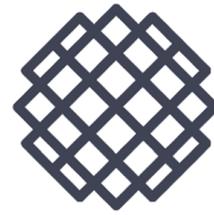




Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

**Document No: 25.5.1-2017-08**

**AUDIT REPORT**  
**ON THE ANNUAL FINANCIAL STATEMENTS OF THE MINISTRY**  
**OF CULTURE, YOUTH AND SPORTS**  
**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 Ministry of Culture, Youth and Sports, 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 Blerina Krasniqi (team leader), Alban Shatri and Vjosë Bojku (team members), under the management of the Head of Audit Department, Astrit Bllaca.

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## Executive Summary

### Introduction

This report summarizes the key issues arising from our audit of the 2017 Annual Financial Statements of the Ministry of Culture, Youth and Sports, 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 dated 27.10.2017.

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 MCYS.

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

### Opinion of the Auditor General

#### **Adverse Opinion with Emphasis of Matter**

The Annual Financial Statements for 2017 *does not present a true and fair view in all material aspects*, because have been conducted payments in lack of reports, because payments were made in absence of reports, payments without legally supported grounds, as well as funds transferred in balances of unauthorized accounts of the subordinated institutions.

#### **Emphasis of Matter**

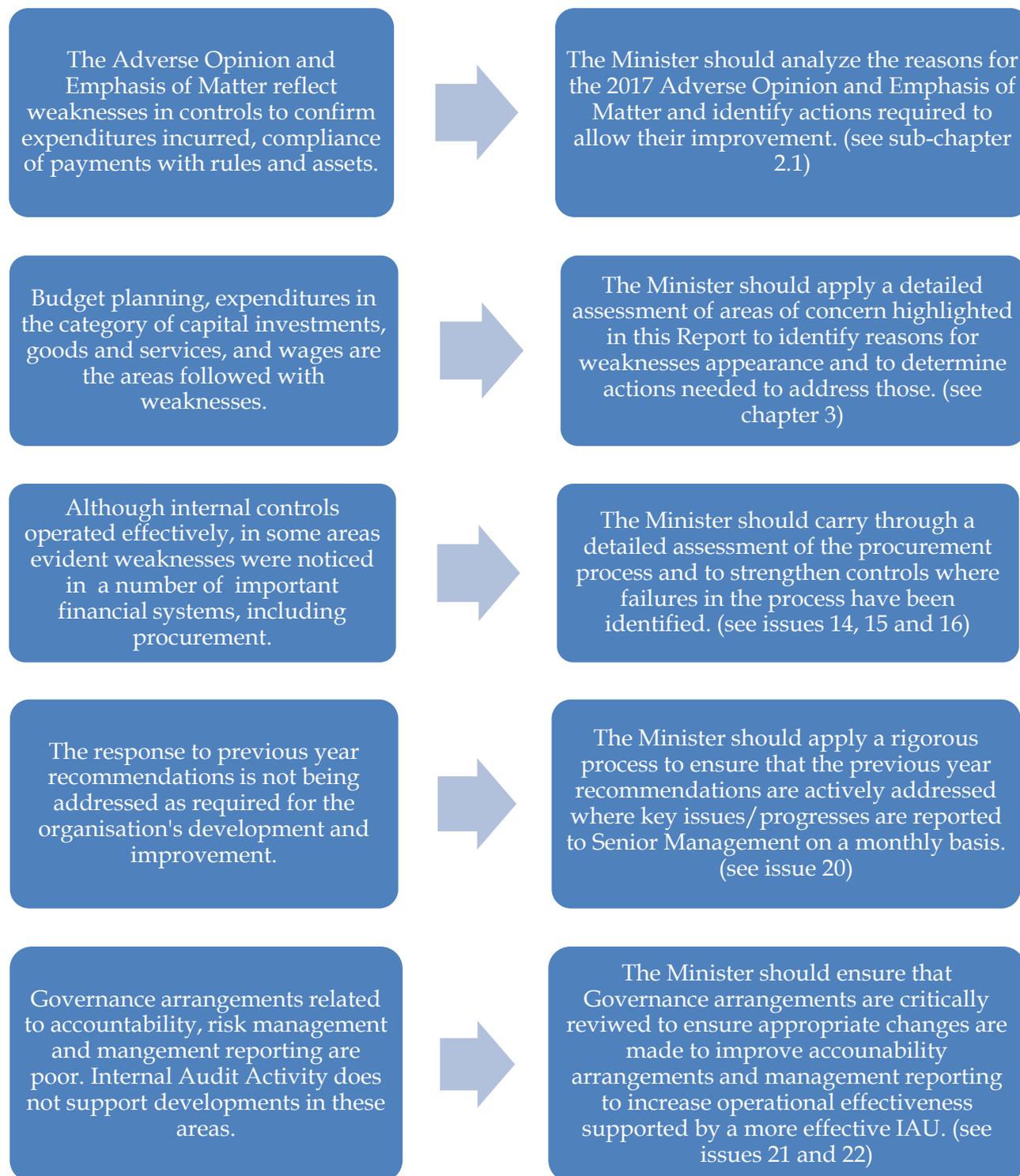
We draw your attention to the fact that the assets situation could not be confirmed as the Ministry did not provide the required information.

For more, see Section 2.1 of this report.

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

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## Key Conclusions and Recommendations



### The Minister's Response - 2017 audit

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

# 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 MCYS. We have analysed the Ministry's business to the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the 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.

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

#### **Adverse Opinion with Emphasis of Matter**

We have audited the AFS of the Ministry of Culture, Youth and Sports for the year ended on 31<sup>st</sup> of December 2017, which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement, Disclosures and other accompanying reports.

In our opinion, due to the effects of the issue described in the Basis for Adverse Opinion paragraph, the Annual Financial Statements does not present a true and fair view in all material aspects, in accordance with International Public Sector Accounting Standards (cash based Accounting), Law no. 03/L-048 on Public Finance Management and Accountability (as amended and supplemented) and MoF Regulation no. 01/2017 on Annual Financial Reporting by Budget Organisations.

#### **Basis for Adverse Opinion**

The matters which have impacts in the Basis for Adverse Opinion are as in follow:

1. The bank accounts of subordinated institutions are in commercial banks, managed by the Directors and have not been authorised by the Treasury. The Ministry, time after time deposits funds from the category of subsidies and capital investments in these accounts in order to finance different activities of these institutions. As a result of this, at the end of the year, €2,430,707 of unspent funds remained in the accounts of institutions. These funds have been presented as expenditures in the Annual Financial Statements of the Ministry of Culture, Youth and Sports;

2. Archaeological Institute of Kosovo (AIK) and MCYS have compensated professional employees and assisting employees in field, engaged in the execution of cultural heritage projects in amount of €526,730, according to the Rule no. 01/2009 for the payment of field employees, which is abolished with Government's decision. The opinion in the last year was also modified for this matter;
3. MCYS on basis of the Memorandum of Understanding, signed with its subordinated institutions, such as Archaeological Institute of Kosovo and Regional Centres for Cultural Heritage to implement 30 projects, and carried through payments in amount of €1,175,026, but such payments have been certified in lack of accompanying documentation. This was in contradiction with the Treasury Financial Rule 01/2013 on Expenditure of Public Money; and
4. Unjustified projects with supporting documents from the category of subsidies and transfers in amount of €1,843,534. The Ministry's subordinated institutions, federations and NGOs had not justified the projects covered within the foreseen time and in accordance with Article 20 of the MCYS subsidies regulation which determines the way the projects should be closed.

