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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 TRADE AND INDUSTRY
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 Trade and Industry, 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 Florim Maliqi (team leader) and Qendresa Sogojeva and Lumturije Sopi (team members), under the management of the Head of Audit Department Samir Zymeri.

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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 Trade and Industry, which determines the Opinion given by the Auditor General. The examination of the 2017 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions (ISSAIs). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in our External Audit Plan, for 2017.

Our audit focus has been on:



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

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

Opinion of the Auditor General

Qualified Opinion with Emphasis of Matter

The Annual Financial Statements for 2017 *present a true and fair view* in all material aspects, except the issue of presenting the borrowings within the initial and financial budget in Article 14, which should have not been presented.

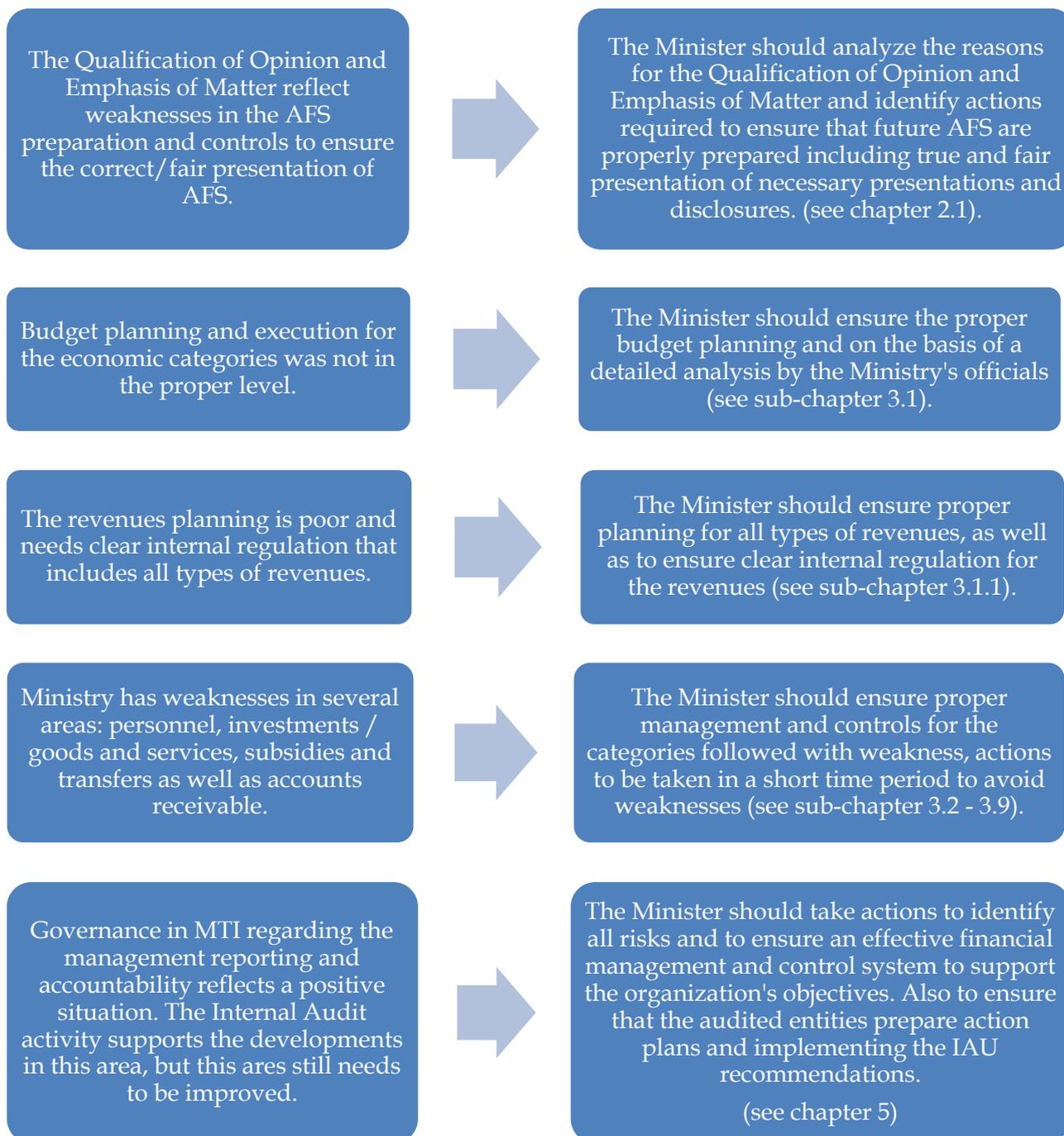
Emphasis of Matter

We draw your attention due to the fact that the contingent liabilities in the amount of €1,932,830 were not presented in 2017.

