Kosovo Customs, 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

**Introduction**

This report summarizes the key issues arising from our audit of the 2017 Annual Financial Statements of the Kosovo Customs, 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 Annual Financial Statements → Financial Management and Control → Recommendations of previous two years

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 Kosovo Customs.

The National Audit Office acknowledges the Senior Management and Staff of Customs, 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

| Conclusion | Recommendation |
|---|---|
| The AFS production process was managed according to the applicable legislation. | We have no recommendations on this area. |
| Project planning in inadequate economic codes was a challenge even this year. | The Director General should ensure that an effective management system is applied including orientation of projects in the budget system (see subchapter 3.2). |
| Financial Management and Controls have disclosed weaknesses in the area of revenues, personnel, procurement, assets, contingent liabilities and accounts receivable. | The Director General should improve/strengthen management and controls in the processes where weaknesses/failures were evidenced (see subchapters 3.2 - 3.10) |
| Progress on the recommendations of previous years is not in a satisfactory level and needs additional improvements in the direction of organization's development and improvement. | The Director General should ensure that the action plan for the implementation of recommendations is executed proactively where key issues/progresses are reported to management on a monthly basis (see chapter 4). |
| Governance arrangements related to accountability, risk management and mangement reporting are satisfactory. Although, Internal Audit recommendations were not sufficiently addressed. | The Director General should ensure that IAU recommendations are addressed in a proactive approach, possible deficiencies in the control system to be addressed in a proper time (see chapter 5). |

# 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 Kosovo Customs (KC). We have analyzed the Customs 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's) 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 KC for the year ended on 31st of December 2017, which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement, Disclosures 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 the 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 Director General of KC 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 Kosovo Customs 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

By KC 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 addressing the recommendations;
- Requirements of Financial Management and Control (FMC) procedures; and
- Draft plan and final plan of procurement in time.

**Declaration made by the KC Management**

Given the above, the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the MoF, can be considered to be correct and fair. During the audit no material errors were identified.

**Recommendations**

We have no recommendations regarding the AFS.

# 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 Organizations. 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 over revenues are generally appropriate, but further enhancements are required in the area of personnel, procurement and assets management. Further on, as a result of non-implementation with consistence of regulations, the area of revenues continues to be followed with weakness and deficiency in their management.

## 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** | **8,977,368** | **8,808,863** | **8,490,434** | **7,838,762** | **7,597,000** |
| Government Grant -Budget | 8,977,368 | 8,808,863 | 8,490,434 | 7,838,762 | 7,597,000 |

The final budget in relation with the initial budget was decreased for €168,505. This decrease is after the budget review an in accordance with Government decisions.

KC used 96% of the final budget in 2017 or €8,490,434, for 3% lower level compared to 2016 that was 99%.

[1] Final budget – the budget approved by the Assembly, subsequently adjusted 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** | **8,977,368** | **8,808,863** | **8,490,434** | **7,838,762** | **7,597,000** |
| Wages and Salaries | 5,838,713 | 5,654,921 | 5,654,921 | 5,587,296 | 5,247,000 |
| Goods and Services | 1,745,280 | 2,185,648 | 1,924,564 | 1,565,043 | 1,913,000 |
| Utilities | 193,375 | 164,375 | 107,510 | 96,595 | 92,000 |
| Capital Investments | 1,200,000 | 803,919 | 803,439 | 589,828 | 345,000 |

Explanations for changes in budget categories are given below:

- The initial budget for Wages and Salaries was €5,838,713, with budget review was deduced for €32,713, while at the end of the year with the decision of the Ministry of Finance was decreased also for €151,079, as a result of non-recruitment of planned staff;
- The final budget for Goods and Services was increased for €440,368. With Government decision €342,000 are allocated for the KC needs (banderol, rent and contractual services) and €52,115 for the membership expenditures in the World Customs Organization, as well as the amount of €46,253 for the cover of chemical analysis expenditures, internet expenditures;
- In the Capital Investments category the initial budget was €1,200,000. With budget review was decreased for €396,081. As with the MoF decisions are removed/cancelled four projects, such as: VoIP implementation, Renovation of customs facilities, the system of confirmations with barcode and the Software System of Kosovo Customs according the Standards as well as the project Supplies with IT equipment.