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

### **Emphasis of Matter**

We draw your attention to the fact that MCYS did not provide the necessary information for testing of assets, such as ownership of assets, information on completed capital projects for which the capital transfer in respective municipalities should be made, information if such projects were new investments or renovation of existing assets. The value of capital assets (over €1,000) in MCYS is €23,287,695. The major part of these assets (99%) or assets in amount of €23,061,300 are presented as ongoing investments. Furthermore, MCYS still did not make any progress regarding the identification, evaluation and recording of its facilities and properties, therefore the assets register still does not present the total assets, and as such is unreliable. The uncertainty regarding the net value of assets also arises for the fact that the assets inventory report was not reconciled with the assets register, and consequently this was also not reflected in the presented assets value in AFS.

### **Responsibility of the Management and Persons Charged with Governance for AFS**

The Secretary General 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 Finance Management and Accountability (as amended and supplemented).

The Minister is responsible to ensure oversight of the Ministry and Subordinate Institution'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 any material misstatement that might exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

An audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the entity's circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the presentation of the financial statements.

## 2.2 Compliance with AFS and other reporting requirements

By MCYS 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 Rules no. 01/2013 and 02/2013;
- Action Plan on addressing of recommendations;
- Requirements of Financial Management and Control (FMC) procedures; and
- Other requirements (budget requirements, quarterly reports including also the nine-month statements and the procurement plan).

In the context of other external reporting requirements, we have no issues to raise.

When it comes to the issues presented to the Audit Opinion, the Ministry did not manage to adjust the errors, as the expenditures had incurred.

### DECLARATION MADE BY THE MINISTRY'S 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 incorrect because during the audit material errors were identified, which have been presented to the sub-chapter 2.1 Audit Opinion.

## 2.3 Recommendations related to Annual Financial Statements

For the abovementioned matters to Basis for Adverse Opinion and Emphasis of Matter are given the recommendations.

**Recommendation 1** The Minister, in cooperation with the Ministry of Finance and Treasury, should find appropriate alternatives that payments from these subordinated institutions are made through treasury accounts.

**Recommendation 2** The Minister should ensure that in cooperation with the Steering Committee of AIK develops policies or comprehensive guidelines for engagement and payment of staff for execution of projects.

**Recommendation 3** The Minister should ensure that controls related to the Expenditure of public money are functioning so that payments for capital projects are carried out fully in compliance with Treasury Financial Rule 01/2013 on Expenditure of public money.

**Recommendation 4** The Minister should ensure that all projects of subordinate institutions, federations and NGOs have to be justified at the foreseen time, and with valid supporting documentation foreseen under the internal regulation of subsidies and transfers.

**Recommendation 5** The Minister should ensure that responsible officials possess information related to assets registers, and the same are provided to the CAO. For projects completed should finalize the process of transferring the property to Municipalities. In addition, should establish a special commission for identification, evaluation of properties and facilities of the MCYS. The inventory report should be reconciled with assets register and this should be reflected on 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 Organisations. Specifically, the focus of the audit was Budget management, Procurement issues, Human Resources as well as Assets and Liabilities.

### Financial Management and Control Conclusion

Due to the consistent non-compliance with regulations, the area of subsidies and procurement continues to be the most concerning area. In the context of financial systems, controls over revenues are generally appropriate and are being implemented effectively – but controls over a range of expenditure areas require further enhancement to prevent irregularity of expenditures and non-rational expenditures. The main areas where most improvements are required are Budget Planning and Execution, Management of Subsidies, Assets Management and Certification of Irregular Payments.

#### 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 budget Funds (in €)**

Description	Initial Budget	Final Budget <sup>1</sup>	2017 Outturn	2016 Outturn	2015 Outturn
<b>Sources of Funds</b>	<b>33,539,942</b>	<b>25,284,697</b>	<b>24,408,173</b>	<b>18,874,393</b>	<b>16,773,166</b>
Government Grant -Budget	28,469,439	25,146,302	24,342,201	17,598,684	16,378,178
Carried forward from previous year <sup>2</sup> -	-	18,729	15,579	6,003	9,416
Own Source Revenues <sup>3</sup>	70,503	70,503	36,675	4,224	4,869
Internal Donations	-	2,398	343	-	-
External Donations	-	46,764	13,375	1,265,482	388,375
Revenues from KPA	5,000,000				

<sup>1</sup>Final budget – the budget approved by the Assembly, subsequently adjusted by the Ministry of Finance.

<sup>2</sup> Own Source Revenues unspent in previous year carried forward into the current year.

<sup>3</sup> Receipts used by the entity for financing its own activities.

The final budget in relation to the initial budget was reduced by €8,255,245, this reduction is a result of budget review and Government's decisions.

MCYS spent 96% of the final budget in 2017 or €24,408,173 that is 2% less, compared to 2016. Despite this, the budget execution remains in unsatisfactory level, by taking into account that the bank accounts of 16 subordinated institutions at the end of the year, had unspent funds in the amount of €2,430,708. This means that these funds appear as expenditures in the Ministry's AFS, in fact those have not been spent. Explanations for the current position are given below.

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

Description	Initial Budget	Final Budget	2017 Outturn	2016 Outturn	2015 Outturn
<b>Spending of funds by economic categories</b>	<b>33,539,942</b>	<b>25,284,697</b>	<b>24,408,173</b>	<b>16,773,166</b>	<b>18,874,393</b>
Wages and Salaries	4,087,814	4,086,547	4,073,999	3,560,945	3,390,057
Goods and Services	1,045,986	1,617,942	1,453,497	1,363,229	1,552,779
Utilities	361,908	383,933	343,867	308,555	292,866
Subsidies and Transfers	7,206,550	8,723,413	8,583,046	7,060,865	7,387,185
Capital Investments	20,837,684	10,472,862	9,953,762	4,479,572	6,251,506

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries was lower than the initial budget by €1,267. Initially it had an increase from donations €732, then with the Government's decision were added €4,377 and at the end with the budget review, Wages and Salaries were reduced by €6,376. The execution was 99% of the final budget;
- The Goods and Services had an increase by €571,955 compared to the initial budget, while the execution at the end of the year was in 90% level of the final budget. The increase of the budget includes the transfer from Capital Investments of €471,000, an increase with budget review of €7,000, the revenues carried forward of €18,728, donations of €47,370 and with the Government's decision of €27,857. In this category at the end of the year it had a surplus of €164,445, while it also had outstanding liabilities reasoning that it had lack of funds. It is worth mentioning that the major part of transfers were made for payment of employees engaged under special service agreement (other contractual services);
- The Utilities budget was increased by €22,025. With the budget review we have a small reduction by €7,000, while €29,025 were added with transfer from capital investments;
- The final budget for Subsidies and Transfers was higher by €1,516,863 compared to the initial budget, while 98% of the final budget has been spent. The increase with the budget review was by €360,000, transfer from capital investments of €1,062,000, and with the Government's decision of €94,863; and

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- The final budget of Capital Investments was lower by €10,364,822. This was as a result of transfer in other lines in the amount of €1,512,000, reduction with the budget review of €5,410,000, and reduction with the Government's decision in the amount of €3,442,822. Such major changes in this category have occurred as a result of poor planning and deficient analysis of factors that have an impact in the budget execution. The execution was 95% of the final budget. Even in this category at the end of the year it had a surplus of €519,100, while it had outstanding liabilities reasoning that there were lack of funds.
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## Issue 6 - Budget Execution

### Finding

Even though the final budget was executed at 96%, even this year the MCYS did not have good performance, because during the year has risen the need for many adjustments in most spending categories, as the management had not properly analysed budget performance in terms of targeted projects. In addition, to the percentage increase of budget execution has also contributed the transfer of a considerable amount of funds to the bank accounts of subordinate institutions, while these funds have remained as unspent funds.

Subordinate cultural institutions at the MCYS do not plan their budget and do not have budget codes as required under the special laws of some of them, so in order to carry out their activity, the MCYS finances them from the line of subsidies and transfers.

For 2017 with the initial budget were foreseen 89 capital projects amounting to €16,257,684, but due to non-implementation of capital projects according to the plan by the MCYS, with budget revision were removed 17 projects that amounted to €1,835,000. Furthermore, out of 72 projects foreseen with the final budget, for six projects amounting to €324,000, were not spent any funds during 2017.

