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Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

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**AUDIT REPORT**  
**ON THE ANNUAL FINANCIAL STATEMENTS OF THE MINISTRY**  
**OF FOREIGN AFFAIRS FOR**  
**THE YEAR ENDED 31 DECEMBER 2017**

**Prishtina, June 2018**

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control which, according to the Constitution and domestic laws, enjoys functional, financial and operational independence. The National Audit Office undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

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

We perform audits in line with internationally recognized public sector auditing standards and good European practices.

The reports of the National Audit Office directly promote accountability of public institutions as they provide a base for holding managers' of individual budget organisations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Ministry of Foreign Affairs 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 (Fjolla Bakalli (Team Leader) and Pleurat Isufi and Albana Kadriu-Zogjani (team members) under the management of the Head of Audit Department Bujar Bajraktari.

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## Executive Summary

### Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Statements of Ministry of Foreign Affairs, 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 01/11/2017.

Our audit focus has been on:



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

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

### Opinion of the Auditor General

#### **Unmodified Opinion with emphasis of matter**

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

#### **Emphasis of matter**

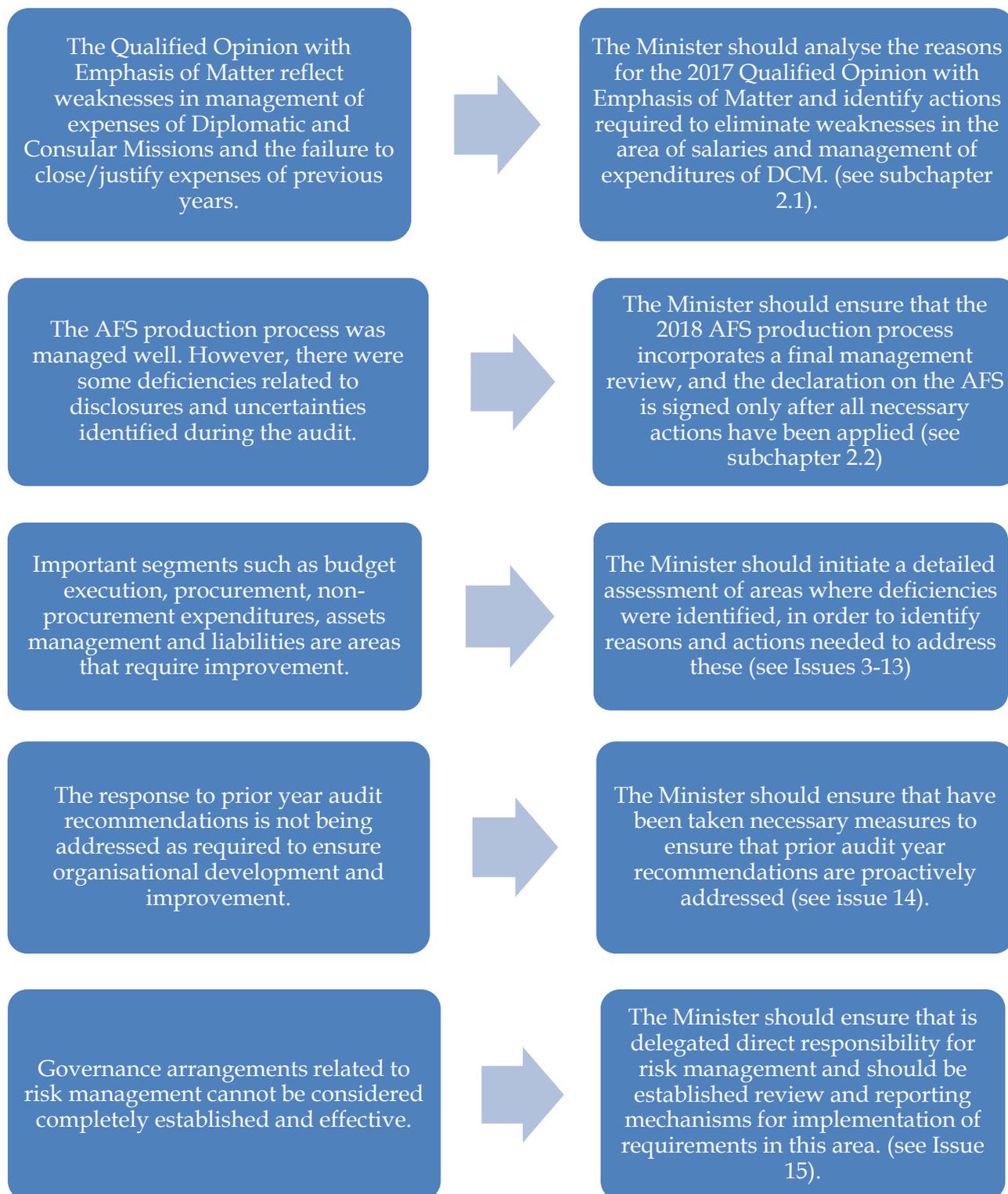
We draw your attention to the fact that the MFA at the end of 2017 had a balance of unclosed expenditures (advances) in the DCM in the amount of €331,700. In addition, notes presented at unjustified advances were not correct.

For more, please refer to Section 1.2 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



### Management's response to 2017 audit

The Minister has agreed with our audit findings and conclusions, and is committed to address all given recommendations.