**Table 3. Revenues collected for the Kosovo Budget – execution toward the budget (in €)**

| **Description** | **Initial Budget** | **Final Budget** | **2017 Outturn** | **2016 Outturn** | **2015 Outturn** |
|---|---|---|---|---|---|
| Gross Revenues | 1,108,450,000 | 1,108,450,000 | 1,121,097,000 | 1,051,419,000 | 951,808,000 |
| Returns | (9,300,000) | (9,300,000) | (9,144,000) | (7,377,000) | (6,879,000) |
| Net Revenues | 1,099,150,000 | 1,099,150,000 | 1,111,953,000 | 1,044,042,000 | 944,929,000 |

In 2017, KC had collected revenues of €1,121,097,000 or €12,647,000 more that the planning, as well as for €69,678,000 or 7% more than in 2016. Revenues from VAT in border are increased 8% as well as revenues from excise in border are increased for 7% in relation with 2016. While, regarding the revenues from the customs we have a decrease for €3,977,230, as a result of the implementation of SAA politics, where in certain products is eliminated and escalated the customs tax.

KC in the monitoring report of the annual plan implementation explained that the increase of revenues in 2017 was also as a result of actions undertaken by the Management of KC, in strengthening the controls by resulting with additional actions in reducing the in-formalities as well as anti-smuggling actions.

**Issue 1 – Misclassification of budget**

| | |
|---|---|
| **Finding** | According to article 3 of Financial Rule 02/2013 – on Management of non-Financial Assets – Capital Asset means all non-financial assets that have timeframe of use longer than one year, financial value over €1,000, ownership and control are of the organization.<br><br>Payment for "Supply with equipment and licenses for Customs Systems" in the amount of €66,581 was done from the capital investments category, respectively from the economic code 31680, being treated by KC as intangible asset. However, equipment and licenses have a one year timeframe use, and should be budgeted and paid by the category of goods and services. Unfair expenditures classification/reporting impacts on overstating of capital investments and understating of goods and services. |
| **Risk** | Incorrect presentation of data in financial statements leads in misunderstanding of capital investments and underestimation of goods and services and leads to unfair reporting of financial informations in AFS of KC. |
| **Recommendation 1** | The Director General should ensure good controls are in place securing adequate planning/classification of projects based on chart of accounts approved by the Treasury-MoF. |

## 3.2 Revenues

KC in general has an operational system in revenues management. The planned revenues by the Government of Kosovo for 2017 are €1,108,450,000. Net revenues for 2017 are €1,111,953,015 including returns in the amount - €9,144,094.

**Table 3. Revenues collected and returns according the economic codes (in €)**

| **Description** | **Amount 2017** | **Amount 2016** | **Amount 2015** |
|---|---:|---:|---:|
| Excise in Border | 419,968,063 | 390,905,186 | 349,876,450 |
| Internal Excise | 12,311,278 | 12,374,036 | 10,756,400 |
| Custom in Import | 125,992,685 | 129,931,679 | 131,390,851 |
| VAT in Border-Customs | 557,775,781 | 514,339,311 | 456,518,488 |
| Anti-dumping Measures | 330,197 | 0,00 | 0,00 |
| Other taxes and fees | 516,693 | 548,759 | 153,228 |
| External Custom Controls | 2,266,388 | 1,832,084 | 1,353,172 |
| Customs Offense | 1,095,533 | 906,347 | 938,760 |
| Banderol | 359,736 | 382,567 | 508,057 |
| Revenues from the sale of goods | 269,983 | 198,689 | 313,039 |
| Revenues from Court | 210,772 | 0,00 | 0,00 |
| Fast-Customs | 0,00 | 707 | 0,00 |
| Excise Return | -7,590,977 | -5,758,537 | -4,783,372 |
| Custom Tax Return | -281,883 | -489,407 | -370,704 |
| VAT Return | -1,027,722 | -1,094,227 | -1,223,579 |
| Other Custom Tax Return | -243,512 | -34,756 | -500,923 |
| **Net revenues** | 1,111,953,015 | 1,044,042,438 | 944,929,867 |