The Secretary General had signed memorandums of cooperation with 27 Sports Federations and with the Kosovo Olympic Committee in the amount of €2,743,000, this value is by €637,582 higher than the budget foreseen for this purpose (separate budget €2,105,418 in the category of subsidies and transfers). At the end of the year, MCYS had been able to obtain additional funds to pay a share of them, despite this there were still liabilities in the amount of €385,367.

**Risk** Many needs for adaptation are an indicator that budget preparation is not based on real capacities of the MCYS for its execution. Failure by the subordinated institutions to plan the budget and their funding by the MCYS through the line of subsidies and transfers poses a risk of irregular payments, misclassifications and failure to meet objectives of those institutions. Failure to implement significant capital projects and significant differences between planning and spending pose a risk to achievement of Ministry's objectives. Funds remaining in the accounts of subordinate institutions affect improper presentation of expenditures in the AFS.

**Recommendation 6** The Minister should ensure that preparation of budget requests is preceded by a thorough analysis of all the factors that have an impact on budget execution, so that there are no adjustments and significant differences between planning and spending of funds. It is also necessary to make efforts to allocate specific sub-budget codes to each subordinate culture institution so that they plan their budget. In addition, necessary measures should be taken in order to implement all capital projects foreseen by the budget as well as not take on board financial obligations through agreements until the funds have been previously secured.

## 3.2 Revenues

MCYS has not plan for the collection of revenues, while the 2017 executed revenues were €85,330. Compared to the last year, it had an increase of 68%. In this increase had contributed also the sale of MCYS vehicles. These revenues relate to the sale of tickets for shows, concerts, consents, etc.

### Recommendations

We have no recommendations in this area.

### 3.3 Wages and Salaries

Wages and Salaries are paid through a centralized payments system managed by MPA and MoF. However, there are a range of controls that operate within MCYS, which are related to the authorization of payroll list, verification of changes, the budget review for this category, reconciliations with the Treasury, etc. Therefore, it is important to have effective controls to ensure that these actions are in accordance with the general rules.

#### Issue 7 - Irregular compensations for employees of the Ministry

##### Finding

We have identified the following irregularities:

- The Director of the Institute for Protection of Monuments of Kosovo in Gjakova continues to work and get paid by the MCYS even though his contract had expired in December 2013; It is worth mentioning that the same got the Act of Appointment on 08.06.2018;
- In four cases<sup>4</sup>, employees were paid according to the regulation no. 05/2011 on promotion and salaries of cultural creators and performers and professional employees of cultural heritage, even though their positions are not included in this regulation; and
- While reviewing the list of MCYS employees we noticed that in many cases were made compensations with different multipliers for same positions<sup>5</sup>.

##### Risk

Carrying out payments without valid employment contracts and for positions that are not foreseen in the regulation, increase the possibility of irregular payments. In addition, due to the failure to reconcile multipliers and payments of officials for the same position, is affected the quality of works carried out by respective officials.

**Recommendation 7** The Minister should review identified cases and take necessary measures to ensure that staff salaries are carried out in accordance with valid contracts and applicable regulations.

<sup>4</sup> Positions: Dry cleaner at the Kosovo National Theater and two cleaners and one caretaker/driver, in the National Ensemble of Songs and Dance "Shota"

<sup>5</sup> Administrative Assistant Position - Multiplier 5, 6 and 7; Guide's position - Multiplier 5, 6 and 7; maintenance position - Multiplier 4,5 and 6; cleaner positions - Multiplier 4, 5 and with fixed salary according to the regulation for creators and performers; security worker 5.5 and 6 and with fixed salary according to the regulation, requisite position Multiplier 5, and with fixed salary according to the regulation; tailor position - Multiplier 6 and with fixed salary according to the regulation; driver position - Multiplier 6 and 7.

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**Issue 8 - Categorization of Directors in subordinated culture institutions**

**Finding** Directors of subordinated culture institutions on the payroll lists are categorized as civil servants with multiplier 9 or 10, meaning, they are equivalent to positions of head of division or head of department ministries, while are appointed with a four-year mandate by one body appointed by the Minister, such as the Steering Council. Law on Civil Service 03/L-149 qualifies these positions as career positions and they do not have a mandate at all.

**Risk** Categorization as a civil servant of the positions of directors who are appointed for a four-year term can create uncertainty in the reporting lines, can affect the quality of works and achievement of objectives of the subordinate institution.

**Recommendation 8** The Minister should ensure that categorization of positions of directors in subordinate institutions is done in accordance with their mandate, and relevant laws of subordinate institutions.

### 3.4 Personnel Management

Personnel Management includes all actions related to recruitment, contracts, trainings, advancement, leaves, etc. We have tested a number of samples to ensure that the actions taken in this area are in reconciliation with the implementable regulations. From the testing's conducted have resulted the following issues:

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**Issue 9 - Recruitment procedures**

**Finding** MCYS during the year had engaged 104 persons with Special Services Agreements (SSA). According to the Law on Civil Service of Kosovo, these are subject to the Law on Obligations and for them should be applied a simplified recruitment procedure. We have noticed that out of the 104 engaged with SSA, 14 of them were recruited without recruitment procedures.

**Risk** Engaging employees with SSA without adequate recruitment procedures poses a risk of engaging incompetent persons in respective positions, and this may result in operational inefficiency and failure to achieve organization's objectives.

**Recommendation 9** The Minister should ensure that employees with special services contracts are engaged through recruitment procedures in accordance with legal requirements.

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### 3.5 Goods and Services and Utilities

The final budget for Goods and Services and Utilities in 2017 was €2,001,875. Out of them €1,797,364 were spent. Those relate to supplies with consumable material, maintenance, contractual services and utilities.

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#### Issue 10 – Irregular payments

##### Finding

From our tests we have identified the following irregularities:

- With the decision of the Secretary was paid a committee for “housing matters” consisting of five members of ministry officials for holding six sessions, in the total amount of €3,125. The decision and payment was not in line with Article 80 of the Law on Public Financial Management and Accountability which specifies that if an employee is required to serve in a commission, board or body or other public authority, this employee has no right to accept, and will not accept, any additional compensation for this service; and
- Based on the Law No.02-L-088 on Cultural Heritage, MCYS can only cover restoration and conservation costs for privately owned cultural heritage facilities. MCYS had signed a contract in the amount of €9,560 for “Supply of wood pellets for Ibrahim Rugova”. The goods and invoices were received in a total value, but due to lack of funds only €1,510 were paid; and

##### Risk

Additional compensation for services that are part of the mandatory postal duties held by ministry employees and coverage of expenses in the absence of a legal basis results in irregular payments to the ministry.

**Recommendation 10** The Minister should ensure that there will be no additional compensation for services that are part of obligatory duties of the position held by Ministry’s employees. In addition, to ensure that all payments are made according to relevant laws.

**Issue 11 - Irregularities in procurement procedures and deficiencies by goods receiving commissions****Finding**

From our tests we have identified the following irregularities:

- MCYS in procurement plan for 2017 had foreseen obtaining of goods and services with small and medium value contracts. The Ministry had applied minimal value contracts, by obtaining several times a year the same items such as 11 times of information technology equipment, four times inventory and three times vehicle servicing. Moreover, requests for goods and services made by requesting units do not match the quantity of supply; and
- Commissions for receipt of goods were not authorized as required under the Rule 01/2013 on spending of public money. Also, these commissions that received goods had deficient reports that did not prove that goods were received, as they did not specify the type, quantity of goods received and the contract for which they were paid; and

**Risk**

Contracting services in disagreement with the plan and applying a number of contracts for the same good/service is inefficient and may incur additional costs to the ministry. In addition, unauthorized commissions and deficient reports on receiving of goods are in disagreement with rules, and pose a risk as goods may not be received at the quantity and quality specified in the contract.