# 1 Audit Scope and Methodology

## Introduction

The National Audit Office (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 Ministry of Foreign Affairs. 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 that 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 with Emphasis of Matter**

We have audited the AFS of the Ministry of Foreign Affairs for the year ended on 31<sup>st</sup> of December 2016 which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement and the Explanatory Notes of the Financial Statements.

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

#### **Basis for the Opinion**

Our 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 AFS section of our report. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.

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## **Emphasis of Matter**

We draw your attention to the fact that:

- The MFA at the end of 2017 had a balance of unclosed expenditures (advances) in DCM in the amount of €331,700. Referring to the notes attached to the AFS, this balance for previous years was €211,107, while for the current year it was €120,593. This balance is as a result of discrepancies between unrecorded inflows and outflows in DCM, wherein are included unrecorded expenditures, unrecorded revenues and reimbursements, differences due to exchange rates, recording errors, etc. Despite the commitments made for financial reconciliations, MFA had identified some of the causes behind this state, but has not managed to have complete records on this unclosed balance.
- In addition, in the AFS “Article 20-Unjustified advances”, MFA had presented the amount of €576,593, but had not provided any explanations regarding this amount. The value presented as unjustified advance in fact presents the value of open commitments at the end of 2017 for DCM, and this is not explained in the AFS. Instead of this amount, should have been presented the accurate value of open advances.
- Our opinion is not qualified related to these matters.

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

The Secretary General of the Ministry of Foreign Affairs 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 FOREIGN control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law number 03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

The Minister is responsible to ensure the oversight of Ministry’s financial reporting process.

## **Auditor General’s Responsibility for the Audit of the AFS**

Our responsibility is to express an opinion on the AFS based on our audit. We conducted our audit in accordance with ISSAIs. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will detect 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.

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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

The Ministry of Foreign Affairs is required to comply with a specified reporting framework and other reporting requirements. We considered:

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

Besides the issues raised in the audit opinion, in the AFS we have identified the following errors:

- At the presentation of designated donor grants (*Article 14 - Budget Execution Report* "Cash inflow into the Treasury account"), in the final budget column should only be presented the value of current year donations, while the MFA had also included the value of donations carried forward from the previous year whereby has overestimated the budget of donations by €39,267. In the same table, cash outflows, the final budget for goods and services was underestimated by €70,654, as was not included the part of the budget from external donations.
- Article 19 "Report on non-financial assets", the MFA had presented capital assets in the amount of €2,866,246. This amount was consistent with the accounting register at the date of reporting, but the table of detailed disclosure of capital assets (attached to the AFS) was not consistent with this reported amount. According to these disclosures, the net value of capital assets was €3,299,812 as in this value was not presented assets depreciation for 2017.

Regarding the external reporting requirements, the MFA has managed to submit timely all reports required under the applicable legal framework, with the exception of the monthly reconciliations with the Treasury on revenues, as the MFA had only made quarterly reconciliations in disagreement with requirements of Financial Rule on Revenues No. 03/2010.

## 2.3 Recommendations related to Annual Financial Statements

On issues identified above are given the following recommendations:

- Recommendation 1** The Minister should ensure that is carried out a thorough analysis to determine the causes behind the Emphasis of Matter. In this context, specific actions should be taken to address problems related to unrecorded expenses that are repeated year after year, and to ensure accurate presentation of unjustified advances.
- Recommendation 2** The Minister should ensure accurate presentation of donor grants, and ensure that the report of non-financial assets is consistent with disclosures. In addition, Minister should ensure that the 2018 AFS draft plan addresses all issues identified by the audit. This should include review of the AFS by the management, with particular focus on high-risk areas and areas where errors have been identified.

## 3 Financial Management and Control

### Introduction

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

### Financial Management and Control Conclusion

In the context of financial systems, controls over a number of expenditure areas require further improvement to prevent irregular and irrational expenditures. The main areas where most improvements are required are management of expenditures in diplomatic and consular missions, budget execution and procurement. In addition, assets management and reporting of outstanding liabilities needs to be improved. Controls over revenues are generally adequate but there are still significant delays in recording that need to be eliminated.

Furthermore, the most challenging issue remains treatment and identification of unclosed expenditures from previous years. This year almost no expenditures of previous years have been closed.

#### 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 <sup>1</sup>	2017 Outturn	2016 Outturn	2015 Outturn
<b>Sources of Funds</b>	<b>20,959,053</b>	<b>22,733,193</b>	<b>20,430,293</b>	<b>19,213,681</b>	<b>18,243,748</b>
<b>Government Grant -Budget</b>	20,959,053	22,662,539	20,410,343	19,183,401	18,200,658
<b>External Donations</b>		70,654	19,950	30,280	43,090

The final budget is higher than the initial budget by €1,774,140. This increase is a result of external donations, as well as the increase applied after the budget review and Government decisions.

The MFA In 2017 had spent €20,430,293 or 90% of the final budget, and compared to 2016, budget execution is lower by 6%. Below are given explanations on the current position.

