



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE MINISTRY OF DEFENCE FOR YEAR 2022

Prishtina, June 2023

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1 Audit Opinion

We have completed the audit of the financial statements of the Ministry of Defence (MoD) for the year ended on 31 December 2022 in accordance with the Law on the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion the financial statements and conclusion on compliance with authorities¹.

Qualified Opinion on Financial Statements

We have audited the annual financial statements of the Ministry of Defence which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports², for the year ended as at 31 December 2022.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the annual financial statements of the Ministry of Defence give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

Basis for Qualified Opinion

A1 In 2022, the Ministry of Defence closed the advance in the amount of €1,377,179, without receiving the training services.

For more detailed information, see subchapter 2.1 Issues with impact on the audit opinion

We conducted our audit 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 from the auditee in accordance with INTOSAI-P 10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusion on Compliance

We have also audited if the processes and underlying transactions are in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

In our conclusion, except for the effects of the matters described in the Basis for Compliance Conclusion paragraph, transactions carried out in the process of execution of the Ministry of

¹ Compliance with authorities – compliance with all the public sector laws, rules, regulations, and relevant standards and good practices

² Other reports are required under Article 8 of Regulation no.01/2017 on Annual Financial Report

Defence's budget have been, in all material respects, in compliance with the established audit criteria arising from the legislation applicable for the auditee related to the use of financial resources.

Basis for Conclusion

- A3 In the supply of van-bus transport vehicles in the amount of €1,448,911, the negotiated procedure was carried out without publication and there were delays in the delivery of the goods.

For more detailed information, see sub-chapter 2.2. Issues with impact on compliance conclusion.

We conducted our audit 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 from the auditee in accordance with INTOSAI-P 10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Other issue

- 1 Contracts and payments in the categories, capital investments and goods and services which were classified (limited level) by the Ministry of Defence, are not part of this report. These contracts and payments are audited separately and a special audit report is prepared which will be communicated only to the responsible parties. Whereas the subjects that have the 'Secret' classification level have not been audited.

Responsibilities of Management and Those Charged with Governance for the AFS

The Secretary General is responsible for the preparation and fair presentation of financial statements in accordance with the International Public Sector Accounting Standards – Financial reporting under the cash basis of accounting. In addition, Deputy Permanent Secretary is responsible for establishing internal controls which he determines are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. This includes the fulfilment of requirements of the Law no.03/L-048 on Public Finance Management and Accountability (amended and supplemented) and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

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

Ministry of Defence Management's Responsibility for Compliance

The Ministry of Defence's management is also responsible for the use of the Ministry of Defence's financial resources in compliance with the Law on Public Financial Management and Accountability, and all other applicable rules and regulations.³

³ Collectively referred to as compliance with authorities

Auditor General's Responsibility for the audit of AFS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our objective is also to express an audit opinion on compliance of respective Ministry of Defence's authorities with the applicable policies, rules and regulations as regards making use of financial resources of the audited organisation

As part of an audit in accordance with the Law on NAO and ISSAIs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Identify and assess the risks of non-compliance with authorities, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on compliance with authorities. The risk of not detecting an incidence of non-compliance with authorities resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry of Defence's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management and those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The audit report is published on the NAO's website, except for information classified as sensitive or other legal or administrative prohibitions in accordance with applicable legislation.

2 Findings and recommendations⁴

During the audit, we have identified areas of possible improvement including internal control, which are presented for your consideration below in the form of findings and recommendations.

The Ministry spent 95% of the final budget or €137,592,675, the same as in 2021. Areas of possible improvement relate to the management of procurement processes such as: unclear specifications, the implementation of restricted procedures and delays in project implementation. Other shortcomings in financial management were: the closing of advance payments without providing the services; delays in payment of invoices and unfair presentation of contingent liabilities and assets (stocks).

These findings and recommendations are intended to make necessary adjustment to the financial information presented in the financial statements, including disclosures in form of explanatory notes, and improve internal controls relevant to financial reporting and compliance with authorities in connection to the management of public sector funds.

This report has resulted in seven (7) recommendations, of which six (6) are new recommendations and one (1) partly repeated. We will follow up these recommendations during next year's audit.

For the status of the previous year's recommendations and the level of their implementation, see Chapter 4.