For more, see Section 2.1 of this report.

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

Key Conclusions and Recommendations



Management response to audit 2017

The Minister agreed with the 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 the MTI. We have analyzed the Ministry's business to the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the 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

Qualified Opinion with Emphasis of Matter

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

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

Basis for Qualified Opinion

In the article 14 – Report of budget execution – the part of cash flow to the Treasury account, the initial budget from Borrowings of €492,000 and the final budget of €192,000 have been presented. Financing from borrowing for the receipts should not be presented in individual AFS. This has resulted in material error in the Annual Financial Statements and we have qualified our opinion for this reason.

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 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 qualified opinion.

Emphasis of Matter

We would also like to draw your attention to the fact that the Ministry had contingent liabilities in the amount of €1,932,830 which were not presented within the Article 18 in AFS. The contingent liabilities list was attached to AFS when they are submitted to the Treasury-Ministry of Finance. Except these, the State Advocacy's data have 31 other cases for which the Ministry did not disclose information in AFS and for which it was not aware. These matters do not modify the opinion but have an impact on the Emphasis of Matter.

Responsibility of the Management and Persons Charged with Governance for AFS

The Secretary General of MTI 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 the Ministry's financial reporting process.

Auditor General's Responsibility for the Audit of the AFS

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

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

MTI 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 Law no. 03/ L-048 on Public Finances Management and Accountabilities (as amended and supplemented);
- Compliance with Financial Rules no. 01/2013 and 02/2013;
- Action Plan on addressing of recommendations; and
- Requirements of Financial Management and Control (FMC) procedures.

Declaration made by the MTI Management

Given the above, the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the MoF, cannot be considered correct, as there are errors that have impacted in the qualification of the audit opinion.

2.3 Recommendations related to Annual Financial Statements

Recommendation 1 The Minister should ensure that an analysis is undertaken to determine the causes for the qualification of opinion. The AFS preparation should be a subject of controls and proper review in order to not be repeated the errors in the presentation of borrowings.

Recommendation 2 The Minister should analyse the causes of the Emphasis of Matter and ensure that contingent liabilities are handled and analysed carefully and in coordination with the State Advocacy Office to provide information/evidence for adequate presentation of these cases. Further on, sufficient information and disclosure needs to be made concerning contingent liabilities in 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

Management has implemented a number of key controls in financial systems, however, in some expenditure areas require further improvement of controls in order to ensure effective management by MTL.

The main areas where further improvements are needed relate to planning and execution of the budget on investment and goods and services, personnel management, procurement areas/processes, obligations and accounts receivable.

Shortcomings in financial management and controls are reflected and highlighted in the self-assessment process/ document submitted to the Ministry of Finance.

3.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ¹	2017 Outturn	2016 Outturn	2015 Outturn
Sources of Funds	7,966,392	5,946,124	4,925,978	4,557,724	4,731,018
Government Grant -Budget	7,474,568	5,754,300	4,925,978	4,557,199	4,730,493
Financing from borrowings	491,824 ²	191,824	0	0	0
External Donations	0	0	0	525	525

The final budget in relation to the initial budget has been reduced by €2,020,268. These changes were made based on the reviewed budget and Government's decisions at the end of the year.

¹ Final budget - the budget approved by the Assembly subsequently adjusted by the Ministry of Finance.

² In AFS was noted that the agreement for borrowing signed by the MoF and the World Bank was not ratified in the Assembly of Kosovo and the financing of projects foreseen with borrowing was not executed.

The Ministry has spent 83% of the final budget in 2017 or €4,925,978, compared to the previous year we have a decrease of budget execution for 15% (2016 – 98%). Negative phenomenon is the conduction of payments at the end of the year, where around 79% of the capital expenditures have occurred in the last quarter of 2017.