<sup>1</sup> Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

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

Description	Initial Budget	Final Budget	2017 Outturn	2016 Outturn	2015 Outturn
<b>Spending of funds by economic categories</b>	<b>20,959,053.00</b>	<b>22,733,193</b>	<b>20,430,293</b>	<b>19,213,681</b>	<b>18,243,748</b>
Wages and Salaries	5,560,891	6,432,342	6,432,342	5,759,871	5,046,204
Goods and Services	12,703,547	15,389,865 <sup>2</sup>	13,268,981	12,088,464	12,446,918
Utilities	538,051	687,084	521,719	380,578	354,966
Subsidies and Transfers	100,000	50,000	33,450	364,470	98,029
Capital Investments	2,056,564	173,903	173,801	620,298	297,631

Explanations for changes in budget categories are given below:

- The budget for wages and salaries compared to the initial budget had increased by €871,451, was due to allocation of funds for DCM. This increase resulted after the budget review in the amount of €287,527, while under Government decision there was another increase of €583,924. Budget execution for this category was at 100%;
- The final budget for goods and services had increased by €2,686,318. This increase was with the budget review by €1,500,000, with Government decisions €907,097, funds received from external donors in the amount of €70,654, and €208,567 were transferred from the category of capital investments, subsidies and transfers and utilities. This increase came due to lack of funds for DCM. Despite the request for budget increase, budget execution was at 86%;
- The final budget for utilities had increased by €149,033. This change was as a result of budget review whereby the budget had increased by €50,000 and the government decision for budget allocation in the amount of €115,000. Later with a government decision out of this category were transferred to the category of goods and services funds in the amount of €15,967;
- The final budget for subsidies and transfers was halved compared to the initial budget. This decrease had occurred based on Government decision. These funds were transferred to the category of goods and services. Despite this reduction, the execution was not satisfactory (67%); and
- The final budget for capital investments was reduced over 90% compared to the initial budget (by €173,801) as a result of the budget review, and Government decisions. Final budget execution was at 100%.

<sup>2</sup> Difference with Notes to the AFS relates to donations that are not included in the final budget (see subchapter 2.2)

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### Issue 3 - Budget planning and execution

**Finding** Budget execution for capital investments remains a challenging issue for the MFA. Even though the annual execution compared to the final budget was at 100%, we cannot say that it is a good performance indicator where the budget execution was only 8%. According to the initial budget law, 10 capital projects had been planned for this category, and due to lack of requests for initiation by requesting units, delays and failure to execute projects in accordance with the procurement plan, for five projects were withdrawn all funds, and one project suffered 80% reduction under the budget review process.

Due to poor budget planning, the execution was not satisfactory as in subsidies and transfers the level of execution compared to the final budget was only 67%. This is an unsatisfactory performance particularly if we compare it with the initial budget, which was halved.

**Risk** Due to poor budget execution results in inefficient use of available resources, and reduces effectiveness of spending plans of the Ministry. Failure to fulfil planned projects results in fewer implemented projects, non-achievement of objectives of the Ministry and potential budget reduction for the coming years.

**Recommendation 3** Minister should carry out a systematic assessment of reasons behind low execution of capital projects and other areas of expenditure for 2017 and earlier, and determine practical alternatives for improvement of its execution.

## 3.2 Revenues

Revenues generated by the MFA in 2017 were in the amount of €3,153,732. They mainly relate to travel documents fees, verification of documents, Identification cards, citizenship, apostille stamps etc.

**Table 3. Own Source Revenues (in €)**

Description	Planning	2017 Receipts	2016 Receipts	2015 Receipts
Own source revenues	-	3,153,732	2,546,086	1,838,477

The total of revenues collected reflects an upward trend compared to previous years. This increase was mainly due to revenues from issuance of apostille stamps that has started being applied in 2017, as well as the increase of revenues from taxes on issuance of travel documents.

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**Issue 4 - Lack of planning and delays in recording of revenues**

- Finding** Although the MFA generates revenues to be collected during the year were not forecasted. In addition, our testing has found delays in recording of revenues ranging from one to three months. Regarding this issue has been recommended in previous years as well, but no measures have been taken yet.
- Risk** Lack of revenues plan makes measurement performance in revenue collection impossible. Delays in recording affect reporting and do not enable monthly reconciliations with the Treasury. This poses a risk, as they may not get included in the AFS at the end of the year.
- Recommendation 4** The Minister should ensure that responsible persons make revenue planning/forecasting, and increases the level of accountability of the heads of diplomatic missions, in order to avoid delays and ensure that all revenues are recorded on time in the KFMIS.

### 3.3 Wages and Salaries

Wages and Salaries are paid through a centralised system managed by MPA and MoF. However, there are a number of controls that operate within the MFA, which relate to determination of salary multipliers, promotion and approval of allowances, etc. Therefore, it is important to have effective controls to ensure that these actions are in line with the general rules. According to the KFMIS data, the final budget for the category of Wages and Salaries was €6,432,342, while incurring of expenses was €6,432,342 or 100%. The number of planned staff was 295 while the actual number of employees at the end of 2017 was 293.

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## 3.4 Personnel Management

Personnel management includes all actions related to recruitment, contracts, training, promotion, leaves, etc. We have tested a number of samples to ensure that actions taken in this area are in accordance with applicable regulations. The following have resulted from tests:

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### Issue 5 – Deficiencies in personnel files

**Finding** In two cases tested, in the files of diplomatic staff, decisions on appointment to certain positions were unreadable copies. The Human Resources Department did not possess another valid document for employees. As a result the testing was impossible as there was no evidence available to justify the salary/allowances of employees.