**Recommendation 11** The Minister should ensure that the procurement plan includes goods and services, and same supplies in the contract. For each supply, commissions should be authorized and receiving reports should contain necessary information which proves that goods are received in accordance with the quantity and quality of the respective contract.

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## 3.6 Subsidies and Transfers

The final budget for Subsidies and Transfers was €8,723,413. Out of them €8,583,046 were spent in 2017. The Ministry except that it awards subsidies to finance the basic activities of subordinate institutions, it supports also the financing of different cultural, sports and youth projects, and of the cultural heritage.

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### Issue 12 - Irregular subsidizing

**Finding** MCYS had covered the costs for shirts of fans "Dardanët" on the occasion of qualifying competitions "Russia World Cup 2018", totalling €23,570. According to the internal regulation on subsidies and transfers, for subsidized values over €10,000, should also be obtained the approval of the Minister. In this specific case this was not done, and for the same activity three payments were carried out for subsidising whilst the contract with the beneficiary of the subsidy is signed after the invoice for payment is received.

**Risk** Dividing subsidy decisions for the same activity by avoiding the approval of the subsidy by the Minister, increases the risk as high-value payments may not be subject to sufficient oversight, which risks achievement of objectives.

**Recommendation 12** The Minister should ensure that each subsidy decision will contain the total amount of funding for the given activity, and will be in accordance with internal regulation.

### Issue 13 - Poor justification of expenses by federations

**Finding** From our tests we have identified the following irregularities:

- Subsidies given to 10 sports federations<sup>6</sup> with a total value of €381,000 were not managed well, as in 13 cases the funds of respective instalments were paid without fully justifying the previous instalment, as required under the Article 20 of the Internal Regulation of Subsidies;
- In two other cases of financing sports federations<sup>7</sup> and the Olympic Committee, payments were carried out even though the same not submit the financial project as required by Article 17 of the Internal Rules on Subsidies; and

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<sup>6</sup> Federation of Athletics, Ping-Pong, Chess, Swimming, Tennis and Kick Boxing, Football, Basketball, Archery, Auto-sports.

<sup>7</sup> Auto-Sport Federation and the Kosovo Mountaineering and Alpinists Federation

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- For the support of three sports federations<sup>8</sup> in the amount of €78,421, the decision for subsidy was issued after the completion of the project. Although the subsidy was done after the execution of the activity, in projects of two first federations there were no justifications for expenditures given as a support to the project.

**Risk**

Lack of justification of subsidies and awarding them by disregarding the criteria of the internal regulation, can have negative impact on achievement of Ministry's objectives, and poses a risk as funds may be used for purposes other than those planned. Awarding subsidies after the implementation of the project is in disagreement with rules, results in inadequate budget management, and may cause misuse of funds.

**Recommendation 13** The Minister should ensure that all the internal regulation criteria are adhered to upon financing Federation and no instalments should be paid without fully justifying prior instalments. In addition, to make sure that decisions on award of subsidies will be taken before projects are implemented, and no subsidies should awarded for projects that have already been implemented.

**Issue 14 - Spending funds by subordinated institutions within the Ministry****Finding**

From our tests we identified the following irregularities:

- When it comes to subsidizing the Ballet by MCYS in the amount of €39,560, we noticed that the Ballet of Kosovo does not have a regulation defining the fees for payment of the internal staff involved in projects, while the external choreographers engaged in the projects are paid in cash. In addition, contributions and tax salaries were not withheld as required by the Personal Income Tax Law, for payment of fees to regular employees. Further on, daily travels are paid at a fixed fee of €40, by not adhering to Administrative Instruction no.2004/07 on official travel. In addition, all supply contracts related to this project were made in absence of procedures for selection of companies;

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<sup>8</sup> Federation of Bowling, Federation of Karate and Federation of Ping Pong

- When subsidizing the Kosovo Philharmonics, we have noticed that the narrative report is missing and the supporting financial documents are not in compliance with Rule no. 01/2013 on Expenditures of public money. This is because seven foreign Music Conductors engaged in projects were paid in cash in the amount of €29,787, including 58 foreign instrument players in the amount of €15,000 and eight soloists in the amount of €3,750. Further on, in seven cases for transport services to Albania in the amount of €4,200 and in six cases of renting the instruments in the amount of €4,300, no procedures for the selection of companies were applied. There were no contracts with the respective companies, as required by the internal regulation on subsidies and payments for these services were made in cash. The procedures for selection of companies were not applied to the contracting of other supplies and services such as accommodation, concert services, and similar; and
- When it comes to subsidizing the “Lord of the Massacre” in the amount of €10,000, the Kosovo Theatre did not withhold contributions for engaged persons internally, while for non-domestic actors, taxes were not withheld.

**Risk**

Shortcomings in the management of the processes and expenditures of the subordinate institutions as well as the lack of regulations/guidelines for the payment of employees reduce the efficiency and risk the achievement of the objectives of certain projects and the Ministry in general. Further on, supplies in absence of procedures risk the principle of efficient, cost-effective, transparent and fair use of public funds and resources and may cause irregular payments.

**Recommendation 14** The Minister should draft comprehensive rules for compensating the engaged persons in ballet projects, and that the compensation for external engagement is done only through the bank account. The taxes and contributions of the engaged parties should be kept at source according to legal requirements and supplies from subordinated institutions should be subject to formal procurement procedures.

**Issue 15 - Subsidising Events of Business Character**

**Finding** MCYS supported the “Dardania Collection” project in the amount of €6,000. In absence of the plan and the justification of the project, the funds for this project were transferred into private accounts and the purpose of subsidies was not known as the activity carried out had a business character. This was in contradiction with the internal regulation on subsidies, which specifies the entities that MCYS has the right to subsidize.

**Risk** Financing of events that are not in line with the internal regulation on subsidies and the outflow of funds into private accounts may result in eventual misuse of funds and failure to meet the objectives of the Ministry.

**Recommendation 15** The Minister should ensure that only projects and activities of entities are supported that are fully in compliance with the criteria of the internal regulation of subsidies.

**Issue 16 - Delays in justification of subsidies**

**Finding** According to the agreements signed when granting of subsidies for various projects, project providers are obliged to justify the expenditures incurred within 30 days after the execution of subsidized activities. We found out that in 15 cases of €124,345, subsidies were not justified even though subsidized activities had been completed. For open subsidies of previous years (before 2015), MCYS has initiated court proceedings for the return of funds.

**Risk** Lack of justification for subsidies could affect the failure to meet the Ministry’s objectives and increase the risk of funds being used for purposes other than those planned.

**Recommendation 16** The Minister should ensure that monitoring by officials is regular for subsidies granted and the legal deadlines for reporting the expenditures used by project beneficiaries are met.

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**Issue 17 - Financing of NGO**

**Finding** In a case of a subsidy in value of €2,000, the payment was made to the private account of the person rather than the NGO. At the same time, there was no contract signed with the beneficiary and the request for funding participation in the international tournament of football veterans in Turkey, made on behalf of NGO "Prizren Football Veterans" was not signed by the NGO.

**Risk** Transferring funds into business accounts or in private accounts of persons is in contradiction with the rules and may result in eventual misuse of funds. Lack of valid claim and contract with the beneficiary may result in failure to reach the intended purpose of the subsidy.

**Recommendation 17** The Minister should ensure that funds for financing NGO projects in the future are deposited into the bank accounts of subsidized NGOs (legal entities). Further on, he should ensure that NGOs are funded only in case of valid claims and have signed a contract with the subsidy beneficiary.

**Issue 18 - Payments from Subsidies for Other Expenditure Categories**

**Finding** In four cases in a total amount €1,350, members of the board of directors of the subordinate institutions and members of various councils and committees were compensated from subsidies and transfers.