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

Description	Initial Budget	Final Budget	2017 Outturn	2016 Outturn	2015 Outturn
Spending of funds by economic categories	7,966,392	5,946,124	4,925,978	4,557,724	4,731,018
Wages and Salaries	1,510,347	1,418,344	1,399,399	1,402,343	1,313,025
Goods and Services	2,236,589	1,760,743	935,457	1,198,814	1,432,027
Utilities	109,280	105,880	65,166	55,794	84,516
Subsidies and Transfers	1,558,176	1,558,176	1,475,695	1,274,893	1,106,535
Capital Investments	2,552,000	1,102,981	1,050,261	625,880	794,915

Explanations for changes in budget categories are given below:

- The final budget for the Wages and Salaries category has been reduced by €92,003, under a budget review by €11,999 and with Government's decisions by €80,004. This decrease was a result of not covering seven allowed positions, extension of recruitment procedures and unpaid leaves;
- For the Goods and Services category the budget was reduced by €475,846. As a result of the budget review with €300,000 and with Government's decisions by €175,846. Despite this, the Ministry had weakness in cash flow, as within the year, it made changes in the cash flow around 15 times by making early allocations, transfer of funds from one program to another one. Another problem was planning of activities with higher cost than the execution, etc.;
- The final budget in relation to the initial budget for Utilities with the Government's decision was reduced by €3,400, despite the reduction, the budget execution was 62%;
- The final budget for Subsidies and Transfers had not changed compared with the initial budget, the execution was 95%; and
- The final budget for Capital Investments compared with the initial budget was reduced by €1,449,019 with Government's decision no. 08/151, as the Ministry has not managed to execute all planned projects. The budget spent for this category is 95%.

Issue 3 – Weakness in budget execution

- Finding** In general, the budget spent for 2017 was not in the expected level or 83%. The reasons of low execution mainly relate to poor planning. The Public Investments Program in 2017 included 12 projects out of which four projects have not been implemented, this because of improper management for the initiation of projects execution. The low execution is also noticed in the category of Goods and Services and Utilities that was 53% respectively 62%. This occurred as the expenditures from the requesting units were planned with higher cost than the execution.
- Risk** Poor budget planning and execution not in the expected level may result in poor performance and failure to achieve the Ministry’s objectives.
- Recommendation 3** The Minister should ensure proper management of the annual budget and make systematic assessment of reasons regarding the low level of budget execution for projects that relate to Capital Investments, Goods and Services and Utilities in order to improve the performance.

3.2 Revenues

For 2017, the MTI has planned revenues in the amount of €1,554,569, while it executed €1,854,733 (120% of the plan). Compared to the previous year (2016) we have decrease of revenues for €433,080 or 19%.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2017 Receipts	2016 Receipts	2015 Receipts
Own source revenues	1,554,569	1,554,569	1,854,733	2,287,813	1,887,894
Total	1,554,569	1,554,569	1,854,733	2,287,813	1,887,894

The main sources of MTI's revenues are the revenues from the pledge recording, revenues from the licenses for professional services, revenues from the use of public property, etc.

Issue 4 - Revenues planning and management

Finding The Ministry has around 18 types of revenues. Fees and procedures are regulated through special administrative instructions for each department that collects revenues. However, the Ministry does not have an internal regulation for all the own source revenues which would include the fees for each type of revenues collected by MTI.

Planning of revenues by MTI was poor. MTI plans revenues based on departments and not according to the types of revenues.

Risk Failure to unify/consolidate the regulation at Ministry level complicates the control and management of revenues. While, inadequate planning may result with weakness in controlling and monitoring of revenues performance.

Recommendation 4 The Minister should ensure proper management of revenues, a clear unified/consolidated regulatory basis for the Ministry's revenues and to consider all aspects including proper types of revenues during planning.

3.3 Wages and Salaries

Wages and Salaries are paid through a centralized system managed by MPA and MoF. However, a range of controls that operate within the MTI, that are related to the authorization of the 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 regulations.

