



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 2023

Prishtina, May 2024

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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 2023 in accordance with the Law on the auditor General and 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.

Unmodified 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 of 31 December 2023.

In our opinion, 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 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, transactions carried out in the process of execution of the Ministry of 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.

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

Basis for 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 of capital investments and goods and services, which were classified (restricted 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. While cases classified as secret have not been audited.

Responsibilities of Management and Those Charged with Governance for the AFS

The Acting 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, the Acting Secretary General 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.

Management's Responsibility for Compliance

The management of the Ministry of Defence 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

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

³ Collectively referred to as compliance with authorities

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 87% of the final budget or €177,943,593, with a decrease of 8% compared to 2022. The areas with the most pronounced problems are related to the management of processes such as: delays in the implementation of projects and deficiencies in their management. Other shortcomings in financial management were the lack of salary compensation according to the legislation in force, the delay in the payment of invoices and the unfair presentation of 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 five (5) recommendations, of which two (2) are new recommendations, one (1) repeated, and two (2) are partially 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 Findings on financial management and compliance issues

2.1.1 Wages and Salaries

The final budget for salaries and wages is €36,757,706, of which €36,754,944 or about 100% have been spent. The number of employees according to the budget was 4,884, while at the end of the year their number was €4,710.

Issue A1 - Incomplete remuneration of overtime work

Finding

The Law on Salaries in the Public Sector determines in Article 36 that public officials and other categories of employees who are paid from the state budget receive compensation in monetary value or with time off for duty work, work at night and outside working hours, work on the weekends, and work on public holidays. However, they can also request from the employer that instead of salary compensation, the compensation is made with days off.

While Regulation (MoD) No. 10/2019 on Working Hours in the Kosovo Security Force it determines that the full working hours last forty (40) hours per week or eight (8) hours per day, and members of the KSF are obligated to adhere to this schedule. Working hours for KSF members are from 08:00 to 16:00, from Monday to Friday.

In the absence of the budget, the Ministry applies the compensation with days off. During the analysis of the overtime work of the members of the KSF who exercise this activity, we noticed that the compensation with days off in cases of duty work is not regulated by any written procedure on the rights that the members have for rest when they do duty work at night or on weekends. There is no written procedure that specifies how overtime is calculated to be compensated with days off. Based on the analysed data, it can be seen that the KSF applies the granting of one day off even in cases where they care for more than 24 hours with the justification of the lack of staff.

The lack of a clear regulation for the calculation of overtime compensation with days off was the cause of these deviations. Another reason was the volume of work and the lack of personnel.

Impact

Improper remuneration, whether financial or with days off, in addition to affecting the motivation of members, also presents a risk that the Ministry will face lawsuits that would have a financial impact, causing other judicial/enforcement expenses.

Recommendation A1 The Minister should revise the current regulations on working hours by adapting them to its activity and ensure a clear regulation regarding the compensation of overtime work with days off so that all members who serve overtime are compensated in accordance with the legislation in force.

Management's response (agree)

2.1.2 Goods and Services and Utilities

The final budget for goods and services was €54,023,220, of which €51,294,341 or 95% have been spent. They are mainly related to fuel for cars, supply of food and drinks (not official lunches), supply of clothing, ammunition and firearms, etc.

Issue A2 - Delays in delivery and deficiencies in management of medicines

Finding Article 2.1 of the contract for "Supply of medicines and medical material for the needs of the KSF" with a value of €67,754 determines that the deadline for the delivery of medicines will be 7 days from the date of issuance of the Purchase Order by the Contracting Authority.

Regulation of the Ministry of Finance No. 02/2013 on Management of Non-Financial Assets in Budgetary Organizations determines in Article 7 that all movements of non-financial assets should be supported by documents such as receipts and invoices and the documentation will be considered regular only if the occurrence of the transaction is accurately proven and if it contains information about the cause of the occurrence, the date and place of the occurrence, the type of non-financial property, the amount, the value and the persons who executed the transaction.