**Risk** Due to lack of original documents in personnel files and execution of payments despite their absence, poses a risk of irregular payments.

**Recommendation 5** The Minister should ensure that is undertaken a comprehensive review of personnel files to ensure that they are maintained and updated in accordance with legal requirements.

### Issue 6 – Covering positions with Acting

**Finding** Regulation No.06/2010 on appointment procedures in civil service determines that senior management positions can be held with Acting for more than three months. By the end of 2017 in the MFA, three leading positions were held with Acting beyond the legal limit. One of them was appointed as Acting in 2016, and the other two in April and May 2017. The same were exercising these positions as Acting until the end of audit for 2017 (April 2018).

**Risk** Covering positions with acting for long periods of time by exceeding legal deadlines affects the quality of operational performance of the officials and consequently of the Ministry.

**Recommendation 6** The Minister should ensure that all leading positions are exercised with regular employment contracts. This has to be preceded by a public competition developed in accordance with the applicable rules.

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## 3.5 Goods and Services and Utilities

The final budget for goods and services and utilities in 2017 was €16,076,949, out of which were spent €13,790,700. These expenses include: office supplies, expenses for abroad official travel, rental expenses, other contractual services, services for staff health insurance, official lunches, etc. Our tests on this area of spending have resulted in the following findings:

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### Issue 7 - Allowed rental expenses for DCM staff were exceeded

**Finding** The MFA pays the rent for personnel in diplomatic and consular missions based on the Administrative Instruction 03/2012. In four missions (London, Tokyo, Rome and Milan), we have found that allowed monthly rent expenses were exceeded by €50 and €1,600. Expenses were exceeded mainly concerning rents of Ambassadors and consular staff in abovementioned missions. From tested samples, the value of expenses exceeded was about €14,700.

**Risk** Exceeding amounts allowed for rental expenses in disagreement with the AI damages the budget and poses a risk, as MFA may not be able to cover these expenses due to exceeding of budgetary plans allocated for this category.

**Recommendation 7** The Minister and the Secretary General of the MFA should ensure that rent payments are made in accordance with applicable Guidelines so that are not exceeded allowed expenses.

### Issue 8 - Delays in recording expenses

**Finding** The AI no. 03/2012 obligates Diplomatic and Consular Missions (DCMs) to submit a report of expenses to the finance department at the MFA by the 15<sup>th</sup> of the following month, in order to record them in the KFMIS. In 16 cases, there were delays in recording expenses from one to 10 months.

**Risk** Due to delays in recording, quarterly reporting of expenses is inaccurate, as they do not show the exact value of expenses incurred which poses a risk, as they may not get included in the AFS.

**Recommendation 8** The Minister should ensure full implementation of legal provisions related to recording of expenses, in order to eliminate delays in their recording by the competent officials. Periodic reporting, including financial statements, should contain accurate information on financial transactions.

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**Issue 9 – Inadequate segregation of duties in the procurement process**

**Finding** The chairperson of the tender evaluation committee “Translation Services for the needs of the MFA” was appointed also a project manager for this contract. This is in disagreement of Rules and Operational Guidelines for Public Procurement.

**Risk** Inadequate segregation of duties and responsibilities, namely engagement of same officials that participated in tender evaluation committee also in the management of project is in disagreement with applicable rules and increases the risk of conflict of interest.

**Recommendation 9** The Minister should ensure that responsible officials apply requirements of applicable rules in procurement activities, in order to avoid the possibility of conflict of interest.

### 3.6 Subsidies and Transfers

The final budget for subsidies and transfers was €50,000, out of which were spent €33,450 or 67% of the final budget. Subsidized projects mainly related to the support of the fair “Kosovo Products Days”, financial support for the MFA employee on occasion of health complications, subsidies for cooperation with the French Alliance etc.

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**Issue 10 – Weaknesses in justifying subsidised projects**

**Finding** The MFA had co-financed organising of the fair “Kosovo Production Days” in Croatia, in the amount of €3,850. Under the agreement, the beneficiary of the subsidy after the completion of activities was obligated to prepare a work report for the Ministry, accompanied by financial evidence, namely with invoices on expenses incurred. Beneficiary had submitted a work report and had issued an invoice, but were not attached original invoices on travel expenses and on other expenses that were covered by the MFA.

**Risk** Lack of financial evidence on subsidized projects increases the risk of using funds for purposes other than those aimed.

**Recommendation 10** The Minister should ensure that each subsidy beneficiary reports on expenditures incurred as foreseen under the Cooperation Agreements, in order to ensure that funds are being spent in accordance with the intended purpose.

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## 3.7 Capital Investments

The final budget for capital investments was €173,903, out of which in 2017 were spent €173,801. These expenses relate to purchase of vehicles for embassies, purchase of various IT equipment such as desktops and laptops, photocopiers.

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### Issue 11 – Deficiencies in tender evaluation

**Finding** In the procurement procedure “Maintenance of the visa system” (contract value €191,160), within the requirements for technical and professional capacity in the tender dossier, was requested that the staff involved in the project (Project Leader and Experts) are to prove work experience with references from clients in at least two projects. The winning EO had only provided a list of projects carried out by its staff, but no references from clients as required in the tender dossier.