The expenditures for wages and salaries for 2017 were €1,399,399 or 99% of the budget for this category. Our audit has disclosed the following issues:

Issue 5 – Acting positions more than three months and weakness in compensation of staff

Finding

According to the article 30 of LCS “In case of a vacant position in the civil service, the Acting cannot be appointed for longer than three months”. We have noticed that 11 positions of Directors and Head of sectors, that have been covered for more than three months (12 up to 18 months) with Acting. Out of them, in six cases rotation/change between the officials was made every three months. This situation was also influenced by the fact that eight officials have been suspended from work and are still in court proceedings.

Further on, a number of officials for the same positions were compensated with different multipliers (not in accordance with act of appointments), the positions are: Administrative Assistant, Senior Officer, Head of Directorate, Director of Directorate, etc.

These issues have been identified/handled also in the 2016 audit report and in this regard the Ministry made requests (in MoF and MPA) for additional budget for aligning positions and multipliers, but the situation has not been improved.

Risk

Holding of managerial positions with Acting for more than three months and applying different multipliers for the same positions may have negative effect in taking of responsibilities and accountability at work, which will impact in performance and achievement of organization’s objectives in general.

Recommendation 5

The Minister should ensure proper management and controls in the area of personnel, to undertake actions that for the positions covered by Acting find a sustainable solution with regular positions in accordance with the legal requirements and the compensation of officials is done in accordance with the job descriptions.

3.4 Goods and Services and Utilities

The final budget for Goods and Services in 2017 was €1,760,743, out of which €935,457 or around 53% from the allocated budget for this category were spent. While, the final budget for Utilities was €105,880 which was executed at 62%. From our audit we identified the following issues:

Issue 6 – Avoiding procurement procedures

Finding According to the LPP no. 04/L-042, purchases/services should be subject to the procedures of this law, with exception of Article 3 where certain purchases are excluded from the procurement procedures. However, this article does not exclude contractual services that in case of MTI are for the conference room. The Ministry had paid €5,000 for organizing the gala evening for the “Made in Kosova” project. This service has not been subject to regular bidding and contracting procedures.

Risk The services received that were not subject to procurement procedures resulted in eliminating competition, lack of transparency in process and failure to achieve value for money.

Recommendation 6 The Minister should ensure proper controls in the expenditures process and correct implementation of purchasing procedures (LPP), in order to increase transparency when it comes to spending of public money.

Issue 7 – The contract for special services longer than six months

Finding According to the article 12 of LCS no. 03/L-149, Budget Organization may engage employees with certain deadline for less than six months. The Ministry had engaged 20 employees with special service agreement (SSA). Out of them, 12 have been engaged for more than six months (8 up to 25 months), also their engagement is related to permanent work programs as a trademark officer, procurement officer, meteorology expert, supervisor of capital projects.

Risk Engagement of staff under SSA for more than six months and for permanent positions, results in poor performance and monitoring and the quality of services provided cannot be at an adequate level to achieve the organization’s objectives.

Recommendation 7 The Minister should ensure controls when engaging staff with contracts for special services, that those do not exceed the allowed period. The need for additional staff for carrier positions should be analysed and if the increase of the staff number is necessary, this should be incorporated in the budget planning.

Issue 8 - Unclosed Advances/petty cash

Finding According to the advances procedures for petty cash, advances should be closed and justified at the end of the year and in the beginning of next year. We have identified that three advances for petty cash have been justified/closed in the next year with three months of delay. While, on case in the amount of €2,500 had 17 months delay, opened in January 2016 and closed in May 2018.

While the advances for official travels according to the Article 8 of AI 2004/07, should be closed 15 days after the completion of the official travel. The Ministry still had not managed to close the advance for official travels from the Minister's cabinet, opened in February 2016 in the amount of €1,500³.

Risk Delays in closing advances may risk that the money spent is not justified, and not used for the Ministry's objectives/purposes.

Recommendation 8 The Minister should ensure good management and proper controls on advances, adhering to legal deadlines for their closure, while the unjustified funds should be returned to the Ministry's budget according to the legal requirements.

³ For some of these assets, MTI has requested the State Attorney to initiate court proceedings against former MTI (driver of the former Deputy Minister) to return of funds.