**Risk** Payments from the budget designated for subsidies for other spending categories cause poor budget management and poor financial reporting. All this results in using funds in contradiction with planned goals and poor classification of expenditures in FS.

**Recommendation 18** The Minister should establish stronger budget controls and ensure that expenditures are made in accordance with their purpose and planning in order to ensure adequate budget expenditure and appropriate expenditure classification.

### 3.7 Capital Investments

The final budget for Capital Investments was €10,472,862. Out of them €9,953,762 were spent in 2017. Those relate to the construction of Sports Halls, Cultural, Youth Centre's and archaeological excavations. From the testing of samples, the following irregularities have resulted:

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#### Issue 19 – Irregular expenditures and failure to follow procurement procedures

**Finding** MCYS did not follow procurement procedures when contracting Supervisory Project Manager for carrying out professional services “Renovation of the Prishtina City Stadium”. Further on, contributions and salary tax were not withheld as required by the Law on Personal Income. During 2017, the total payments for supervisory services for this project manager were €49,500.

**Risk** Contracting services avoiding procurement procedures risks the principle of efficient, cost-effective, transparent and fair use of public funds and resources. Withholding of contributions and salary tax is a legal obligation for each employer and may risk that MCYS becomes subject to penalties by the tax authorities.

**Recommendation 19** The Minister should ensure that for each activity defined in the LPP, procurement procedures are applied. It should also ensure that controls related to the Expenditures of Public Money are functioning so that payments are made fully in compliance with applicable laws.

#### Issue 20 - Selection of non-eligible EO

**Finding** In four<sup>9</sup> cases, MCYS awarded the contract to EOs who did not meet all the criteria according to the tender dossier. The winning EO has only partially demonstrated the ownership of the devices listed and the tools of work needed to carry out the works.

**Risk** Selection of EOs that do not meet all criteria, leads to reduction of process reliability and may result in inadequate service due to lack of machinery and tools, as well as delays in contract execution.

**Recommendation 20** The Minister should ensure that all contracts signed with EOs meet all the criteria set out in the tender dossier.

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<sup>9</sup> “Renovation of the Olympic Stadium Adem Jashari in Mitrovica “ - €1,997,393,” Construction of the Sports Centre in the Municipality of Deçan - Third Phase “-€549,865,” Second Phase -Practice Stadium Boka, Prizren “- €339,438 and” football field with synthetic grass in Stadium 2 July, Prishtina “ - amount of 181,750 €

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**Issue 21 - Entering into annex contract in an irregular manner**

**Finding** Referring to the LPP, a Contracting Authority may use negotiated procedures without publishing a contract notice when such works or services, although separated from the execution of the original contract, are essential to complete the works.

Within the basic contract of €3,843,715, "Renovation of the City Stadium in Prishtina", MCYS signed an annex contract for additional works in the amount of €381,088. This was done in order the stadium meets the standards required by UEFA for category IV of the Stadiums. This annex was signed although it was known that with the additional work provided for in this annex, the standards will not be met and for that purpose a new contract should be signed. Furthermore, to complete all the works required by UEFA for category IV, MCYS has entered into a contract with negotiated procedures without publishing the contract notice, in the amount of €4,471,928.

**Risk** Negotiated procedures without publication, applied in contradiction with the terms of the LPP, may risk the principle of efficient, cost-effective, transparent and fair use of public funds and resources.

**Recommendation 21** The Minister should ensure that the negotiated procurement procedures without publication of the contract notice are only applied under the terms of the LPP.

**Issue 22 - Poor implementation of procurement plan for capital investments**

**Finding** The procurement plan foresaw signing of 77 contracts. The procurement plan also included projects that were transferred to the MCYS subordinate institutions (without procurement procedures). Further on, this plan included projects for which the procurement procedures were developed by the Municipality. This occurred since during 2017, the Minister had taken the decision for 57 projects to transfer the responsibilities for developing procedures to the Municipalities. In addition, MCYS signed five contracts in the amount of €334,428, which were not foreseen in the procurement plan. This had occurred since in the procurement plan and in the PIP these were foreseen as a single project (e.g. Renovation of the Existing Gymnasium in the Regional Centre's).

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**Risk** Failure to carry out the procurement plan for major capital projects that were foreseen and the significant differences between planning and execution of capital projects increase the risk that the Ministry's objectives are not met.

**Recommendation 22** The Minister should ensure that the preparation of the procurement plan precedes a thorough analysis of all factors that have an impact on its implementation so that there are no significant deviations between the contracts executed in relation to those planned.

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

In the following are common issues that relate to Subsidies and Transfers and Capital Investments:

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#### Issue 23 - Signing of Memorandums of Understanding

**Finding** According to the Regulation no. 02/11 on the areas of administrative responsibility within the Office of the Prime Minister and Ministries, it falls under the responsibility of the Minister to sign Memorandums of Understanding/cooperation agreements on behalf of the institution. We noticed that in 2017, all such agreements were signed by the Secretary General (SG).

**Risk** Signing of the Memorandums of Understanding/Cooperation Agreements by the Secretary is in contradiction with the Regulation and risks that the spending of public money is not in line with the Ministry's specific policies.

**Recommendation 23** The Minister should ensure that all memorandums of understanding/cooperation agreements are signed by him and not by SG, or authorize SG to transfer this responsibility.

#### Issue 24 - Failure to declare purchases over €500 in TAK

**Finding** MCYS during 2017 did not declare purchases over €500 in TAK, although this is a requirement of Law no.03-L-222 on Tax Administration and Procedures (Article 47, point 3). Apart from being a legal requirement, it is an obligation for MCYS to make this declaration, given the fact that the MCYS subordinate institutions for some of the purchases apply the form of payments in cash.

**Risk** Failure to declare purchases according to legal requirements expose MCYS to the risk of paying fictitious invoices and at the same time be subject to punitive measures foreseen by Kosovo Tax Legislation. All this may cause budget damage and achievement of Ministry's objectives.

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**Recommendation 24** The Minister should ensure that the MCYS adheres to legal requirement regarding TAK declarations, in order to avoid the possibility of fictitious payments; that of possible penalties.

#### **Issue 25 - Treasury payments and court decisions**

**Finding** MCYS had expenditures in the amount of €689,571, pursuant to Article 40 - Court Decisions and Article 39.2 for private bailiffs. Treasury had executed the payments that were borne by MCYS to economic operators, mainly due to the lack of budget funds. The other reason for the large number of payments of this nature lies in the fact that there is no clear procedure for receiving and evidencing invoices at the level of the Ministry, as they were accepted and distributed to its subordinate institutions, there are delays in their collection and payment by MCYS. Although the invoices were unprocessed and in some cases the MCYS rejected some payments as unfounded, the Treasury executed them based on the date set by the EO.

**Risk** Failure to implement internal control procedures when receiving bills may result in loss of invoices and consequently the MCYS will not have timely and timely information regarding the prior obligations. This leads to accumulation of old debts as well as threatens the MCYS to be subject to direct executions by the MoF and judicial decisions. Similarly, payments made by the Treasury, without strictly applying the requirements of Article 39.2, may risk to pay goods and services which were not accepted.

**Recommendation 25** The Minister and the Director of Treasury should ensure that unaccepted /undocumented invoices from MCYS are not paid and the receipt of goods or services is not confirmed.

### **3.9 Capital and Non-Capital Assets**

The value of capital assets over €1,000 in MCYS was €23,287,695. The major part of these assets (99%) or assets in the amount of €23,061,300 have been presented as ongoing investments. While, the presented value of assets under €1,000 in AFS was €314,290.

For more, refer to chapter 2.1 (Emphasis of Matter).

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## 3.10 Receivables

The accounts receivables of MCYS in 2017 were in the amount €3,500. Those relate to uncollected revenues from the rent of the Kosovo Archives Agency, which is under the management of MCYS since 2017.