**Risk** Failure to comply with the requirements of the tender dossier is in contradiction with the public procurement rules and may result in selection of non-responsive bidders, breach of the principle of equal treatment of tenderers and poor value for money in procurement practices.

**Recommendation 11** The Minister should ensure the full implementation of the legislation in force in procurement processes and compliance with the requirements set out in the tender dossier, so that only the operators who have met all the conditions will be rewarded with the contract.

## 3.8 Capital and Non-Capital Assets

The MFA had presented in the AFS capital assets (over €1,000) in the net amount of €2,866,246 and non-capital assets (under €1,000) in the amount of €1,014,964. Assets under €1,000 are recorded in internal registers of the MFA, and data from these registers is reported in the ;AFS, as the e-assets system has not been fully functionalised, because assets of DCMs are not recorded in the e-assets system.

We have tested purchases of the year, including capital investments and equipment and furniture purchases under €1,000, from goods and services, as well as the regularity in recording of available assets. From our tests we identified the following issues:

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**Issue 12 – Understatement of assets**

**Finding** The MFA had not yet managed to ensure complete recording and accurate presentation of capital assets and inventory in registers and AFS. This is because we have identified unrecorded assets and errors in assets recording:

- Intangible assets (software) in the amount of €128,532 of the project "Creation and establishment of the visa system" which was received as a donation, but due to lack of documentation had not yet been recorded in the KFMIS. For this issue we have recommended also in previous years but it has not been addressed;
- 57 computers and 8 photocopiers purchased in 2017 in the amount of €78,502 were recorded in the accounting register - KFMIS with the purchase price without VAT. Consequently, their value was understated by €7,083;
- According to the AI 06/2012 on recording of assets in Diplomatic and Consular Missions, assets purchased in DCM should be reported by the DCM Assets Officer to the MFA. We have noticed that five DCMs<sup>3</sup> had not reported assets for 2017, as a result, the information presented on overall assets of the Ministry does not present the real situation.

**Risk** Failure to fully record report assets in registers represents an underestimation of the real status of Ministry's assets. Weaknesses in management and reporting with a particular emphasis on DCMs, obstruct effective management and increase the risk of loss and alienation of assets due to lack of control mechanisms.

**Recommendation 12** The Minister through responsible persons should ensure functioning of control mechanisms in the area of assets management, to ensure that assets are managed in accordance with rules and assets registers that contain accurate and complete information on available assets of the Ministry. The same information should also be presented to the AFS, in order to avoid the possibility of modifying the audit opinion or emphasis of matter.

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<sup>3</sup> Tirana Embassy; Frankfurt Consulate; Zurich Consulate; Embassy Belgrade and Iowa Consulate - USA

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## 3.9 Outstanding Liabilities

The statement of liabilities owed to suppliers at the end of 2017 was €385,622, and compared to 2016 we have an increase of liabilities by €337,936 (2016-€47,686). This increase was due to lack of funds in certain economic codes (due to five-digit implementation) and two invoices that were received at the end of December, one in the amount of €150,000 for supply of servers and other equipment, and the other invoice in the amount of €65,000, for international consulting services. These liabilities were carried forward to be paid in 2018 and represent a budget challenge that the Ministry faces.

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### Issue 13 – Deficiencies in reporting liabilities

**Finding** According to the Financial Rule 01-2013 - Spending of Public Money, BOs are obligated to pay every invoice received that is valid for payment within 30 calendar days from its receipt. We have noticed invoices for airplane travel tickets that belonged Minister's Cabinet were paid with three to nine months delay. The value of these invoices was €127,628 and belonged to 2016, while they were paid in 2017. These invoices were not reported as liabilities in the AFS of 2016.

**Risk** Failure to pay off debts on time may result in penalties against the Ministry, while deficient reporting of liabilities makes their short-term planning impossible.

**Recommendation 13** The Minister should ensure improvement of controls throughout the process of receipt and processing of invoices, in order to avoid delays in meeting liabilities. The remaining liabilities at the end of the year should be accurately reported in the AFS, in order to meet legal requirements and avoid potential modification of opinion or emphasis of matter related to the AFS.

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## 4 Progress in implementing recommendations

Our Audit Report on the 2016 AFS had resulted in 14 recommendations. MFA had prepared an Action Plan stating how all recommendations will be implemented.

At the end of our 2017 audit, three recommendations have been implemented, one was in process, and ten have not been addressed yet. In addition, from the year 2015, 16 recommendations were carried forward (eight unimplemented and eight were under implementation). These recommendations by the end of our audit had remained almost at the same level of addressing, as only two recommendations were implemented, five were in the process of implementation and nine recommendations were not implemented. For a detailed description of recommendations and how they are addressed, see Annex II.

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### Issue 14 – Implementation of recommendations from previous and earlier year

**Finding** Only a part of last year’s recommendations and those carried forward from previous years have been implemented. This was due to poor management of the process and lack of formal monitoring over the implementation of AG’s recommendations. We have not noticed that MFA applies liability measures for non-implementation of recommendations, as a result same issues were repeated this year.

**Risk** Due to delays in implementation of recommendations can result in continued weaknesses, lack of efficiency and potential financial losses.