⁴ Issue A and Recommendation A - means new issue and recommendation
Issue B and Recommendation B - means repeated issue and recommendation
Issue C and Recommendation C - means partly repeated issue and recommendation

2.1 Issues with impact on the audit opinion

Issue A1 – Closing the advance without full acceptance of the training services

Finding Regulation no. 01/2013 on the Expenditure of public money defines the procedures/steps that must be fulfilled for the recognition and registration of expenditure.

In April 2022, the Ministry gave an advance payment in the amount of €1,390,459, for the training of KSF members based on the Agreement with Foreign Military Sales (FMS). The trainings were planned to be held from October 3 to November 30, 2022, however, until the end of 2022, only two trainings worth €12,280 had been held, while the rest of the training worth €1,377,179 had been postponed for the following years. With the decision of the management at the end of the year, the full closing of the advance recognition and registration of the expenditure was done, despite the fact that training services were received at a very low value.

The fact that the agreement was with FMS and the certainty of service provision was considered high, the MoD did not foresee that there is any risk related to non-provision of these services/training.

The closing of the advance payment was done in order not to be carried over as an obligation in the following year, attacking the following year's budget, since the training was postponed for a year later.

Impact This way of closing the advance payment without accepting the training in its entirety is not in line with the financial rules and increases the risk that the training services will not be offered and consequently the objectives not to be achieved.

Recommendation A1 The Minister should ensure that effective controls are in place in order to prevent the closing of advance payments before training services have been received under the agreement. Also, an effective monitoring should be ensured about receiving trainings for which the advance payment was given.

Entity management response (don't agree), see annex I

2.2 Issues with impact on the compliance conclusion

Issue A2 - Application of negotiated procedure without publication and delay in delivery of goods

Finding

Article 32 of LPP no. 04/L-042 states that during the exercise of a procurement activity, the CA must use the open procedure or the limited procedure. The negotiated procedure without publication can be used when for objective, technical or artistic reasons the contract must be given to a certain operator, if for intellectual-authorial reasons and for reasons of extreme emergencies. We observed that:

An open procurement procedure was developed for the tender "Supply of transport vehicles, van-bus" for the needs of the KSF. In the tender file of the technical specifications, it was requested that the Van-bus has at least 22 seats and that the delivery deadline be before the end of the fiscal year (deadline: December 15, 2022). No responsive bids were accepted with these criteria.

After that, the Ministry appointed a commission for market research, which came to the conclusion that the technical specifications should be changed and the Van-bus should be the 19+1 version.

The Ministry had re-advertised the tender for the same supply applying the negotiated procedure without publication, for the application of this procedure had previously notified the Public Procurement Regulatory Commission. From the process it can be observed that the change of the procedure from open to negotiated one has come by changing the technical specifications (number of seats), which raises the dilemma of whether there was competition with these new specifications and the open procedure could be applied again. The application of the negotiated procedure was not justified as none of the criteria were met.

The contract was signed with a value of €1,448,911. According to the contract, the Van-bus must be the 19+1 version, and the delivery deadline is before the end of the 2022 fiscal year.

Until the end of 2022, no Van-bus had been received, while until the beginning of April 2023, only 7 of the 18 contracted Van-buses were received.

Determination of the deadline for supply by the Ministry and not researching the market in the early stages of planning have been the cause of deficiencies in the later stages of the procurement process.

Impact

Avoiding open procurement procedures eliminates transparency and affects the restriction of competition. While, delays in the delivery of Van-Buses affect the non-achievement of the Ministry's goals in the fulfilment of objectives and also have an impact on the value for money spent.

Recommendation A2 The Minister should ensure through the procurement manager and the requesting units that before the initiation of procurement activities, market research and adequate planning of each procurement activity is done. The application of the negotiated procedure without publication is used for awarding any type of contract, if the circumstances justify the use of this procedure, being as transparent as possible and eliminating the restriction of competition. Likewise, it must be ensured that penalties are applied due to significant delays in the delivery of goods.

Entity management response (don't agree), see annex I

2.3 Findings on financial management and compliance issues

2.3.1 Goods and Services and Utilities

The final budget for Goods and services in 2022 was €16,348,896, of which €13,788,259 or 89% were spent. Those mainly relate to fuel for vehicle, food and beverage supply (not official dinners), educational and training services etc.