We have analysed the management of the revenues process on the case of goods import and the determination of custom value. The custom value, is referred to the value of goods imported, used to calculate custom liabilities of import and fees. Most of imports are evaluated based on the "transaction value" (contract price), or the paid price or that it should be paid for goods in their country of exportation when sold in Kosovo, with some certain adjustments. However, if it is impossible to use the transaction value, there are five other methods which can be used according the order. We tested revenues from the Value Added Tax (VAT), Excise and Customs. Through tested cases/samples we have identified weaknesses in the following:

**Issue 2 – Deficiencies in the calculation of custom base and non-application of uniform prices, on the occasion of re-evaluation of goods for tax purposes**

**Finding**

For import/SAD with number 2020-1409, item no. 1 which is comprised from five positions in amount of 107,300 piece/glasses, on the occasion of re-evaluation of custom base, for two positions the Customs has received invoice price, while three positions are re-evaluated. On this occasion, the custom base is increased from €51,610 to €61,159. In custom base after the re-evaluation are not included the transport expenditures for two positions that is received the transaction price. With this case the custom base it should be on the value of €62,815. As a result the tax burden for the business is lowed, and has deviation in revenues for €493.

In one case we have identified that the articlewith the same terms is evaluated with different values/prices for the purpose of calculation of custom liabilities.

**Case** I – import of item (adult t-shirt from cotton), from the same business, same place of origin, same exporting place, same description and terms of delivery but in different time periods.

a. Import/SAD with number 2020-22100, tariff code 61091000, on 12.05.2017, the transaction/invoice value €4,283 for 23,796/piece on the occasion of the value determination for the calculation of custom liabilities by customs officials it was not received the invoice value. On the occasion of re-evaluation the value was increased in €9,523, the average price per item €0.40 cent.

b. Import/SAD with number 2020-26807, tariff code 61091000, on 02.06.2017, the transaction/invoice value €5,313 for 26,568/piece on the occasion of the value determination for the calculation of custom liabilities, it was not received the invoice value. With re-evaluation the value was increased in €7,968. The average price per item €0.29 cent.

Because of the difference in evaluation/price of the business item in the second import with a transaction value of 5,313€ was charged less with customs liabilities for €792.

Regarding this case, the Customs has taken actions through the post-import control and has corrected the previous evaluation of the customs base.

**Risk** Deficiencies in the custom base calculation and non-application of uniform prices on the occasion of re-evaluation of custom base, as a result can have an incorrect and unequal treatment of businesses as well as deviations in revenues. Further on, it could impact also in the demolition of equilibriums in the trade flow.

**Recommendation 2** The Director General should ensure that controls operate and actions are taken to enable a correct process of the customs statements evaluation, unifying of custom values as well as equal treatment of businesses.

**Issue 3 – The development of import procedures, in lack of license**

**Finding** According to article 4 of AI no. 02/2012 for issuing a license for the payment of the excise tax and the amount of the administrative fee, any subject in order to exercise the activity must submit a request for obtaining a license for paying the excise tax in KC.

In the import/SAD with number 2017242, date 05.01.2017, were imported cigarettes in the amount of €251,087, in lack of valid license. The business had the license deadline expired at the end of 2016.

**Risk** Development of import/export procedures in lack of valid license presents weaknesses in customs procedures/controls and increase the risk of their avoidance.

**Recommendation 3** The Director General should ensure that controls operate fully and adequate process/procedures in customs point are in place. Export/import procedures to be developed by the businesses provided with valid documents/license by providing fair assurance and competition in trade.

**Issue 4 – Applying evaluation methods not according to the requirement of the Customs Code**

**Finding**

Article 34 of the Customs Code determines that where the custom value cannot be determined according to article 33, it should be determined according the chronological order of sub-paragraphs (a), (b), (c) and (d) of paragraph 2.