### Recommendations

We have no recommendations in this area.

## 3.11 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2017 was €2,262,000 that was almost same with the previous year. These liabilities are carried forward to be paid in 2018. While, the presented amount of contingent liabilities in AFS was €157,000.

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### Issue 26 - Incomplete reporting and weaknesses in managing liabilities

**Finding** From invoices paid in 2018 (January to March) which were liabilities of 2017, we found that 35 invoices in the total amount of €80,598 paid in 2018 were not presented in the report of the liabilities for 2017. The legal deadline (30 days) for the payment of the obligations presented in the AFS has been exceeded. Such delays vary from 2 to 591 days of delay. This is because the MCYS did not apply internal control procedures when receiving receipts because the received invoices are not documented and recorded in the invoice book as required by the Financial Regulation 01/2013 on Expenditure of Public Money.

**Risk** Incomplete report on outstanding liabilities and exceeding the legal deadline for payment of liabilities may result in loss of invoices and consequently the MCYS will not have the proper and timely information regarding the earlier liabilities, as well as MCYS may be subject to of direct executions by MoF and judicial decisions.

**Recommendation 26** The Minister should ensure that the invoices are paid in accordance with the deadlines set by the regulations, while those that have expired have to be presented fairly in the report of liabilities. It is necessary to make a plan where the budget and concrete actions for the gradual repayment of accumulated debts are foreseen.

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## 4 Progress in implementing recommendations

MCYS has received our recommendations for the 2016 audit, in June 2017 and an action plan has been compiled for the implementation of these recommendations.

Until the end of our 2017 audit, from the 22 given recommendations in 2016, six recommendations have been implemented, one is in process and 15 have not been addressed yet. Further on, from 2015, 16 recommendations were carried forward, which were not implemented this year as well. While, the 2016 and earlier years recommendations have not been implemented, the deficiencies in the significant systems remain unhandled. For a more thorough description of the recommendations and how they are addressed, see Annex II.

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### Issue 27 - Implementation of prior and earlier recommendations from the previous year and the previous year

**Finding** Due to the late drafting of the action plan, poor management of the process and the lack of a formal monitoring of how AG's recommendations are implemented, only a part of prior year's recommendations and those carried forward have been implemented. We have not noticed that MCYS applies responsibility measures for non-implementation of recommendations.

**Risk** The continued weaknesses of management controls and other controls in key financial systems such as subsidies and transfers, capital investments and others have resulted in:

- Inefficient organizational inefficiency and inadequate governance practices;
- Payments in absence of working reports and non-execution of capital projects;
- Failure to apply the regulation for granting and justifying subsidies; and
- Irregular payments for goods and services.

**Recommendation 27** The Minister should ensure that a revised action plan has been implemented, which sets out the timelines for implementing the recommendations made by the Auditor General (AG) with the responsible staff identified, focusing primarily on the most significant ones.

## 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.

A key indicator supporting effective governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. The level of compliance with FMC requirements by Budget Organizations is monitored by the completion of self-assessment checklists completed by all BOs, which are submitted to the Ministry of Finance.

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

There are a number of governance weaknesses within MCYS, particularly related to accountability, risk management and the quality of management reporting. Other arrangements which will support the governance development, as the effective response to audit recommendations were not placed completely. Even though the Audit Committee is established, it had not acted to ensure the IAU the proper action independence.

Further on, the monitoring of subordinated institutions remains a challenge, which although they report to the Ministry, do not have good financial management, and their bank accounts in commercial banks continues to function without being authorised by the Treasury. Controls were poor even in the expenditures management, especially in Subsidies and Capital Investments.

All Budget Organizations are obliged to prepare and submit strategic plans in the organization's level. MCYS at the end of 2017 has drafted the 2018-2021 Strategic Development Plan, but the same still has not been approved in Government to be considered as placed. The Ministry does not have places not even the procedures for identification, evaluation and risk management.

Regarding the self-assessment report, MCYS has submitted it to the Ministry of Finance in the foreseen timeframe.

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## 5.1 Internal Audit System

The Internal Audit Unit (IAU) operates with two members of staff - the Director of IAU and one auditor. IAU had completed three out of five planned audits, and had performed four additional audits with the management request.

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### Issue 28 – Ineffective Functioning of Internal Audit System

**Finding** There are a number of weaknesses related to IAU's current operations, such as:

- Audit plan was not comprehensive because the audit of subordinated institution was not covered;
- The Director of IAU reports to the Secretary General, while with AI law and the good governance framework, this presents a conflict of interest; and
- The management of the audited entities did not prepare action plans to address the recommendations given by the IAU.

**Risk** Failure to involve all institutions in IAU activities does not allow identification and prevent errors and reduce the assurance provided to management with regard to the effectiveness of key financial controls. Reporting of the IAU Director to the Secretary General risks the independence and objectivity of the IAU and may result in failure to fulfil the mission of the IAU. Failure to address IAU's recommendations by the Management may result in weaknesses being repeated and ongoing ineffective practices that may result in financial loss.

**Recommendation 28** The Minister should secure sufficient IAU activities on MCYS subordinate institutions and the completion of annual audit plan. Accountability lines within the Ministry should be reviewed in order IAU reports to the Minister. It should also take proactive actions in addressing the IAU recommendations by preparing an action plan for their implementation.

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## 5.2 Management Reporting, Accountability and Risk Management

Although, a range of internal controls are applied by Management to ensure that systems and operate as intended, we have noticed that the measures applied are weak and ineffective and therefore do not provide an effective and timely response to the identified operational problems.

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### Issue 29 – Weakness in Managerial Controls and Risk Management

**Finding** MCYS Departments conduct regular weekly, quarterly reports on their work but reports do not contain complete information providing assurance to the Management of all activities within the organization and they are not reviewed and considered by senior management in order to secure effective accountability. The current format of their reports other than the activities and expenditures incurred do not provide sufficient details and explanations on the variance between spending and budget. Further on, the audit identified many shortcomings in budget management by subordinated institutions including cash withdrawal from the bank, cash payments which imply that managerial controls were poor.

Further on, the Ministry did not draft a risk register as required by FMC. Management has established a working group to work on designing the risk register, but this working group has not yet yielded concrete results/actions.

**Risk** Poor accountability requirements and poor quality financial reporting, lack of effective risk management reduce the effectiveness of financial management within the MCYS, resulting in weaknesses in the budget process as well as in reducing the ability of the Management to respond to financial challenges in time. Further on, it also reduces the effect of budget controls and increases the risk of improper spending. Consequently, this may also result in providing poor quality services.

**Recommendation 29** The Minister should provide a review of existing accountability and reporting requirements set for subordinate institutions and implement better arrangements to achieve the specified objectives within a reasonable timeframe. Further on, in order to reduce the impact of risks at acceptable levels, MCYS should develop a risk register with all appropriate measures/actions to put in place the threats exposed.

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**Issue 30 - Failure to align laws and transfer of responsibility without legal support****Finding**

The organic laws regulating the activity of the subordinate culture institutions in MCYS are old and never amended, as such in many cases are in conflict with the general laws on the basis of which the Ministry should function. Directors of these institutions report to the Department of Culture even though the Law on State Administration, the Regulation on Standards of Organization of State Administration and the Regulation on Internal Organization and Systematization of Job Positions in the MCYS clearly define the only organizational units that departments may be subordinated to, are similar divisions.

As far as the legal framework of cultural heritage institutions is concerned, they are not regulated by specific organic laws, and report to the Department of Cultural Heritage within MCYS. Their activity is based on the Law on Cultural Heritage (except the Kosovo Museum, which relies on the Law on Cultural Institutions). Under this Regulation, these institutions are not entitled to have budget codes and manage their budget, but these should be carried out by the Ministry. Meanwhile, we have noticed that these institutions are spending in contradiction with their existing legal regulation.