Issue A3 - Delay in the implementation of the Project "Digitalization of the kitchen

Finding The project "Supply of equipment for the digitalization of the food service system in kitchens, for the needs of the KSF" in the amount of €49,275, is being delayed in implementation for at least 5 months (the implementation of the project has not been completed until in March 2023 the time when we were in audit and is still going on).

The project was foreseen to be completed within 2 months according to Article 2 of the contract, which states that "the deadline for the delivery of the equipment will be 60 days from the time of issuing the purchase order (the date of issuing the purchase order was 26.08.2022) from side of the Contracting Authority".

The delay occurred because the Kosovo Security Force (FSK) had not prepared the infrastructure of the Internet network and the installation of the electricity supply for the tablets in order to install the software and test the operation of the digitalization system in the kitchens.

Impact Failure to prepare infrastructure conditions on time by KSF shows that the project had weaknesses in planning. The significant delays in implementation reflect the non-achievement of the objectives foreseen with the current year's budget, and that such problems may also bring financial difficulties for the next fiscal year, limiting the implementation of new projects.

Recommendation A3 The Minister, in coordination with the KSF, must ensure that concrete and timely actions are taken to create infrastructure prerequisites to enable the fulfilment of each contract signed according to the conditions foreseen.

Entity management response (Agree).

2.3.2 Capital Investments

The final budget for Capital Investments was €97,944,277, of which €93,899,796 or 96% were spent. Those mainly relate to advance payments for investments, military equipment, transportation vehicles, buildings, IT and other equipment.

Issue A4 - Unclear specification of requirements in the tender file

Article 59 of the Public Procurement Law no. 04/L-042, states that the contracting authority (CA) will consider a responsible tender only if the tender is in compliance with all the requirements set forth in the contract notice and in the tender file.

In two tender files, we have identified that in the minimum qualification requirements, respectively, the requirements on technical and professional capacities are not clearly specified both as requirements and as evidence of their fulfilment as:

- In the tender file for the project "Construction of warehouses for logistics in Ferizaj Barracks" we noticed that it was requested that the EO had a minimum of 25 workers, but it was not clear whether apart from the professional staff, copies of diplomas, certificates, CVs were also required for the other workers -it, copies of work contracts or pre-contracts with the name of the project; and
- In the tender file "Supply of spare parts and maintenance services for vehicles" - Lot 3, it was required that the EO possess: the list of tools, facilities and technical equipment, in original signed and sealed (it was not defined which tools are required). The winning EO did not possess the list in question, but only photos of the equipment without relevant documentation.

These types of ambiguities are phenomena and are also observed in many other tender files. This happened as a result of carelessness during the drafting of the criteria in the tender file and the negligence of the commissions who overlooked the criteria required in the tender file, not properly assessing the criteria for technical and professional capacities.

Impact

The lack of clear definition of relevant criteria and evidence regarding technical and professional capacities affects the confusion of the EO and complicates the process of evaluation of offers by the commission. Also, this can affect that the offers can be selected without meeting the required criteria, and then the bidders awarded with the contract not to be able to fulfil the contract on time and to the required quality.

Recommendation A4 The Minister, through the procurement manager and requesting units, must ensure that the criteria in the tender file are specific, clear, and measurable and that the required evidence is related to those criteria.

Entity management response (Agree).

2.3.3 Capital and Non-capital assets

The amount of capital assets presented in AFS is €180,607,644, that of non-capital assets is €3,403,452, and of stock is €10,089,415.

Issue C1 - Shortcomings in assets recording

Finding

According to Financial Regulation MF no. 02/2013 - on Management of non-financial assets in article 3 it is determined that the General Register of Assets - is a complete and accurate list of all non-financial assets owned by budget organizations, which means the register of capital assets, non-capital assets and stocks that are updated regularly, and that, in addition to being used for asset management, will also be used to support the data reported in the financial statements. Whereas Article 7 of the same regulation Documenting the movement of non-financial assets point 1 defines that: All movements of non-financial assets (receipt, sale, donation, transfer and disposal) which result in the change of managerial responsibility and use must be supported in relevant documents. We have identified that:

- We identified that: Assets registered in the e-property system were overvalued by €1,987. Individual tactical equipment, Gas mask (NBC and tactical respirator) in the value of €87,584 were registered in stock €87,320 and Gas mask filter (CBRN) in the value of €18,536 were registered €20,787. This had happened because new supplies with the same items but at different prices were recorded at the original (initial) price; and
- For the special medical equipment with a net value of €13,227 (initial value €24,800), the MoD did not have any relevant receipt documents. These assets were transferred by KUHCS in 2021.