- From the analysis of the payment in the amount of €17,984 of the aforementioned contract, it can be seen that the purchase order was issued on 09.11.2023, while the medicines were received on 07.12.2023 or 20 days late, for which delays penalties were not applied as provided by the contract; and
- Medicine warehouse management is not done through the e-assets system. The release of medicines to other camps or patients is not done through e-assets, but in physical form, and as a result the stock in the e-assets warehouse remains unchanged. Also, as a result of an improper planning and management of medicines (requesting units have requested medicines without having accurate information on the stock in the warehouse), stocks of expired medicines have increased over the years and there will potentially be an additional cost for their disposal.

The delay in supply was a result of poor process management by the KSF contract manager.

The reason why medicines are not released from e-assets from the military hospital module is that the central warehouse of the KSF, where all goods are accepted, has not been released to the e-assets module of the military hospital. Further, the requesting unit does not place the order based on the requests of other units but places the order based on a distribution plan that does not guarantee that there is a need for all the medicines ordered.

Impact

Delays in the delivery of medicines affect that patients treated by the doctor will not be able to receive the medicines at the time they need them. On the other hand, improper planning and management of medicines, as a result of the lack of accurate information on the state of the stock in the warehouse, affects the lack of medicines that are needed or the expiration of those that remain in the warehouse for a long time.

Recommendation A2 The Minister should ensure through the contract managers that the acceptance of the medicines is done according to the agreed deadlines in order for the medicines to be available on time; otherwise, penalties for delays should be applied. Likewise, stock planning and management should be preceded by a real assessment of the needs of the request units, serving them with accurate information on the state of the stock in the warehouse. Entry and exit of medicines from the warehouse should be done through e-assets so that there is a clear overview at all times.

Management's response (agree)

2.1.3 Capital Investments

The final budget for capital investments was €112,799,387, of which €89,032,284 or 79% have been spent. They are related to investment advances, military equipment, jeeps and vans, buildings, IT equipment and other equipment.

Issue B1 - Delay in the implementation of projects and deficiencies in their management

Finding

In two projects, we identified delays in the implementation of works, while in one project there were positions that had been paid but not completed, such as:

- The project "Construction of the Istog barracks accommodation facility" in the amount of €659,661 was planned to be completed within 365 calendar days, according to Article 1.2 and Article 1.3 of the contract, which states that "the works will start with obtaining permission from the contract managers and finish in accordance with the dynamic plan (the date of work authorization was 01.09.2022) by the Contracting Authority".
- This project is being delayed in its completion for at least 3 months. Taking into account the reasonable delays based on the evidence provided by the project manager, the implementation of the project was planned to be finalized in December 2023, but during the physical examination we noticed that the project was not completed (physical examination March 2024) and still the works were continuing;
- The project "Renovation and construction of the annex to the FSK Barracks in Pomozotin" in the amount of €177,666 signed on 21.06.2023 was planned to be completed within 120 working days, according to Article 1.2 of the contract (the start of the works was on 08.09.2023). During the physical examination in March 2024, we noticed that the project was not yet completed. Furthermore, the execution of the payment for the third instalment in the amount of €52,208 for position 14.3 Fabrication, delivery and assembly of the PVC door, 150x240cm in the value of €360, was not entered even though the payment was made for this position; AND
- In the "Construction of bridge 4- Baba i Bokës - Gjakova" project, in position 1.7 Horizontal and vertical signalling was foreseen (Supply, transport and installation of traffic signs including metal pillars and their concreting). During the physical examination, we noticed that the two metal pillars worth €402, even though they were paid for, were not installed. The project was completed and technically accepted.

In the project in Istog, the delay had initially occurred because the facility from the Ground Force Command (G4KFT) had not been released in time and the operator had problems in the phase of testing the mechanical equipment, re-treating the insulation and demolishing and restoring the ceramic tiles.

Whereas in the project in Pomozotin, according to the contract manager, the delays were caused because the works were carried out inside the facility where the personnel of the National Guard command carried out their daily work in the facility. As far as the installation of the door is concerned, the manufacturer has not brought it yet, but the door will be installed within two days; however, during the time we were in the field we were not provided with evidence that it has been installed.