We have noticed three cases where methods were not used chronologically, according to the requirement of the Customs Code.

a. the Customs office in Prizren, the importation of goods with tariff no. 721420000 (periodic iron, steel rods); the importer, the good origin, the delivery terms and customs procedure are same. On the case of goods re-evaluation for 15 SAD/imports is used method two and in 14 SAD/imports is used method six of evaluation.

b. the Customs office in Prizren, on the case of the goods importation with tariff no. 7213914900 (armour in circle); the importer, the good origin, the delivery terms and customs procedures are same, on the case of goods evaluation for 12 SAD/imports is used method three of evaluation and for 20 SAD/imports is used method six of evaluation; and

c. the Customs office in Ferizaj, on the case of goods importation with tariff no. 7213914900 (armour in circle); the importer, the good origin, delivery terms and customs are the same, on the occasion of goods evaluation for four SAD/imports is used method three of evaluation, in seven SAD/imports is used method six of evaluation.

**Risk**

Applying of different methods of evaluation for identic or similar goods, with the same terms, increase the risk in incorrect determination of the value of the goods on the occasion of revaluation.

**Recommendation 4**

The Director General should ensure that the controls system regarding the determination of the goods value for customs and tax liabilities to be done in an uniform manner which excludes the possibility of using non-reasonable/principled customs values.

## 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 the KFMIS data, the budget for the Wages category in KC for 2017 is €5,654,921, which was spent to the extent by 100%.

**Issue 5 – Leadership position with acting and non-reconciliation of coefficients for civil servants staff**

| | |
|---|---|
| **Finding** | Administrative Instruction no. 37/2016 for Regulating the Employment Relationship of Customs Officers, among others it is mentioned that "the DG will fill a position temporarily based on the proposals of the Head of Department and Director of respective directorate, but not longer than six months".<br><br>In 20 cases (three in civil service and 17 in custom), managing/key positions such as Head of Sector, Head of Department, Director of Departments, and positions of different officials are covered with acting. For the three cases in the civil service after the promotion process, regular appointment were made at the beginning of the 2018. This situation was the same also in the previous year. According to the Customs Management this situation has come as a result of waiting of changes that will be made with the consolidation of two Agencies (KC and TAK).<br><br>Coefficients for some positions in KC are not in same line/level with the Ministry of Finance as a whole, including its Agencies. Positions Certifying Officer, Procurement Officer, Financial Officer and Assets Officer in KC, have lower coefficients than the same positions in MoF. |
| **Risk** | Covering of key management positions with Acting for a longer time than the legal requirements as well as non-reconciliation of coefficients/wages, increase the risk of objectives non-achievement and the required responsibility or performance in these positions to not be on a proper level. |
| **Recommendation 5** | The Director General should ensure that all actions are taken for the positions covered by acting, to become a stable solution with regular positions and the case of of multipliers for the staff of KC should be unified in accordance with legal requirements. |

## 3.4 Personnel Management

We tested the processes management in the compliance aspect regarding the management of activities in the personnel area, and identified these cases:

**Issue 6 – Non-full operational of new organizational structure**

| | |
|---|---|
| **Finding** | Based on the approved number of staff for the Kosovo Customs (KC) of 642, conform the Law of Budget of the Republic of Kosovo for 2017, KC had drafted the plan of staff allocation conform the AI no. 39/2017 on Organizational Structure of the Kosovo Customs.<br><br>According the actual organizational structure, KC had 509 customs officers (CO) and 74 civil servants (CS), while according the plan of staff allocations for the fulfilment of 2017 Organizational Structure were foreseen 558 customs officers and 84 civil servants. However, until now this structure is not fulfilled, there are still 59 unfulfilled positions.<br><br>KC during 2017 has undertaken several actions for the fulfilment of organizational structure, the Director General this issue has addressed also to the MoF. However, as the Ministry of Finance has in plan to make changes of customs legislation (Customs Code and of the Excise), as a result it was suggested that the organizational structure to be in accordance with the new legislation and new politics planning of the Ministry. |
| **Risk** | Failure to fulfil or delays in covering the certain positions with respective candidates, could negatively impact in the development of operational activities and achievement of determined objectives of the Customs. |
| **Recommendation 6** | The Director General should ensure that continuous legal actions are taken, that for the unfulfilled positions to find a sustainable solution in accordance with legal requirements. |

## 3.5 Goods and Services and Utilities

The final budget for Goods and Services in 2017 was €2,185,648. Out of them €1,924,564 or 88% of the budget were spent. Those relate to supply with clothes, fuel for vehicles', other contractual services, as well as expenditures for official travels.