**Recommendation 14** The Minister should ensure that the action plan for implementation of recommendations given by the AG is monitored continuously and progress reported on a quarterly basis by the responsible staff.

## 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 tool 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 self-assessment checklists completed by all BOs, which are submitted at the end of the year 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

Although the MFA has made a number of governance improvements, there are still a number of areas where important developments are needed. Despite the initiative to create a work group, MFA had not yet managed to draft a comprehensive institutional strategic plan that would define key objectives and would enable monitoring of progress towards achievement of expected results. Due to lack of a strategic document, was not established a proper process for management of risks related to fulfilment of strategic objectives. This situation was reflected in the self-assessment questionnaire submitted to the Ministry of Finance.

In addition, the area that requires further development remains the effective response to audit recommendations as well as efficient planning and management of the budget in the MFA and the Diplomatic and Consular Missions. The financial reconciliation process with DCMs requires further development in order to provide accurate evidence and then take appropriate measures to eliminate current irregularities.

## 5.1 Internal Audit System

The Internal Audit Unit (IAU) operates with three staff members - the Director of IAU and two auditors. In order to carry out an effective audit is required a comprehensive work program that reflects financial and other risks of the audited entity, and provides sufficient assurance on the effectiveness of internal controls. The impact of Internal Audit products should be judged by the importance given by the management to addressing of recommendations as well as the support provided by an effective Audit Committee.

The IAU had drafted a strategic plan and the annual work plan including some review areas for 2017. This plan included six regular audits. By the end of 2017, the plan was fully met.

The Audit Committee (AC) had held three meetings during 2017 wherein were reviewed IAU findings and recommendations.

### **Recommendations**

We have no recommendations in this area.

## 5.2 Management Reporting, Accountability and Risk Management

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

The MFA has established a relatively functional internal control system that includes segregation and delegation of responsibilities, regular reporting to management to enable timely information and possibilities to respond to reported challenges and problems. Management, although it has implemented a number of internal controls to ensure systems are functioning properly, additional measures are still needed and new control mechanisms to address identified issues related to Diplomatic and Consular Missions.

In addition, more focus should be paid to drafting of formal procedures for risk management at the institutional level, in accordance with FMC guidelines in order to support effective operational and strategic management.

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**Issue 15 - Mandate of diplomatic representatives****Finding**

According to the Article 22 of the Law on Foreign Service of the Republic of Kosovo, diplomatic representatives stay in service on the same diplomatic mission for a period of four years, or as required to meet the needs of the Ministry and at the discretion of the Minister of Foreign Affairs. Based on tested samples we have noticed that in six cases diplomatic representatives had continued holding same positions after the expiration of the legal mandate, although there was no decision or a letter to extend the mandate. From these, in three cases there were no decrees for return, although the mandate of representatives had expired, in two cases where issued decrees for return, but representatives had not returned, and in one case was issued the decree for return, and the decision to withdraw from the duty, but the ambassador was not re-systemised after the return, and had received a salary according to the grade of the ambassador for a three-month period. This has occurred as a result of lack of secondary legislation or adequate procedures on ending of mandate and re-systemisation of diplomatic representatives.

By the end of our audit for 2017, the management of MFA had reflected on the situation by taking actions to suspend covering of positions with Acting beyond the legal deadline. These measures are expected to be fully implemented during 2018.

**Risk**

Due to positions held with Acting beyond legal deadlines and without decisions on their extension, the state may be represented by legally unauthorized persons. This can also affect the performance of the diplomatic service as well as the reputation of the state.

**Recommendation 15** The Minister should initiate revision of the secondary legislation related to foreign service, in order to clarify the procedure of ending of the mandate of diplomatic representatives, including necessary time periods and relevant issues for the withdrawal/re-systematisation of diplomatic staff. In cases when the need arises for extension of the mandate of particular diplomatic representative, this should be done by a decision or a letter from the Minister, in accordance with the Law on Foreign Service.

## **Issue 16 - Weaknesses in risk management**

**Finding** According to the Financial Management and Control rules, MFA should have a risk register that is related to strategic institutional objectives. MFA had not drafted such register during 2017. However, after the receipt of the interim audit memorandum, the MFA has drafted a risks register for 2018.

**Risk** Lack of risk management procedures can weaken organization's performance if the internal and external issues that affect this are not addressed timely. This is because proactive actions needed to prevent or avoid the impact of such issues will not be undertaken in a planned and systematic way.

**Recommendation 16** The Minister should ensure establishment of formal procedures for the management of risks, in accordance with FMC requirements. The risk register should be monitored and updated on regular basis.

*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

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material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading "Emphasis of Matter" or another appropriate heading;
- include a clear reference to the matter being emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor's opinion is not modified in respect of the matter emphasised.

159. If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, and provided this is not prohibited by law or regulation, this should be done in a paragraph with the heading "Other Matter," or another appropriate heading. This paragraph should appear immediately after the opinion and any Emphasis of Matter paragraph.