Further positions for bridge signalling according to the contract manager have not been established because the EO has performed more work.

Impact

Failure to prepare the infrastructural conditions on time by the KSF shows that the projects had weaknesses right from the planning stage. Also, not performing the works according to the contractual conditions and improper management of the contract cause significant delays in implementation. These reflect the non-achievement of the objectives foreseen with the current year's budget and such problems may also bring financial difficulties for the next fiscal year, limiting the implementation of new projects.

Recommendation B1 The Minister in coordination with the KSF should ensure that concrete and timely actions are taken to create infrastructure prerequisites to enable the fulfilment of each signed contract. Also, the contract managers should do the proper management and ensure that payments are made only for the works performed according to the conditions stipulated by the contract.

Management's response (agree)

2.1.4 Capital and non-capital assets

The value presented in the AFS of capital assets is €272,898,468, non-capital assets €3,015,827, and stocks €10,089,415.

Issue C1 - Deficiencies in asset management through the e-assets system

Finding

According to Financial Regulation MoF No. 02/2013 on Management of Non-financial Assets, Article 22 (3), all non-financial capital and non-capital assets will be subject to depreciation rates. Whereas Article 24 Reporting of the same regulation determines in paragraph 3 that: Non-financial assets in the annual financial statements will be presented based on the net book value.

We identified that in the e-assets system, a part of the assets under €1,000 had not been depreciated (the asset that has not been depreciated has a value of €2,069,753). The Ministry did not have information on how much the depreciation value of these assets should be.

Also, we noted assets that appear in the asset register under €1000 with incorrect description as in the case, laptop (25 pieces) and computer (100 pieces) in total value of €70,000 were registered as Overboot Lightweight, CBRN, AFS and kit, C420 Plus Paper W/Battery. Furthermore, 20 pieces of portable VHF radio and 50 other pieces in the value of €50,754, in the system appeared as consumables, A4/160gr/M paper and RMC flag with fringe 100x80.

During the visit we made to the central warehouse regarding the change in the name of the assets, we noticed that the storekeepers do the acceptance and registration of the goods according to the name of the assets and correctly, but the name changes in the report depending on the value, while the values do not change.

The reasons for the generation of reports with incorrect descriptions despite proper registration by the warehouse officials were not researched and analysed by the Ministry's staff to identify the problem. Also, we have not noticed any request for concrete help from the maintainer of the e-assets system to solve this problem.

Impact

The non-depreciation of assets affects the information presented in the AFS, to be incomplete and inaccurate and as a result we have an overestimation of net assets. On the other hand, the malfunctioning of the e-assets system makes it difficult to manage and control the available properties, creates confusion regarding the type and classification of properties and increases the risk of loss and misuse of properties.

Recommendation C1 The Minister should ensure through the finance manager that assets under €1,000 are fully and accurately presented in the AFS. Also, the Ministry should build an effective cooperation with the maintainer of the e-assets system for the elimination of errors throughout the year so that the e-assets system accurately generates the registered assets.

Management's response (agree)

2.1.5 Outstanding Liabilities

The statement of liabilities at the end of 2023 was €14,385,507. These obligations have been carried over to be paid in 2024. The value of the obligations for capital expenditures of €12,230,000 had occurred as a result of the return of payments from the Central Bank of Kosovo, since the intermediary bank had not completed the transaction on time.

Issue C2 - Delays in payment of invoices

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

Three invoices in the amount of €93,346 were paid late, ranging from 10-25 days, and two invoices in the amount of €1,469, although they were received at the beginning of November 2023, until March 2024 (when we were in the audit), were not paid.

The reasons for delays are different, such as not sending invoices to the finance office on time, the closing of the payment deadline, and the delay in the registration of Economic Operators in the KFMIS.

Impact Delays in the execution of payments within the specified period may make the Ministry subject to lawsuits by economic operators, causing additional enforcement expenses. At the same time, this also expresses the inefficient control function in the ministry regarding the payment process.

Recommendation C2 The Minister should ensure that all obligations are paid within the legal deadline, as defined by law, in order to avoid additional costs as a result of payments through enforcement or judicial procedures.