3.5 Subsidies and Transfers

The final budget for Subsidies and Transfers was €1,558,176, out of which €1,475,695 or 95% were spent. The most part (68%) of these expenditures relate to the Kosovo Bank Guarantee Fund. While the other expenditures, mainly relate to the payment of spaces at international fairs to promote local products and increase opportunities for export.

Issue 9 – Weakness in awarding and monitoring of subsidies

Finding Article 4 and 10 of AI 03/2016 on Awarding of Subsidies by MTI determine the criteria and rules for awarding of subsidies by the Ministry, among others the financial cost and time schedule of the project implementation.

On 16.08.2018 has been made the payment in the amount of €120,000 to the UNDP⁴ account for the project “Aid for Trade”, which resulted from the agreement dated 14.09.2016 and revised on 15.08.2017. For this payment, the UNDP has not brought the financial and time plan for the completion of the project. Further on, they did not brought the contracts made for these funds and in general a report on expenditures of funds within this project was missing. During our audit, we have secured the contract for the promotion of investments in the amount of €30,000, while for the other amount of €90,000 we had not data/information for planning and execution of these expenditures and if the results are achieved.

Risk Execution of payments without meeting criteria for awarding of subsidies and avoidance of procedures determined in regulation may result in the Ministry’s funds not be used economically and transparently and may have an impact on the effectiveness of how subsidies are managed.

Recommendation 9 The Minister should ensure proper controls in the area of subsidies by adhering to the agreements and legal requirements in order that the project’s objectives are clear and the implementation of subsidies brings out the planned outcomes.

⁴ United Nations Development Program.

3.6 Capital Investments

The final budget for Capital Investments was €1,102,981. Out of them €1,050,261 were spent. Issues related to this category were raised in the following chapter on Common issues on Goods and Services and Capital Investments, and therefore we have no other issue.

Recommendations

We have no recommendations in this area.

3.7 Common Issues on Goods and Services and Capital Investments

In the following are common issues related to Goods and Services and Capital Investments:

Issue 10 - Weaknesses in procurement

Finding During our testing we have noticed these weaknesses in planning and developing of procurement procedures:

- In lack of planning according to the real needs, from 56 signed contracts during 2017, 26 or 46% of them are with minimum value. Furthermore, in three cases we have identified that contracts have been repeated for similar purchases. For supplies with information technology equipment (IT), three procedures have been developed for distribution of promoting materials and two procedures have been developed for supply with inventory. To the repetition of contracts has contributed also to failure to sign contracts by the CPA⁵ for IT equipment and inventory.
- According to the article 81 of LPP, contracting authorities are obliged to prepare the plan for the contract management. During the testing of procurement procedures in nine cases we noticed poor process in the supervision of projects. The Supervision Body of projects has not completed the detailed plan for the management of contract with the needed information.

⁵ Central Procurement Authority.

- According to the article 41.2 of Rules and Operational Guideline of Public Procurement, the procedures for examination, evaluation and comparison of the tenders are carried out by the contracting authority within the shortest possible time period and not more than 30 days from the opening of bids and only complex contracts may have additional deadline extended for 20 days. We have identified that for the evaluation of the tender for “Maintenance of the Business Park in Drenas”, the procedure for examination, evaluation and comparison of the tender has lasted 50 days or 20 days more than the allowed time.

Risk The high number of procurement procedures in minimum value and repetition of similar contracts results in unreal planning and additional cost in the procurement office, and impacts in eliminating competition. Failure to draft/prepare the contract management plan, risks that potential deviations are not be identified and failure to adhere to the deadlines in the bid evaluation presents poor controls in this area.

Recommendation 10 The Minister should ensure good management and proper controls in the procurement area, the requesting units are clear when determining needs and the procurement plan is prepared on a realistic basis as possible. He should also ensure that all legal requirements have been applied during the evaluation of bids and the implementation of contracts, in order to increase the value for public money.

Issue 11 – Lack of construction permit and expenses for technical acceptance of the facility

Finding According to the Article 14 of Law no. 04/L-110 on Construction, the construction permit is required for new constructions, re-constructions, demolition, repairing of facilities and intervention in plaster/structure of facilities. While, for all the facilities that the construction permit is required after the completion of works, the certification of use is also obtained from the competent body⁶, which issues the construction permit. No payment is foreseen to be made to obtain the certification of use. The Construction Inspection has the right to conduct the final inspection of the construction site and the holder of the construction permit should ensure reasonable access to the construction site.