As for the donation received by KUHCS, the property officer was not notified of this and did not have any evidence.

Impact

Improper recording affects the incorrect reporting of the value of assets. As a result of these shortcomings, we have an undervaluation of assets, resulting in the unfair presentation of their value in the financial statements. Likewise, each asset must be based on original source documents that prove that the transaction took place in accordance with the relevant authorizations.

Recommendation C1 The minister should ensure through the e-property officer that the errors are corrected so that the assets are correctly presented in the AFS. Likewise, any assets acquired-transferred from other BOs should have source documents.

Entity management response (Agree).

2.3.4 Outstanding Liabilities

The liabilities statement at the yearend 2022 was €4,637,634. These liabilities were carried forward to be paid in 2023.

Issue A5 - Delay in payment of invoices and enforcement costs

Finding

According to Article 39.1 of Law No. 03/L-048 on MPFR, every valid invoice and request for payment for goods and services supplied and/or works performed for the budget organization must be paid within thirty (30) calendar days after receipt of invoice. We identified that:

- The invoice received in 2020 in the amount of €5,169 was not paid in the prescribed legal deadline. After the EO's complaint and the enforcement decision, the Treasury in March 2022 executed the payment in the amount of €6,478 from the Ministry's budget. Of this payment, €5,169 was the main debt, while €1,309 were the additional expenses in the name of the dispute/enforcement procedure; and
- The invoice received in March 2021 in the amount of €4,686 was not paid, because this invoice was higher by €64 in relation to the agreement. But the receipt of the invoice by the ministry may be subject to the enforcement procedure causing additional costs.

The delay in the payment of the invoice was due to the fact that the contract manager, after the end of the contract, had not taken the necessary actions in time for the payment of this obligation. While in the second case the non-payment was right on the part of the MoD, but acceptance of the invoice, should look at the possibility of reducing the risk and pay only the part that considers as debt.

Impact

Delays in the execution of payments within the specified period have influenced the Ministry to be subject to a lawsuit by the economic operator, causing additional enforcement expenses. Likewise, the receipt of the invoice may be subject to the enforcement process even when the BO has a valid reason for not paying the invoice.

Recommendation A5 The Minister should ensure that all obligations are paid within the legal deadline and that contract managers must take into account the deadline of the contracts, in order to avoid additional costs as a result of payments with enforcement or judicial procedures. Also, care should be taken when accepting invoices to avoid possible deviations between the invoice and the agreement.

Entity management response (Agree).

2.3.5 Contingent Liabilities

The statement of contingent liabilities at the yearend 2022 was €309,978.

Issue A6 – Untrue presentation of contingent liability

Finding MF Regulation no. 01/2017, Article 18 obliges budget organizations to report all contingent liabilities in the AFS. Contingent liability (Article 3 point 1.1) - is an obligation which materializes only after the occurrence of certain events in the future.

Contingent liabilities in the amount of €309,978 were disclosed in the Financial Report (of which €189,259 for MoD and €120,719 for former KPC).

The ISARS case that has to do with the lawsuit for the construction of the kitchen for the former KPC was not presented according to the evaluation of the last expertise in the amount of €125,350 by the Department for Economic Affairs based on the decision of 13.02.2019. This case in AFS was disclosed in the amount of €104,992, underestimating the total liabilities by €20,358.

This happened as a result of not updating the list of contingent liabilities by the responsible officers.

Impact The incorrect presentation has affected the underestimation of the liability and presents an unrealistic situation in the Annual Financial Statements

Recommendation A6 The Minister should ensure coordination between the legal office and the CFO so that the contingent liabilities are updated and presented in accordance with the requirements of the regulation for Annual Financial Reporting.

Entity management response (Agree).