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## Annex II: Progress in implementation of Prior and Earlier Year Recommendations

Audit Component	Recommendation carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
1.3 Significant Audit Risks to the Annual Financial Statements	The Minister has to pay special importance to the reconciliation process relating to recording of expenditures and should monitor this process and push it forward in order to complete it as soon as possible. We encourage the management to make discussions with the MoF in order to conclude this process, which will also reflect on the MFA's budget for the following years.			Not implemented. This year almost no expenses of prior periods were closed, and there were unclosed expenses of the year.
1.4 Compliance with AFS and other reporting requirements	The Minister has to ensure that preparation of AFS for 2016 includes a detailed review of the draft statements by the management, with a focus on reconciliations of data and special treatment of areas that are considered high risk. The declaration signed by the CAO and CFO should not be submitted until all necessary controls are applied.		In the process of implementation. Again, software was not recorded on assets register.	
1.4 Compliance with AFS and other reporting requirements	The Minister has to ensure that controls are effective and that external reporting requirements regarding revenues (reconciliations with the Treasury) are done every month as foreseen under the financial regulation on revenues.			Not implemented. Reconciliations are not done on monthly but on quarterly basis.
2.3 Prior Year Recommendations	The Minister has to ensure that the action plan is revised, in order to analyse the causes behind unaddressed recommendations and set a new timeframe for addressing recommendations, with the staff members accountable and initial focus on the areas of greatest importance. Implementation of this plan should be monitored, and we expect progress over this.		In the process of implementation	

2.4 Self-Assessment Checklist of FMC	The Minister has to ensure that is applied a review over the completion of the self-assessment checklist, and that areas with weaknesses are addressed proactively. In addition, should be applied a revised mechanism in order to confirm the accuracy of the checklist and to ensure supporting documentation.			Not implemented. Was not drafted the comprehensive institutional strategy.
2.5.1 Risk Assessment	The Minister should ensure through Secretary General that immediate responsibility for risk management is delegated to responsible officials and ensure monthly reporting on the implementation of requirements in this area by monitoring how the risks are being managed			Not implemented. No risks register was drafted.
2.6 Internal Audit System	The Minister has to ensure that there is good communication between the management, Audit Committee and IAU, so that are identified shortcomings of internal controls, while the audits should be directed towards areas where the risk from shortcomings is greater. In addition, actions should be taken so that IAU recommendations are implemented in practice, where the Audit Committee plays a key role in monitoring and advancing this process.		In the process of implementation. The level of recommendations implemented has increased compared to previous years, when referring to the annual report on CHU/IA.	
3.5 Non Procurement Expenditure	The Minister has to ensure that prior to carrying out remaining payments the project is implemented in full compliance with the agreement. This can be done by establishing a committee that consists of professional staff that would verify the degree of project implementation, and after receiving committee's report to proceed with payment of outstanding liabilities.	There were no payments from this project this year.		

3.5 Non Procurement Expenditure	The Minister has to ensure that DCMs that use a currency different from Euro, in terms of the exchange rate they apply a criterion, and the recording of expenditures and revenues should be fully reconciled. Due to this, the expenditures and revenues would be realistic and there would be no overestimation or underestimation.		In the process of implementation. MFA had made efforts to proximate records with DCMs which have non-Euro currency.	
3.5 Non Procurement Expenditure	The Minister has to ensure that control measures are increased in order to eliminate delays in recording of expenditures by the expenditure officers in the Ministry. In cases where there are differences of expenditures, which according to the officials cannot be recorded, then should be requested documents or additional explanation by the respective DCM.			Not implemented. Again, there are significant delays in recording expenses.
3.5.1 Remunerations (Wages and Salaries)	The Minister has to ensure that the specific criteria for Foreign Service promotions and appointments are applied in all cases. In addition, the timeframe of service contracts should be adhered to, as well as for Acting as foreseen under the legislation to ensure timely recruitments.		In the process of implementation. Measures have been taken regarding special service agreements but not for positions held with Acting Duty.	
3.5.2 Subsidies and Transfers	The Minister has to ensure that granting of subsidies is monitored through narrative and financial reports, so that management ensures that funds are spent according to the request submitted in the project proposal.			Not implemented. Even this year a case has been identified.
3.6 Revenues	The Minister has to increase the level of responsibility of the Heads of diplomatic missions in order to avoid delays and to ensure that all revenues are reported and recorded on time in the KFMIS.			Not implemented. Again, there were delays in recording revenues for up to three months.

3.7 Assets and Liabilities	The Minister has to enhance controls over assets management by ensuring timely accurate and complete recording and reporting of assets owned by the MFA. In addition, inventory and valuation of assets should be done in full compliance with requirements of Financial Rule no. 02/2013.			Not implemented. Were not recorded software apps that was a recommendation from the previous year, as well as were identified unrecorded assets and recording errors.
3.7 Assets and Liabilities	The Minister has to ensure that CAO undertakes effective actions to strengthen controls over warehouse and vehicle management. Every item should be received by the receiving officer (warehouse official) or the acceptance committee, in respective cases. In addition, the Minister has to ensure that are applied effective controls in order to prevent the use of vehicles outside working hours without a prior approval. This will result in an efficient use of vehicles.	This year we have not encountered cases of receiving assets without a receiving commission.		
3.7.2 Handling of liabilities	The Minister has to ensure establishment of an effective system where the invoices are received and recorded in one place and then be distributed to relevant officials. This practice would ensure accurate and complete reporting of liabilities, and complete information on current liabilities to the management and other stakeholders. In addition, in the monthly reports should be followed the chronology of outstanding invoices so that outstanding invoices are reported until they are paid, and the management and Treasury to have accurate information on outstanding liabilities.			Not implemented. We have identified unreported liabilities.