⁶ Competent Bodies for issue of construction permits and certificate of use/technical acceptance are: the Ministry of Environment and Spatial Planning and Municipalities.

For the project “Construction of the pedestrians overpass and two bus stations opposite the Business Park in Drenas” in the amount of €109264 (basic contract €99,741 and annex contract of €9,523), the Ministry was not equipped with construction permit. The construction process/procedures have started only on basis of consent obtained by the Ministry of Infrastructure. While, despite the lack of the construction permit, the Ministry has contracted one economic operator to carry through the technical acceptance of the project and for this it paid €8,150, without clear basis/legal requirement. The technical acceptance report was drafted on 18.12.2017.

On this case, in lack of construction permit, the Ministry caused uncertainties on the technical acceptance and equipment with certificate of use for the concerned construction.

Risk Lack of the construction permit is not a good example and may expose the Ministry to risks from the construction inspectorate. While, the expenditures for technical acceptance result in failure to properly justify the public money.

Recommendation 11 The Minister should ensure that the lack of the construction permit is handled, and in coordination and cooperation with the competent bodies to undertake actions for the issue of using permit and secure that all expenditures made are justified and have legal grounds.

3.8 Capital and Non-Capital Assets

For 2017, the value of Ministry’s assets over €1,000 was €14,367,000, non-capital assets under €1,000 are €156,000 and stocks at the end of 2017 are €20,000. During 2017, the Ministry has made a significant progress in the aspect of assets recording compared to the previous year.

Recommendations

We have no recommendations in this area.

3.9 Receivables

According to the presented data in AFS, the total amount of accounts receivable at the end of 2017 was €180,000, while in the previous year were €202,000.

Issue 12 – Failure to apply the interest for delays in the rent’s payments

Finding Article 2.5 of the contract on renting with the business that operate in the Business Park in Drenas, determines that in case of failure to pay the rent in time, within 15 days of each month, 5% monthly interest should be applied. In 11 cases we noticed delays in payments, which were from five months up to 12 months. However, the Ministry when billing calculated only the monthly debt of €7,478 and did not calculate monthly interest of €373. We have noticed that in general the interest has not been applied not even for earlier accounts receivable from rent. Their amount carried forward from 2010-2017 has reached €168,490, while only in 2017, the amount of €69,827 has been created.

Risk Lack of a revenue collection strategy as resulted in increase of accounts receivable, while failure to apply the terms of contract/interest may lead to financial loss for the Ministry and not stimulate the businesses to pay their debts.

Recommendation 12 The Minister should have a strategy for the management of rent and handling of accounts receivable as well as apply more effective mechanisms for reducing accounts receivable.

3.10 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2017 was €42,074, which are carried forward to be paid in 2018. In 2016, liabilities were €30,000 it is noticed an increase of €12,074. MTI has also disclosed a list of contingent liabilities of €1,932,830, and 31 other cases are in the State Advocacy’s lists. We have presented the issues related to contingent liabilities in chapter 2.1 of this report (audit opinion).

Recommendations

We have no recommendations in this area.

4 Progress in implementing recommendations

Our Audit Report on the 2016 AFS has resulted in five recommendations. The Ministry prepared an Action Plan stating how all given recommendations will be implemented. As part of our audit, in 2017 we have assessed that from the recommendations given for 2016, one recommendation has been implemented, two partially and two have not been implemented. While from four recommendations of 2015, one has been implemented, one is in process of implementation and two of them continue to not be implemented. More details are given in Annex II.

Issue 13 - Implementation of recommendations from previous and earlier year

Finding Recommendations that have not been implemented relate to issues such as: Wages and Salaries according to the job description and covering management positions with Acting.

Risk Failure to fully address the given recommendations increases the risk to have the same weaknesses in the MTI main systems being repeated.

Recommendation 13 The Minister should ensure proper controls and monitoring of the plan on implementation of recommendations, identify the causes for non-implementation of recommendations and actions are undertaken to review the plan which should subject to regular monitoring by Management.