3 Summary on budget planning and execution

This chapter gives a summarised information on the sources of budget funds, spending of funds and revenues collected, by economic categories. This is highlighted in the following tables:

Table 1. Expenditures by sources of budgetary funds (in €)

Description	Initial Budget	Final Budget ⁵	2022 Outturn	2021 Outturn	2020 Outturn
Sources of Funds	33,891,915	193,685,418	178,300,277	64,241,822	209,948,797
Government Grants -Budget	18,834,581	178,628,084	173,399,369	57,890,943	167,149,191
Funding through borrowing	13,619,795	13,619,795	3,476,681	2,801,997	6,103,137
Funding through borrowing-investment clause	1,437,539	1,437,539	1,424,226	3,548,882	84,843
Revenues from PAK	0	0	0	0	36,496,366
External Donations	0	0	0	0	115,260

The final budget is higher than the initial budget by €42,913,286. The budget changes have come as a result of the budget review, government decisions and the transfer of the donation.

In 2022, the Ministry has spent close to 95% of the final budget or €137,592,675 with the same percentage of realization as in 2021. The explanations for the current position are detailed below.

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

Description	Initial Budget	Final Budget	2022 Outturn	2021 Outturn	2020 Outturn
Spending of funds by economic categories	33,891,915	193,685,418	178,300,277	64,241,822	209,948,797
Wages and Salaries	1,160,322	1,160,322	1,142,374	1,208,881	3,098,436
Goods and Services	4,345,773	4,295,773	1,558,983	997,848	11,171,517
Utilities	23,130	23,130	11,333	7,783	64,553
Subsidies and Transfers	12,208,546	177,513,299	171,491,629	53,312,839	157,705,430
Capital Investments	16,154,144	10,692,894	4,095,958	8,714,471	37,908,862

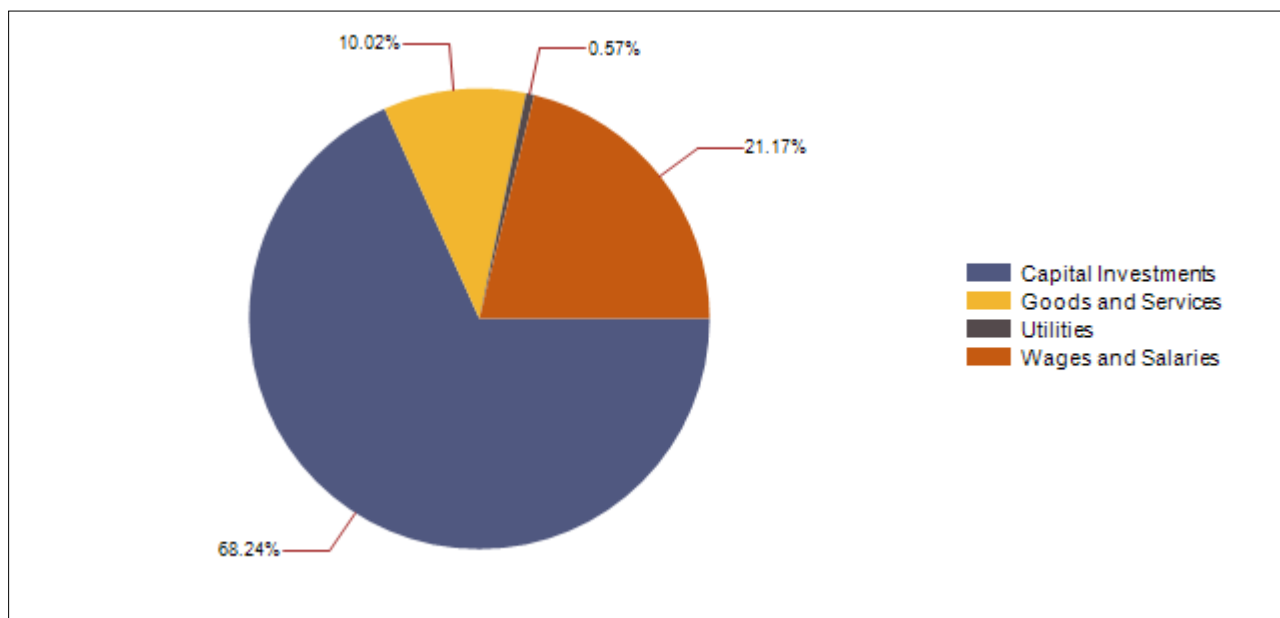
⁵ Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance

Explanations for changes in budget categories are given below:

- The final budget for salaries and wages compared to the initial budget was reduced by €2,000,000, by decision of the Government. The realization of the final budget was 97%. The reduction of the budget was as a result of the impossibility of fully realizing the planned recruitments. However, compared to the previous year, we have an increase in the expenses of the salaries and wages category by €3,191,260 as a result of the recruitment of about 819 new cadets in the KSF
- The final budget for goods and services compared to the initial budget had increased by €2,365,010. The increase in the budget in goods and services comes from the transfer between economic categories of €2,330,000, and the increase in the budget by decision of the Government in the amount of €35,010. The realization of the final budget was 84%; Compared to the previous year, we have an increase in expenses in this category for €5,591,707, and the increase in expenses is related to the increase in the number of cadets, consequently, the supply of uniforms, necessary equipment, food, transport, etc. Also, this increase was influenced by the fact that the purchase of ammunition this year was paid for by this category
- The final budget for utilities compared to the initial budget was reduced by €100,000 from the transfer between economic categories. The realization of the final budget was 76%; and
- The final budget for capital investments, compared to the initial budget, was increased by €42,648,277 with Government decisions. The realization was 96%. Compared to the previous year, we have an increase in expenses from this category by €37,170,728, which comes mainly from the purchase of military equipment.

In 2022, there was no expenditure on emergency management from Covid 19.

Chart 1. Expenditures by economic categories for year 2021



In 2022, the Ministry had not collected revenues, since there was no activity, but there were returns of the budget in the amount of €165,919, and these were recorded as revenues of the previous year. The reason for the return of this budget was the result of the discontinuation of the education of some cadets

Table 3. Revenues (in €)

Description	Initial budget	Final Budget	2022 Receipts	2022 Receipts	2020 Receipts
Total revenues	47,551	47,551	165,919	6,175	114,488
Non-tax revenues	47,551	47,551			114,488
Other revenues	0	0	165,919	6,175	

4 Progress in implementing recommendations

Our audit report on 2021 AFS resulted in seven (7) recommendations. The MoD prepared an Action Plan stating how all recommendations will be implemented. In addition, it submitted the Progress Report on the Implementation of the Recommendations on September 30 and March 15.

By the end of our 2022 audit there has been improvement. Six (6) recommendations have been implemented, whilst one (1) is partly implemented, as shown below in Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or Table of recommendations).