**Risk**

Failure to align organic laws with general laws results in problems in managing the work of subordinate institutions and risks the effectiveness of administrative and financial management and creates ambiguity in the reporting lines. Further on, the transfer of responsibility for budget management and expenditure to cultural heritage institutions may result in avoidance of internal controls and improper spending.

**Recommendation 30** The Minister should immediately initiate procedures for aligning the organic legislation of subordinate institutions with the general legislation for organizing administration and managing public finances. Further on, management and spending of the budget of cultural heritage institutions should be made by the relevant departments in the Ministry.

**\*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.

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*Determining the type of modification to the auditor's opinion*

152. The decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification – that is, whether the financial statements are materially misstated or, in the event that it was impossible to obtain sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

153. The auditor should express a **qualified opinion if**: (1) having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

154. The auditor should express an **adverse opinion if**, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

155. The auditor should **disclaim an opinion if**, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, the auditor concludes that the effects on the financial statements of any undetected misstatements could be both material and pervasive. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the audit scope that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705<sup>19</sup> provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

*Emphasis of Matter paragraphs and Other Matters paragraphs in the auditor's report*

157. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not materially misstated in the financial statements, the auditor should include an Emphasis of Matter paragraph in the auditor's report. Emphasis of Matter paragraphs should only refer to information presented or disclosed in the financial statements.

158. An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading “Emphasis of Matter” or another appropriate heading;
- include a clear reference to the matter being 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 Previous and Earlier Years Recommendations

Audit Component	Recommendations carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
1.4 Compliance with AFS and other reporting requirements	The Minister should analyse the reason for the 2015 Qualification and Emphasis of Matter and identify actions required to enable a true and fair representation of assets in 2016;			Unimplemented recommendation, since even this year have been repeated the same findings.
2.1 Progress in implementing the previous year recommendations	The Minister should ensure that a revised action plan is implemented which clearly sets out a timetable for addressing the recommendations made by the AG with accountable staff members identified and with initial focus on those of greatest significance. Barriers hindering the implementation of recommendations should be reported to the Minister, and determine and undertake measures necessary for their addressing.			Unimplemented recommendation, since no measures have been taken, for the implementation of recommendations in general.
2.5.1 Accountability Arrangements	The Minister should ensure that a review of existing accountability arrangements and reporting requirements placed on subordinate institutions is implemented with enhanced arrangements to achieve specified objectives.			Unimplemented recommendation, since the same issues have been identified from the 2017 audit.

2.5.2 Risk Management	The Minister should consider developing a new management approach which would address potential risks that may hinder the achievement of Ministry's objectives. Design of a potential risk register would be the first step to be followed by necessary actions for management/mitigation of these potential risks.			Unimplemented recommendation, since the same issues have been identified from the 2017 audit.
2.5.3 Management reporting	The Minister should ensure that a review is implemented to determine the format of financial and operational reporting to senior management which is required to support effective business management - and ensure that an appropriate solution is in place by 1 October 2016.			Unimplemented recommendation, since the same issues have been identified from the 2017 audit.
2.6 Internal Audit System	The Minister should pay greater importance to internal audit system by providing continued and necessary support for effective work. AC should critically review IAU plans (to confirm that they are risk based and provide the required assurance to management) and Internal Audit outputs. It should also review actions taken by management on Internal Audit recommendations and implementation of action plans.			Unimplemented recommendation, since the same issues have been identified from the 2017 audit.
3.1 Budget Planning and Execution	The Minister should ensure that continued analysis on the flow of budget execution is done in order that expenditures are done in accordance with the budget plan and with the purpose of avoiding eventual irregularities, as a result of deviations from the plan. During planning of Capital investments, other external impacting factors should be considered.			Unimplemented recommendation, since even this year have been repeated the same findings.

3.1.2 (Wages and Salaries)	The Minister should review cases identified and take measures necessary to ensure that remuneration of salaries for the MCYS staff is done in conformity with budget foreseen and in accordance with their contracts. Overtime work should be paid in line with legal norms and only after the request for such work is approved and documented.			Unimplemented recommendation, since even this year have been repeated the same findings.
3.5 Expenditure not related to Procurement	The Minister should ensure that special service contracts employees should be engaged only in cases when there are specific requirements. These engagements should be conducted in conformity with Law on Liabilities, engagements for these services should not last longer than six months, and payment should be done from Goods and Services. While career positions should be covered with regular employees in conformity with Law on Civil Service, based on regular public advertisement procedures.			Unimplemented recommendation, since even this year have been repeated the same findings.
3.5.2 Subsidies and Transfers	The Minister should ensure that when awarding of subsidies occurs, rules and criteria are adhered to, and subsidies, which are not in line with the plan and nature of the Ministry's work, should not be awarded.			Unimplemented recommendation, since even this year have been repeated the same findings.
3.5.2 Subsidies and Transfers	The Minister should ensure that execution of projects subsidized is constantly monitored to ensure the respect of the agreement and reporting on the way funds are used. This would ensure that the aims intended upon award of subsidies are achieved			Unimplemented recommendation, since even this year have been repeated the same findings.

3.5.2 Subsidies and Transfers	The Minister should ensure that projects subsidized are subject to regular monitoring from Ministry's officers to ensure the respect of requirements/ deadlines for reporting by beneficiaries on the way how funds are used. Where requirement and deadlines for justification of expenditures are not respected, necessary penalty measures should be taken.			Unimplemented recommendation, since even this year have been repeated the same findings.
3.5.2 Subsidies and Transfers	The Minister should ensure that execution of projects of NGOs financed by the Ministry should be monitored on regular monthly basis to ensure that purposes intended are achieved and expenditures are justified with relevant evidence.			Unimplemented recommendation, since even this year have been repeated the same findings.
3.5.2 Subsidies and Transfers	The Minister should work closely with the Steering Committee of subordinate institutions in order to draft a comprehensive regulation for engaging staff for different projects, which clearly sets out the procedure of engagement and compensation. Enhanced controls should be implemented to ensure that all compensation of the external engaged people are documented and should be done through bank account.			Unimplemented recommendation, since even this year have been repeated the same findings.
3.5.2 Subsidies and Transfers	The Minister should put in place stronger budget controls and ensure that expenditures are done in accordance with the purpose and their planning in order to ensure adequate budget expenditures and appropriate classification of expenditures.			Unimplemented recommendation, since even this year have been repeated the same findings.
3.7.2 Handling of Debts	The Minister should ensure that a review of process of outstanding obligations is done, and also immediately evaluate debts and take measures for the improvement of the current situation.			Unimplemented recommendation, since even this year have been repeated the same findings.

Audit Component	Recommendations given in 2016	Implemented	In process of implementation	Not implemented
1.1 Audit Opinion	The Minister should ensure that a comprehensive analysis has been conducted to determine the causes for the Qualification of the Opinion and the Emphasis of Matter. Actions need to be taken to address the causes in a systematic and pragmatic way to remove errors in misclassifications, to avoid irregular payments and to make accurate estimates of capital assets.			Unimplemented recommendation, since even this year have been repeated the same findings.
1.2 Compliance with AFS and other reporting requirements	The Minister should ensure that effective processes have been established to confirm that the 2017 AFS preparation process addresses all compliance related issues. This should include the management review of the draft AFS, with particular focus on areas where errors have been identified. The declaration made by the Chief Administrative and Financial Officer should not be submitted unless all the necessary controls have been applied to AFS draft.	The recommendation has been implemented, as the 2017 AFS have not resulted with errors.		
2.1 Progress in the Implementation of Prior Year Recommendations	The Minister should ensure that a revised action plan is implemented setting out the timelines for implementing the recommendations made by the Auditor General (AG) with the identified responsible staff, focusing primarily on the most important areas.			Unimplemented recommendation, since no measures have been taken, for the implementation of recommendations in general.