The final budget for Utilities in 2017 was €164,375. Out of them €107,510 of the budget were spent. Here are included the expenditures for electricity and phones.

**Recommendations**

We have no recommendations in this area.

## 3.6 Capital Investments

The final budget for Capital Investments in 2017 was €803,919. Out of them was spent €803,439 almost 100%. With these funds were implemented five projects related to supplying with IT equipment and Software for the Customs systems.

**Recommendations**

We have no recommendations in this area.

## 3.7 Common Issues on Goods and Services and Capital Investments

In the following are common issues related to Goods and Services and Capital Investments. We tested five procurements procedures from both categories where we identified irregularities as in follow:

**Issue 7 – Signing of contract before commitment of funds**

| | |
|---|---|
| **Finding** | For the contract "Supply with uniform for the Kosovo Customs personnel" part II in the amount €298,676, signed on 22.03.2017, the commitment was done on 06.04.2017. Without commitment of funds, are signed also the framework contracts for "Chemical analysis services and testing of fuel parameters – Part I unit price was 358€ while realization in 2017 was in the amount of 19,628€ and part II unit price was 425€, realization was 21,034€. While, planning for each part was of 120,000€/part for three years. |
| **Risk** | Entering into liabilities without securing necessary funds could result in delays of contract implementation as well as non-fulfilment of liabilities on time. |
| **Recommendation 7** | The Director General should ensure that it has good controls in the process management of procurement activities and that their operations are continuously monitored during the whole process. |

## 3.8 Capital and Non-Capital Assets

Asset management is an important part of financial management and controls in the public sector. Main guideline in this area is the Rule no. 02/2013 on Management of non-financial assets in Budget Organizations. The value of capital non-financial assets with value over €1,000 presented in the AFS was €4,340,505, the value of non-financial asset under €1,000 was €381,218 and stocks €171,000.

**Issue 8 – Failure to use the e-Asset system**

**Finding** Despite the given recommendations in reports of previous years, to record the assets under €1,000 in the e-Asset system, further on the situation is the same. Non-Capital Assets and Stocks are not managed through the e-Asset software, but those are evidenced and reported through an internal system of them. The Customs Officials have declared that from April of 2018 have started to put in operation and the management of non-financial assets under €1,000 through the e-Asset system.

**Risk** Failure to manage the non-capital assets under €1,000 through the e-Asset system as well as recording of assets in different database makes it difficult their effective management and this could carry risks in their correct presentation and reporting.

**Recommendation 8** The Director General should ensure that the actions undertaken are sufficient and to closely monitor the operation of e-Asset system, in order to ensure that non-capital assets are recorded and managed through this system.

## 3.9 Receivables

KC has placed an internal control system that overviews the accounts receivable process by managing this process through the sector for the debt management. However, receivable continues to be high. Their value at the end of the year was €41,883,666. This value is lower for 1,611,745€ compared to 2016.

**Issue 9 – Ineffective management of accounts receivable**

| | |
|---|---|
| **Finding** | Handling and collection of receivables continues to remain a challenge for the KC. Despite the actions taken on debts collection and tracking of cases in executive procedure and court, the value of receivables is still high. . On the other hand the economic subjects continue to fail to pay debts payment to the KC. |
| **Risk** | The lack of efficiency for the collection of receivables could negatively impact in other subjects to pay their liabilities on time, while their statutory limitation makes it hard the collection. |
| **Recommendation 9** | The Director General should ensure adequate controls about managing of accounts receivables, as well as in coordination with relevant bodies should take actions to increase efficiency their collection. |

## 3.10 Outstanding Liabilities

The statement of outstanding liabilities at the end of 2017 was €15,003. These liabilities are carried forward to be paid in 2018. We tested the monthly reports of liabilities as well as five invoices of presented liabilities in AFS. Our tests in this category disclosed that the management and reporting of liabilities was done in accordance with legislation. While deficiencies were noticed to contingent liabilities.