Chart 2. Progress in implementing prior year's recommendations

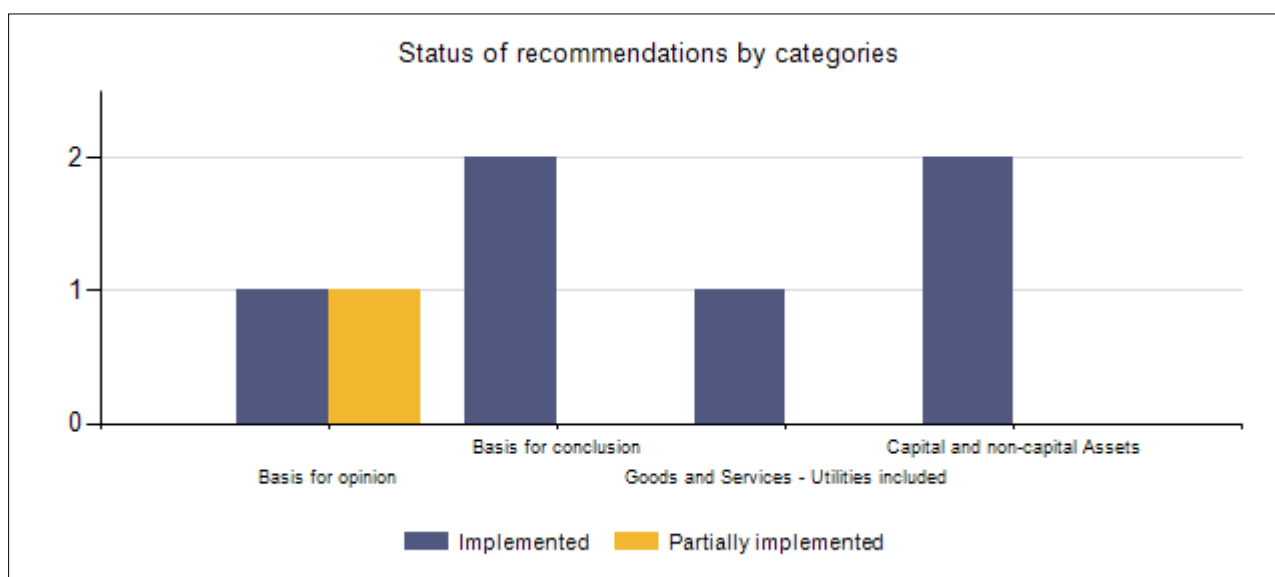


Table 4 Summary of prior year's recommendations

No.	Audit Area	Recommendations of 2020	Actions taken	Status
1.	Basis for Opinion	The Minister should ensure that all necessary actions are taken in order for the expenditures to be planned in the adequate budget appropriations and that payment and recording of expenditures is done according to adequate economic categories in order to have them fairly reported in the AFS. In addition, the effects that these misclassifications have had on assets should be reviewed and actions should be taken to rectify them.	No such shortcomings have been identified in 2022.	Implemented
2.	Basis for Opinion	The Minister should ensure through the finance manager that assets are presented in a fair view in the AFS. More attention should be paid during the process of asset recording and identified errors in the asset register should be rectified in order for the presented value of assets to be true.	Necessary corrections have been made. However, we have again identified other issues with the e-assets system.	Partly implemented
3.	Basis for Conclusion	The Minister in cooperation with the persons in charge within the units SHPFSK should ensure that supplies with fuels for heating and power generator, which are at considerable amounts are accepted by commissions consisting of at least three members.	No such shortcomings have been identified in 2022	Implemented
4.	Basis for Conclusion	The Minister should ensure that concrete actions have been taken so that the reporting of expenditures by the attachés is timely done and that all advance payments are closed according to incurred expenditures in compliance with the deadlines set out in the applicable regulations.	The advance payments of 2021 were closed. Whilst, we have not identified such cases for 2022.	Implemented

5.	Goods and Services and Utilities	The Minister should ensure the increase of the level of oversight and management of public contracts, applying penalties in cases of failure to implement the contracts or confiscation of performance security. More effective coordination between stakeholders on contract implementation should also be ensured.	During the 2022 audit we found that the MoD has increased the level of contracts monitoring and we have not identified such shortcomings.	Implemented
6.	Assets	The Minister should ensure that the set deadlines in relation to asset evaluation and alienation process are honoured so that update and reconciliation of assets accounting registers is carried out prior to the AFS finalisation, reflecting the true value of assets.	MoD for 2022 had undertaken the decision to establish the commissions and finalised the stocktaking, evaluation and alienation process on time.	Implemented
7	Assets	The Minister should ensure that the Chief Assets Officer within the MoD organises trainings for the responsible staff dealing with the assets recording in the system and should keep them up to date on how to implement the e-assets system.	MoD in cooperation with AIS had organised and held a training for KSF members and 51 participants and an officer of the MoD were certified.	Implemented

** This report is translated from Albanian Language in case of any discrepancies Albanian language should prevail.*

Vlora Spanca, Auditor General

Emine Fazliu, Assistant Auditor General

Faruk Rrahmani, Head of Audit

Ariana Berisha Rexhëbeqaj, Team leader

Adelina Selmani, Team member

Flora Berisha, Team member

Annex I: Letter of confirmation/ Comments of BO regarding the audit report (if any)

REPUBLIKA E KOSOVËS - REPUBLIKA E KOSOVËS - REPUBLIC OF KOSOVO ZYRA KOMBËTARE E AUDITIMIT NACIONALNA KANCELARIJA REVIZIJE - NATIONAL AUDIT OFFICE			
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Nr. Prot. 1849	Nr. Prot. 1		
Date 07.06.2023	Date 07.06.2023		

DATE/A:	07.06.2023
REFERENC-Ë:	359/3/2023
PËR/ZA/TO:	Zyrën Kombëtare të Auditimit Adresa: Lagjja Arbëria, Rr. Ahmet Krasniqi, 210 - Prishtinë
CC:	
PËRMES/PREKO/THROUGH:	Armend MEHAJ, Ministër i Mbrojtjes, MM
NGA/OD/FROM:	Avdyllkadër MUÇAJ, zv. Sekretar i Përgjithshëm, MM
TEMA/SUBJEKAT/SUBJECT:	Letër e Konfirmimit Për pajtueshmërinë me gjetjet e Autorit të Përgjithshëm për vitin 2022 dhe për zbatimin e rekomandimeve