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 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

MTI has made a number of improvements in governance, but still there are a number of areas where important developments are needed. Special attention should be paid to the planning and execution of capital projects, other issues regarding Wages and Salaries as well as issues related to revenues and management of accounts receivable.

5.1 Internal Audit System

The Internal Audit Unit (IAU) operates with two members of staff - the Director of IAU and one auditor, which are licensed. The Internal Audit Unit (IAU) has executed the audit plan, with five regular audits and one upon the request of management. However, this unit has been followed with these weaknesses:

Issue 14 – Poor functioning of IAU

Finding According to the manual for internal audit-template no. 23, requires from the Management (the organization’s audit unit) to prepare the plan for the implementation of IAU’s recommendations. During 2017, the Management did not prepare any plan for the implementation of recommendations.

Article 7 of the Administrative Instruction no. 11/2010 on Establishing and Functioning of the Audit Committee, determines the reporting of Audit Committee. For the 2017, the Audit Committee has not prepared the annual plan for the Management.

Risk Failure to prepare the plans for the implementation of recommendations does not contribute in the improving the organization’s weaknesses and risks that the identified weaknesses are repeated. The lack of reporting by the Audit Committee does not provide the Management with the assurance over the IAU’s work and supervision.

Recommendation 14 The Minister should ensure proper functioning of IAU, plans for the implementation of given recommendations are prepared as well as ensure that the Audit Committee meets the requirements for supervision and reporting.

5.2 Management Reporting, Accountability and Risk Management

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

The process of internal reporting within MTI operates according to the accountability chain, according to the law and organizational structure. Within the Ministry operate seven⁷ executive agencies which have their own management structure, through which the management of daily operational activities is organised. They conduct operational activities of specific natures for which they directly report to the Minister. While the financial statements are prepared in MTI for agencies as well.

Further on, within the MTI operate 10 departments as well, where the directors of these departments report to the Secretary General. These are regular weekly meetings and cover all their activities.

⁷ Kosovo Investment and Enterprise Support Agency (KIESA), Kosovo Business Registration Agency (KBRA), Industrial Property Agency (IPA), Kosovo Metrology Agency (KMA), Kosovo Standardization Agency (KSA), Kosovo Accreditation Directory (KAD).

Issue 15 – Risk management process

Finding The Ministry during the 2017 had not managed to exercise enough managerial controls. We have identified the following weaknesses:

- According to the Financial Management and Control (FMC) regulations, MTI should have a risk register in place. MTI had drafted the risks register, but did not prepare a report for the actions taken against the risks within the organization.
- According to the Administrative Instruction no. 07/2010, article 2, the parties dealing with importation, storage, the wholesale and retail sale of fuel in Kosovo are obliged to be licensed. We have noticed that not all businesses are equipped with service license. According to the Ministry's officials in the northern part of Kosovo, there are around 37 businesses that do not have service license; and
- The Ministry during the year announced 24 advertisements, 13 external and 11 internal, but 14 of them were cancelled due to the lack of the number of successful candidates or competitors.

Risk The lack of an effective and comprehensive risk management will weaken the quality of services to citizens. The lack of a strategy for licensing of all businesses that operate in Kosovo presents challenge for the Ministry in the future. Further on, the high number of cancelled advertisements indicates poor management of this process.

Recommendation 15 The Minister should ensure that direct responsibility for risk management is delegated. Further on, he should ensure that all businesses that operate in the territory of Kosovo have service license and analyse the reasons for the numerous cancellations by taking corrective actions.

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

Annex I: Explanation of the different types of opinion applied by NAO

(extract from ISSAI 200)

Form of opinion

147. The auditor should express **an unmodified opinion** if it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the opinion in the auditor's report in accordance with the section on "Determining the type of modification to the auditor's opinion".

148. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor should discuss the matter with the management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the audit opinion.

Modifications to the opinion in the auditor's report

151. The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or if the auditor was unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Auditors may issue three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.