**Issue 10 – Contingent Liabilities**

| | |
|---|---|
| **Finding** | By the State Advocacy data there are 156 cases that have been filed against the Customs. While in AFS the Customs had presented contingent liabilities in the amount €11,770,000. We have also noticed the lack of proper coordination between the Customs and the State Advocacy about contingent liabilities issue for their presentation in AFS. |
| **Risk** | The lack of a proper approach for the handling of contingent liabilities increases the opportunity of their transformation into liabilities that would cause the deterioration of the organization's financial position. |
| **Recommendation 10** | The Director General should ensure proper controls in this area, to ensure quality reporting and cooperation/coordination with the State Advocacy with the aim of adequate representing of institution in courts. |

# 4 Progress in implementing recommendations

Our Audit Report on the 2016 AFS has resulted with 12 recommendations. KC had prepared an Action Plan stating how all given recommendations will be implemented.

Until the end of our 2017 audit, seven recommendations have been implemented, two were in process and three have not been implemented yet. The unimplemented recommendations are the covering of positions with acting, misclassification of projects and non-operation of the e-Asset system. Further on, from 2015 were carried forward also two recommendations which are not addressed, the covering of positions with acting and misclassification of capital projects.

**Issue 11 – Implementation of recommendations from previous and earlier year**

| | |
|---|---|
| **Finding** | Despite the drafting of plans for the implementation of AG's recommendations, still has unimplemented recommendations from the two earlier years. As a result the organization is still facing with the same weaknesses. |
| **Risk** | Not full implementation of recommendations impact in non-improvement of identified weaknesses, and as a result consistently we have the repetition of the same deficiencies. |
| **Recommendation 11** | The Director General should implement an effective process for the monitoring of implementation of the Auditor General (AG) recommendations, which sets the targeted time and the responsible officials for this. Recommendations that are not implemented according the timeframes should be reviewed in a short timeframe and proactive actions to be taken against the barriers presented during implementation. |

# 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 of KC regarding the management reporting and accountability, as well as the preparation of report for risk management. Further on, the level of implementation of the previous year recommendations is an indicator of efforts for the further development of processes by the Management of KC. The level of compliance with FMC requirements by the KC is also monitored by the completion of 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

KC in general has good controls in relation to its statutory obligations. The Financial Management and Control has proven a good review process and assurance in the implementation of the legislation and other control processes.

Governance in the Kosovo Customs in the area of management reporting and accountability, and risk management reflects a positive situation. The Customs has timely drafted the plan for the implementation of the recommendations, but the progress is not sufficient. KC has met the requirement regarding the submission of the self-assessment questionnaire. The self-assessment checklist completed by MoF has presented an accurate situation of the organization and was followed with respective evidences. KC had drafted the comprehensive strategy of the institution's development for 2017-2019, the plan for risks management as well as the plan for risks monitoring. However, the KC is in unfinished phase (transitory) regarding its internal organization, personnel management in general.

## 5.1 Internal Audit System

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

The Internal Audit Unit (IAU) operates with three members – the Head of IAU and two auditors. IAU had drafted the strategic and annual plan where are planned eight audits during 2017. This unit has fully fulfilled the planning by giving specific recommendations for the improvement and operation of the internal controls.

Directories/departments that are audited by IAU are obliged to report on a quarterly periods regarding the implementation level of recommendations.

IAU reports for its work also in the CHUIA through quarterly reports and the other reporting line is the Audit Committee, which is established within the Ministry of Finance.

The Audit Committee, for the January-December 2017 period has held four meeting, where the IA reports were reviewed, findings and the implementation of their recommendations. However, the Management has not taken appropriate measures to address the recommendations.