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- Kemi pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të **Ministrit të Mbrojtjes**, për vitin 2022 (në tekstin e mëtejshëm "Raporti");
- Nuk pajtohem me bazën e kualifikimit të raportit, pasi që mbyllja e avancit ka të bëjë me shërbime të trajnimeve për pjesëtarët e FSK-së të cilat ofrohen nga programi shtetëror FMS i Shteteve të Bashkuara të Amerikës, dhe se mbyllja nuk përbën asnjë rrezik në ofrimin e këtyre shërbimeve apo aspekteve financiare që ndërlidhen me këto trajnime, pasi që ky trajnim ofrohet nga vetë SHBA-të. MM nuk pajtohet se procedura e negociuar për blerjen e kombi bosëve nuk ka qenë në harmoni me ligjin e prokurimit, pasi që një gjë të tillë e ka konfirmuar/aprovuar KRPP bazuar në kërkesën e arsyetuar të MM të datës 02.06.2022, si institucion kompetent për vlerësimin e ligjshmërisë së procedurave të negociuara. Nisur nga nevojat e mëdha të FSK për automjete transportuese si dhe konfirmimin e procedurës nga KRPP, e njëjta është zhvilluar konform legjislacionit në fuqi.
- 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 zbatimin e tyre.

Issue	Comments from the BO	KNAO view
Closing the advance without full acceptance of the training services.	We do not agree with the basis of the qualification of the report, since the closure of the advance has to do with training services for the members of the FSK which are provided by the FMS state program of the United States of America, and that the closure does not pose any risk to the provision of these services or financial aspects related to these trainings, since this training is provided by the USA itself.	From the comment of the OB, the reasoning regarding the issue of the security of receiving training services can be observed, while the Audit Report has addressed the incompatibility of the closing of the advance from the aspect of legal rules. The finding and recommendation remain unchanged.
Application of negotiated procedure without publication and delay in delivery of goods.	The MoD does not agree that the negotiated procedure for the purchase of national buses was not in accordance with the procurement law, since such a thing has been confirmed/approved by the KRPP based on the reasoned request of the MoD dated 02.06.2022, as the competent institution for assessment of the legality of the negotiated procedures. Based on the great needs of the KSF for transport vehicles as well as the confirmation of the procedure by the KRPP, the same legislation has been developed in accordance with the legislation in force.	In this finding, the notification to the KRPP for the application of the procedure has been presented, but the highlighted issue has to do with changing the procedure for the same tender but changing the specifics. The finding and recommendation remain unchanged.

Annex II: Explanation regarding different types of opinion applied by NAO and other parts of the Auditor's Report

Auditor's Report on the financial statements⁶ should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities⁷. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

For the purpose of concluding whether an opinion on the financial statements is modified or unmodified an auditor should assure himself/herself whether audit results include or not (a) detected material or pervasive misstatement(s) or potential one(s) presumed in the event of a limitation of scope.

A misstatement is a difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

(extract from ISSAI 200)

Forms of opinion

Unmodified opinion

It is formulated when no misstatements or non-compliance were detected or misstatements and/or non-compliance were detected, a single one or aggregate, that do(es) not equal or exceed the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions do(es) not equal or exceed the level of lower materiality established for this class of transactions. It is also formulated if there is no limitation of scope or a limitation of scope may not lead to omission of (a) material misstatement(s) and/or non-compliance).

Limitation of scope occurs when an auditor 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 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.

Modifications to the opinion in the auditor's report

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

⁶ Financial statements in the public sector include also the statement(s) of budget execution

⁷ Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

and/or non-compliance, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement and/or non-compliance, the auditor should modify the opinion in the auditor's report. A modified opinion may be:

- Modified (qualified)
- Adverse, or
- Disclaimer

Qualified opinion

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that equals or exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions equals or exceeds the level of lower materiality established for this class of transactions. It is also formulated if there is a limitation of scope that may not lead to omission of (a) material misstatement(s).

Adverse opinion

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that pervasively exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions pervasively exceeds the level of lower materiality established for this class of transactions.

"Pervasive is a term used, in the context of misstatements and/or non-compliance, to describe the effects of misstatements and/or non-compliance on the financial statements or the possible effects on the financial statements of misstatements and/or non-compliance, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- a) Are not confined to specific elements, accounts or items of the financial statements
- b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Disclaimer of opinion

It is formulated when limitation of scope, i.e. inability to obtain sufficient appropriate audit evidence, is material and pervasive.

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

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.

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.

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.