2.2 Self-Assessment Checklist of FMC components	The Minister should ensure that a review of the processes for completing the self-assessment checklist and proactively addressing areas of weaknesses is implemented. A revised mechanism to confirm the accuracy of the return and to ensure supporting documentation supports the submission should be applied.	The recommendation has been implemented.		
2.3 Specific Governance Reviews	The Minister should initiate the drafting of the overall strategy of the institution and draft the action plan for monitoring the achievement of objectives by establishing effective oversight functions.		The recommendation is in process of implementation, as the strategy has been drafted, but still has not been approved in Government.	
2.3.2 Management Reporting and Accountability	The Minister should ensure that a review is performed, to determine the format of financial and operational reporting to senior management which is required to support effective business management - and ensure that an appropriate solution is in place.			Unimplemented recommendation, since the same issues have been identified from the 2017 audit.
2.3.2 Management Reporting and Accountability	The Minister should initiate a review of the current form of reporting and accountability from institutions, to assess weaknesses and determine improved arrangements. In addition, the Minister should discuss with the Ministry of Finance, Treasury and with the Heads of Subordinate Institutions of MCYS in order to find the most appropriate options for managing the financial means of the budget, including the possibility of authorizing the current bank accounts by the Treasury.			Unimplemented recommendation, since the same issues have been identified from the 2017 audit.

2.4 Internal Audit System	In order to obtain maximum benefit from Internal Audit activity, the Minister should ensure an effective functioning of the Audit Committee. The Audit Committee should critically review the internal audit plans (to confirm that they are risk based and provide the required assurance to management) and internal audit outputs. It should also review actions taken by management on Internal Audit recommendations.			Unimplemented recommendation, since the same issues have been identified from the 2017 audit.
3.1 Budget Planning and Execution	The Minister should ensure that the preparation of budget requirements is preceded by a thorough analysis of all factors that have an impact on budget execution. Apart from this, the management of capital projects should be improved to ensure that they are completed within agreed terms and with optimal quality. Additionally, it should be ensured that the expenditures are executed in accordance with the appropriate economic codes, so that their reporting in AFS is fair and accurate.			Unimplemented recommendation, since the same issues have been identified from the 2017 audit.
3.1.2 Wages and Salaries	The Minister should ensure that employees with special services contracts are engaged only in cases when specific requirements emerge. These engagements should be developed in accordance with legal provisions.			Unimplemented recommendation, since the same issues have been identified from the 2017 audit.
3.1.2 Wages and Salaries	The Minister should review identified cases and take the necessary measures to ensure that staff compensation is conducted in compliance with applicable regulations.			Unimplemented recommendation, since the same issues have been identified from the 2017 audit.

3.1.3 Goods and Services and Utilities	The Minister should initiate a review on the implementation of the contract on vehicle repair in order to determine the causes of these omissions. At the same time, management controls should be added to ensure that the vehicles are actually repaired and that the billing for their repair is done in accordance with the signed contract. No payment should be made if repaired cars are not admitted by the authorized persons.	Implemented recommendation, since from the 2017 samples did not result similar findings.		
3.1.3 Goods and Services and Utilities	The Minister should ensure that the matter in question is particularly reviewed in order to assess the legality of the agreement as well as assess whether contracted services are cost-effective and provide value for money.	Implemented recommendation, since from the 2017 samples did not result similar findings.		
3.1.4 Subsidies and Transfers	The Minister should work closely with the steering councils of the subordinate institutions in order to draft a comprehensive regulation on the engagement and payment of staff for various projects, which will clearly determine the engagement and compensation procedure, whereas for daily allowances to comply with the applicable administrative instruction. Enhanced controls need to be implemented to ensure that all compensations of external engagements are made through a bank account.			Unimplemented recommendation, since the same issues have been addressed even this year.
3.1.4 Subsidies and Transfers	The Minister should ensure that all memorandums of understanding between the ministry and other parties contain the obligations of both parties for reasoning and regular reporting on expenditure. Controls should also be added towards monitoring expenditures generated by federations.			Unimplemented recommendation, since the same issues have been identified from the 2017 audit.

3.1.4 Subsidies and Transfers	The Minister should ensure that subsidized projects are monitored by relevant department officials within the Ministry in order to comply with legal deadlines on reporting and justification of expenditures by project beneficiaries.			Unimplemented recommendation, since the same issues have been addressed even this year.
3.1.4 Subsidies and Transfers	The Minister should ensure that, for financially supported projects, prior continuing with activities, to initially make decisions, contracts, payments, then subsequently after the activity justify the expenses.			Unimplemented recommendation, since the same issues have been identified from the 2017 audit.
3.1.4 Subsidies and Transfers	The Minister should ensure that projects in the future are not subsidized without meeting the criteria set by the respective department.	Implemented recommendation, since from the 2017 samples there were no similar findings.		
3.1.5 Capital Investments	The Minister should ensure that procurement procedures are applied during the implementation of projects and ask from KAI steering committee to draft comprehensive policies or guidelines for the engagement and payment of staff for various projects, which will clearly determine the duties, obligations and compensations of employees.			Unimplemented recommendation, since the same issues have been identified from the 2017 audit.

3.1.5 Capital Investments	The Minister should initiate an internal review to determine why payments for uncompleted works have occurred. Consequently, necessary actions and increased controls should be undertaken to ensure that identified weaknesses are addressed.	Implemented recommendation, since from the physical examination procedures in the Sports Hall in Istog, we found that for the paid stages, the respective works were completed.		
3.2.1 Capital and Non Capital Assets	The Minister should ensure that in order for the management to have accurate information on asset status, the committees on inventory and asset valuation should complete their work and report on timely manner.			Unimplemented recommendation, since the same issues have resulted even from 2017 audit.
3.3 Outstanding Liabilities	The Minister should make a review of the reporting process on liabilities and conduct an immediate assessment of the obligations in order to take adequate measures towards improvement of the current situation.			Unimplemented recommendation, since even in 2017, the liabilities management had similar deficiencies.

## Annex IV: Letter of confirmation

REPUBLIKA E KOSOVËS / REPUBLICA KOSOVA / REPUBLIC OF KOSOVO			
ZYRA KOMBËTARE E AUDITIMIT / NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE			
DATE E PUNËS / DATE E PUNËS / DATE OF WORK: 25.06.2018			
Agjencia / Org. / Jed. / Org. Unit	Stat. Klasif. / Klasif. Kod / Class. Code	Nr. Prot. / Nr. Prot. / Prot. No.	Nr. Stranës / No. Stranës / No. Pages
03	47	1147	2



REPUBLIKA E KOSOVËS / REPUBLICA KOSOVA / REPUBLIC OF KOSOVO	
Qeveria e Kosovës / Vlada Kosova / Government of Kosovo	
Ministria e Kulturës, Rinisë dhe Sportit / Ministarstvo Kulture, Omaladine i Sporta / Ministry of Culture, Youth & Sports	
Adresa / Adresa / Address	21001/2018
Datë / Datë / Date	25-06-2018
Signature	<i>[Signature]</i>
PRISHTINE / PRISTINA / PRISHTINA	

**Republika e Kosovës**

**Republika Kosova - Republic of Kosovo**

**Qeveria - Vlada - Government**

**Ministria e Kulturës, Rinisë dhe Sportit / Ministarstvo Kulture, Omaladine i Sporta - Ministry of Culture, Youth & Sports**

**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

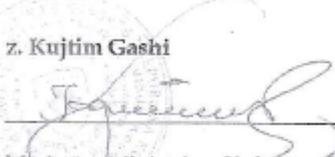
Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Ministrisë së Kulturës, Rinisë dhe Sportit për vitin e përfunduar më 31 dhjetor 2017 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe

- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

z. Kujtim Gashi



Ministër - Ministria e Kulturës, Rinisë dhe Sportit

Data: 25 Qershor.2018, Prishtinë,