**Issue 12 – Low level of addressing of the IAU recommendations**

| | |
|---|---|
| **Finding** | The Internal Audit reports were not handled in a proper level by Management, as a low number of their recommendations were implemented. From 38 recommendations given in total in eight audit reports, only 16 of them were implemented, while 22 recommendations were in the process of addressing. The Audit Committee (AC) had not given any meaningful contribute in this process. |
| **Risk** | Failure to address the AG's recommendations and improper handling of their reports by AC and Management, will have a negative impact in the effective operation of internal controls as well as increases the risk that the same errors and deficiencies to be consecutively repeated. |
| **Recommendation 12** | The Director General should ensure a close cooperation and effective communication between Management, AC and IAU to identify deficiencies in internal controls and to take actions that the AG's recommendations to find implementation in practice. Further, AC should strengthen its role in this process, by holding management more responsible for the implementation of recommendations. |

## 5.2 Management Reporting, Accountability and Risk Management

Management has implemented a range of internal controls to ensure that financial systems operate as intended. It is important that those include the proper report to the Management to enable and effective and timely response to the identified operational problems.

KC is an agency within the MoF, its AFS are consolidated within the MoF AFSs. To ensure an effective financial management is required an effective process of consolidation and timely reporting. KC has its organizational, managerial and accountability structure, and that the Director General report to the Minister of Finance on a monthly regular basis. Departments within the KC have actions plans for the implementation of foreseen objectives with their operational activities, and at the same time on a monthly and quarterly basis conduct the monitoring or measuring the achievement of objectives determined with the strategic plan.

Although, a range of internal controls are applied by Management to ensure that systems operate as intended, the KC further on should give greater attention to the processes in revenues management, area of personnel, procurement, accounts receivable, contingent liabilities and assets.

*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 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 recommendations of previous and earlier years

| Audit Component | Recommendations carried forward from 2015 | Implemented during 2017 | Under implementation during 2017 | Not implemented |
|---|---|---|---|---|
| 2.3 Recommendations of previous year | The Director General should ensure that a formal process of monitoring the implementation of recommendations from the AG is applied, in order to hold accountable the staff responsible for addressing the recommendations according to timelines set out in the Action Plan. | | In process although the Customs management has prepared the plan for implementation of recommendations, and at the end of 2017 has prepared an action plan for the implementation degree of recommendations, further actions should be taken to hold responsible appointed officials within the Customs sectors that the implementation degree of recommendations to be in an acceptable level. | |
| 3.3 Budget Planning and Execution | The Director General should ensure that planning and classification of certain projects is done taking into consideration the accounting plan approved by the Ministry of Finance. | | | It is not implemented. |

| | | | | |
|---|---|---|---|---|
| 3.6.1 Remunerations (Wages and Salaries) | The Director General should ensure that all legal actions are taken to cover certain positions with regular employees. Furthermore, it should provide a clear legal basis regarding hazard pay for staff within the institution and timely decisions to avoid unpaid leave without prior approval. Also, it should ensure updating of personnel files in accordance with the duties and responsibilities which they exercise. | | | It is not implemented. |
| 3.7.2 Handling of Receivables | The Director General should ensure that appropriate measures for functioning of the system are taken in order to record all debts in NUXEO system. Further, it should continue to take legal action and make an analysis in order to extract the causes of businesses failure in payment of debts. | | Despite the undertaken actions by the debts management sector, further additional actions are required that the debts value to be in an acceptable level. | |
| **Audit Component** | **Recommendations given in 2016** | **Implemented** | **Under implementation** | **Not implemented** |
| 1.3 Recommendations for the first part of the report | The Director General should ensure that disclosures present a complete and accurate balance of receivables (debts). The General Director should also ensure that the AFS preparation process includes a detailed management review of the draft AFS. After ensuring controls on AFS reviews, the statement prepared by CEO and CFO could be signed and handed over. | It is implemented. | | |