Determining the type of modification to the auditor's opinion

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

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

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

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

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

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705¹⁹ provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex II: Progress in implementing recommendations of previous and earlier years

Audit Component	Recommendations carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
2.5.1 Risk Assessment	The Minister should ensure that immediate responsibility for risk management is delegated to a named Director and ensure monthly reporting on the implementation of requirements in this area and the risks that are being managed. Moreover, along with the risks registers the Minister should compile an action plan for monitoring the likelihood of occurrence of those risks and undertake measures to bring them under the acceptable threshold. This would eliminate potential obstacles in the achievement of the Ministry's objectives.		Has been partially implemented, as the action plan for monitoring of risks has not been prepared.	
2.5.1 Risk Assessment	The Minister should ensure that a review of processes is implemented for personnel management and systematization of employees according to adequate experiences to ensure the respect of rules in force and benefit more from the existing human capacities within MTI.			Not implemented.
3.5.2 Remunerations (Wages and Salaries)	The Minister should ensure that all payments for Wages and Salaries are made in accordance with job descriptions and apply the applicable regulation for the beneficiaries of the brain fund scheme. In addition, the Minister should ensure that the number and the distribution of employees within organizational departments are in accordance with Law on budget.			Not implemented.

3.8.1 Capital and Non Capital Assets	The Minister should ensure that concrete steps for securing storage and for preparing a stocktaking report are taken in order to have adequate controls about the MTI assets.	It is implemented.		
Audit Component	Recommendations given in 2016	Implemented	In process of implementation	Not implemented
1.2 Compliance with AFS and other reporting requirements	The Minister should ensure that needed measures and actions are taken in order to improve the errors identified in the Emphasis of Matter. In this regard, ongoing projects should be recorded as ongoing investments and after finalization of project ownership should be transferred according to the signed agreements.	It is implemented.		
2.1 Progress in the Implementation of Prior Year Recommendations	The Minister should provide for an analysis of the causes behind incomplete implementation of recommendations and set out a new timetable for their implementation with initial focus on most important areas of financial management and controls. This plan should be monitored on an ongoing basis.		Partially.	
3.1.2 Wages and Salaries	The Minister should ensure that staff number and its allocation in the institution are in line with allowed ceiling foreseen in the Budget Law. She should also ensure that officers are paid according to job descriptions.			Not implemented.
3.1.2 Wages and Salaries	The Minister should take actions to stop such occurrences and ensure that recruitment procedures are initiated in order to have these positions covered through regular employment contracts according to the set legal deadline.			Not implemented.

3.2.1 Capital and Non Capital Assets	The Minister should ensure that the Assets Officer is recruited within the shortest time possible and that the assets stocktaking and valuation commissions finish their work and report on time in order to have a true and fair value of assets presented in the AFS		It is implemented, but, some payments have remained unrecorded in non-capital assets under €1,000.	
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Annex III: Letter of confirmation

REPUBLIKA E KOSOVËS - REPUBLIKA KOSOVA - REPUBLIC OF KOSOVO ZYRA KOMBËTARE E AUDITIMIT NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE			
DATA PRANIMIT DORËZUAR DATUM PRANIMIT DORËZUAR: 27.06.2018			
Njësia Org. Org. Jedini Org. Unit	Shif. Klasif. Kodit Kod Class. Code	Nr. Prot. Br. Prot. Prot. No.	Nr. fletëve Br. Stranica No. Pages
03	47	1192	1

REPUBLIKA E KOSOVËS - REPUBLIKA KOSOVA - REPUBLIC OF KOSOVO QEVERIA E KOSOVËS - VLADA KOSOVA - GOVERNMENT OF KOSOVA MINISTERIA E TREGTISË DHE INDUSTRIËS - MINISTARSTVO TRGOVINE I INDUSTRIJE - MINISTRY OF TRADE AND INDUSTRY			
Njësia Org. Org. Jedini Org. Unit	Nr. Prot. Br. Prot. Prot. No.	Nr. fletëve Br. Stranica No. Pages	Data Datum Date: 27.06.2018
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Republika Kosova-Republic of Kosovo

Qeveria-Vlada-Government

Ministria e Tregtisë dhe Industrisë - Ministarstvo Trgovine i Industrije-Ministry of Trade and Industry

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 Tregtisë dhe Industrisë, 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. Bajram Hasani.....

Ministër - Ministria e Tregtisë dhe Industrisë,

Data: 27 Qershor 2018, Prishtinë,