Audit Component	Recommendation given in 2015	Implemented	Under implementation	Not implemented
1.3 Recommendations for the first part of the report	The Minister should ensure that measures and actions are taken to correct errors identified in Emphasis of Matter. Actions should be taken to address the problems related to unapproved expenditures carried forward from previous years causing a systematic problem for MFA;			Not implemented. This year almost no expenses of prior periods were closed, and there were unclosed expenses of the year.
	The Minister should strengthen controls over the legal obligations for reporting of revenues and their monthly reconciliation with the Treasury in order to meet the statutory requirements.			Not implemented. Reconciliations are not done on monthly but on quarterly basis.
2.1 Progress in the Implementation of Prior Year Recommendations	The Minister should ensure that a revised action plan is implemented which clearly sets out a timetable for implementing the recommendations made by the AG with accountable staff members identified and with initial focus on those of greatest significance. Progress towards the plan should be systematically monitored by management to ensure the implementation of recommendations within the foreseen timeframes.		In the process of implementation	
2.2 Self-Assessment Checklist of FMC components	The Minister should ensure that the importance of drafting the Organization's strategy as well as the development of a risk register by persons involved in the process is clearly understood. In this way, the MFA will be able to monitor and take timely action if obstacles in achieving its objectives appear.			Not implemented. Was not drafted the strategy and risks register.

2.4 Internal Audit System	The Minister should ensure that CA is established and operational in the shortest timeframe possible. Appointing a competent audit committee would increase the value of the internal audit and would provide a proper function in the chain of internal control system.	Implemented. Was established the Audit Committee		
3.1.1 Revenues	The Minister should negotiate further with MoF and MPA to allow staff recruitment, which would assist in recording and reconciliations in a timely manner.			Not implemented. Again there were delays in recording of revenues of up to three months.
3.1.2 Wages and Salaries	The Minister should negotiate with the MoF, and look into the possibilities to allocate budget for salaries in line with the approved number of employees in order to create the opportunity to open recruitment procedures.			Not implemented. Even this year there were positions covered by Acting.
3.1.3 Goods and Services and Utilities	The Minister should ensure that control measures have been increased, including the number of additional staff, so that all recording in KFMIS are made within the specified timeframe.			Not implemented. Again there were significant delays in recording.
	The Minister should ensure effective controls in managing public money by KDMs. Payments are made only for the goods or services received. In cases when service benefits are terminated, contracts should be terminated as well.	Implemented.		
	The Minister should provide controls on managing with petty cash by KDMs. Payments should be allowed in line with the legal framework and not exceed the limits set.			Not implemented.

3.1.4 Subsidies and Transfers	The Minister should ensure that any payment of subsidies from the MFA budget code is followed with an agreement with relevant terms and specifics. In addition, in cooperation with the Secretary General it should ensure that in cases of non-compliance by the beneficiaries, the measures set out in the agreement are taken.			Not implemented. Again, we have identified such a case this year.
3.1.5 Capital Investments	The Minister should ensure that sufficient controls are exercised in order to rewarded with a contract only those EOs who meet the requirements in the tender dossier.			Not implemented. Again, we have identified such cases this year.
3.2 Assets	The Minister should ensure that all assets in the MFA are received through the Receiving Committee. If necessary, the responsible officers are provided with the necessary training on asset management regulations.	Implemented. We have not identified such cases this year.		
3.3 Outstanding Liabilities	The Minister should ensure that obligations to suppliers are paid within the legal deadline in order to avoid the execution of direct payments from the Treasury. If for any reason the obligations remain unpaid, they must be reported to the Treasury.			Not implemented. Even this year we have identified unreported invoices as liabilities.

## Annex III: Confirmation letter

REPUBLIKA E KOSOVËS REPUBLICA KOSOVA-REPUBLIC OF KOSOVO ZYRA KOMBËTARE E AUDITIMIT NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE			
DATI E MARËDORËZUARË DATE RECEIVED / DATE OF RECEIPT: 27.06.2018			
Nivësi Org. Org. Jediti Org. Unit: 03	Shitë Nishti Klassi Kod Class Code: 47	Nr. Prot. Prot. No.: 1193	Nr. Straniç No. Pages: 1



**Republika e Kosovës**  
**Republika Kosova-Republic of Kosovo**

*Ministria e Punëve të Jashtme/Ministarstvo Inostranih Poslova*  
*Ministry of Foreign Affairs*

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Nr. Ref. 541/2018

Prishtinë, 25.06.2018

Për: Zyrën Kombëtare të Auditimit

**LETËR E KONFIRMIMIT**

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm për vitin 2017 dhe për implementimin e rekomandimeve

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Ministrisë së Punëve të Jashtme (MPJ), për vitin 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 implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.



Behgjet Pacolli

Zëvendëskryeministër i Parë &  
Ministër i Punëve të Jashtme

MPJ/MFA: Rruga "Luan Haradinaj" p.n. 10000 Prishtinë - Kosovë  
tel.: +381 38 200 77 005, www.mfa-ks.net