| | | | | |
|---|---|---|---|---|
| 2.1 Progress in implementing the recommendations of previous year | The Director General should ensure that the action plan is revised by analyzing the causes behind unimplemented recommendations and set out a new timetable and appoint staff members responsible for implementing the recommendations. Initial focus should be put on areas of greatest significance. Implementation of this plan should be monitored on ongoing basis. | | In process although the Customs management has prepared the plan for implementation of recommendations, and at the end of 2017 has prepared an action plan for the implementation degree of recommendations, further actions should be taken to hold responsible appointed officials within the Customs sectors that the implementation degree of recommendations to be in an acceptable level. | |
| 2.3.2 Management Reporting and Accountability | The Director General should ensure that respective departments have undertaken the required actions to draft the AI setting forth special provisions on the management of customs receivables (debts) | It is implemented. | | |
| 3.1 Budget Planning and Execution | The Director General should ensure that reporting lines are more robust in, to enable the planning and classification of certain projects made according to accounting plan approved by MoF. | | | It is not implemented. |
| 3.1 Budget Planning and Execution | The Director General should ensure that has installed additional controls in the phase of budgeting and monitoring of implementation the projects, in order to enable recording and reporting of expenditures in compliance with the reporting requirements. | It is implemented. | | |

| | | | | |
|---|---|---|---|---|
| 3.1.1 Revenues | The Director General should strengthen controls in order to ensure that all legal procedures have been adhered to. In this regard, it should ensure that those entities that do not pay their liabilities or having not entered into debt reprograming agreements should be prohibited export / import of goods and services. | It is implemented. | | |
| 3.1.1 Revenues | The Director General should provide for additional controls and increase the level of responsibility and accountability in the development of customs procedures (definition of the value of imports). The possibility for errors in customs evaluations will be eliminated and the number of complaints considerably reduced. | It is implemented. | | |
| 3.1.1 Revenues | The Director General should provide for additional controls in order to ensure that all legal requirements are adhered to. Entities' requests for excise tax returns should be sent to Treasury within the set legal deadline. | It is implemented. | | |
| 3.1.2 Wages and Salaries | The Director General should set a reasonable deadline in the AI when it comes to coverage of positions with acting staff and ensure that recruitment procedures are initiated in time and that positions are not covered with acting staff for longer periods than legally stipulated. He should also ensure that duties and responsibilities are properly segregated in order to achieve the KC objectives. | | | It is not implemented. |

| | | | | |
|---|---|---|---|---|
| 3.1.4 Capital Investments | The Director General should ensure that controls over contract management are strengthened and that all payments are made within the deadlines foreseen in the contracts. | It is implemented. | | |
| 3.2.1 Capital and non-Capital Assets | The Director General should ensure that all necessary actions are taken to have non-capital assets recorded and managed through the e-assets system. | | | It is not implemented. |
| 3.2.2 Account Receivables (debts) | 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. | | The sector for debts management had achieved to record and report debts through Less system, and to reconcile the reported debts value with financial sector, but still the receivables level is not in an acceptable degree. | |

# Annex III: Letter of confirmation

REPUBLIKA E KOSOVËS - REPUBLIKA KOSOVO / REPUBLIC OF KOSOVO
NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE
1. 06. 2018

| Njësia Org. Org. Jedin. Org. Unit | Shif.klasif. Klasif. Kod Class. Code | Nr. Prot. Br. Prot. Prot. No. | Nr. i fa... Br. Priloga No. Pages |
|---|---|---|---|
| 401 | 05 | 879 | 1 |

DOGANA E KOSOVËS - CARINA KOSOVA - KOSOVA CUSTOMS
28.05.2018
DALJE - IZLAZ - PASSING
Nr/Br/No. 01/ 284/2018

**REPUBLIKA E KOSOVËS**
**REPUBLIKA KOSOVO / REPUBLIC OF KOSOVO**
*Qeveria - Vlada – Government*

***Ministria e Financave***
***Ministarstvo za Finansije – Ministry of Finance***

***Dogana e Kosovës – Carina Kosova – Kosovo Customs***
***Zyra e drejtorit të përgjithshëm***

**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 Doganës së 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. Bahri Berisha ..................................................**
**Drejtor i Përgjithshëm - Dogana e Kosovës,**
**Data: 28. Maj 2018, Prishtinë;**