Management's 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	2023 Outturn	2022 Outturn	2021 Outturn
Sources of Funds	123,227,261	204,718,312	177,943,593	137,592,675	91,615,107
Government Grants - Budget	123,227,261	204,718,312	177,943,593	137,592,665	91,267,418
External Donations	0	0	0	10	347,689

The final budget is higher than the initial budget by €81,491,051. Budget changes were as a result of the budget review and Government decisions.

In 2023, the Ministry spent 87% of the final budget or €177,943,593, with a lower percentage of execution compared to 2022. Explanations for the current position are detailed below.

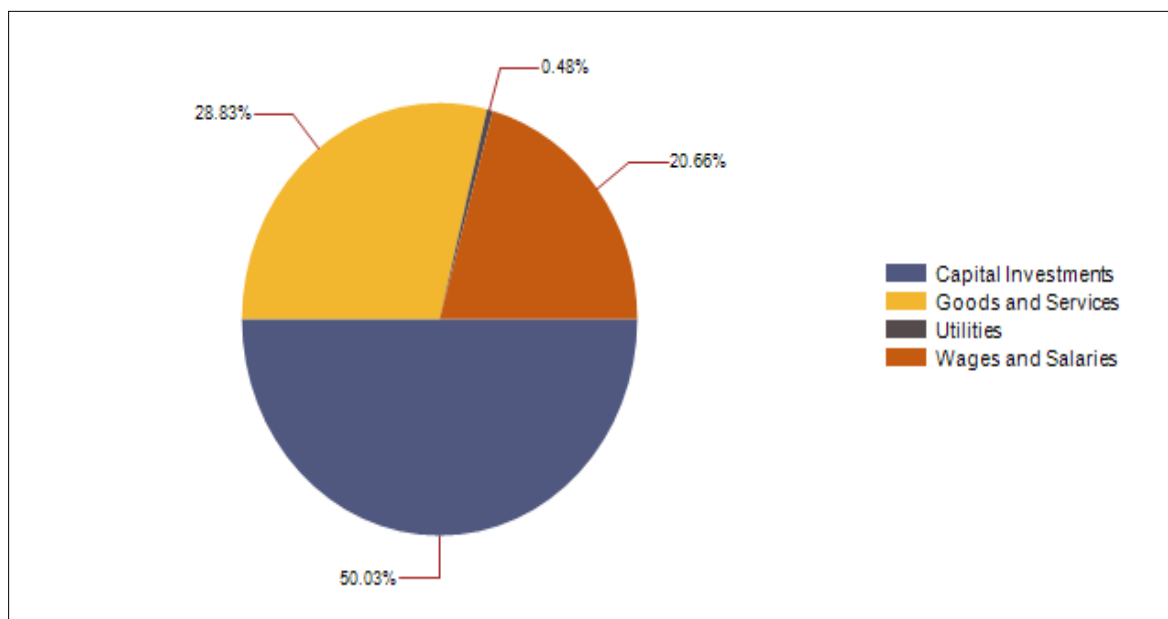
Table 2 – Spending of funds by economic categories (in €)

Description	Initial Budget	Final Budget	2023 Outturn	2022 Outturn	2021 Outturn
Spending of funds by economic categories	123,227,261	204,718,312	177,943,593	137,592,675	91,615,107
Wages and Salaries	32,103,815	36,757,706	36,754,944	29,121,779	25,930,519
Goods and Services	42,046,600	54,023,220	51,294,124	13,788,259	8,196,552
Utilities	1,138,000	1,138,000	862,240	782,841	758,968
Capital Investments	47,938,846	112,799,387	89,032,284	93,899,796	56,729,068

Explanations for changes in budget categories are given below:

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

- The final budget for salaries and wages compared to the initial budget was increased by €4,653,891, with Government decisions. The implementation of the final budget was close to 100%. The increase in the budget was the result of the lack of funds for the payment of salaries for the months of October, November and December for the 629 new recruits. Also, upon the entry into force of Law No. 08/L-196 on Salaries in the Public Sector from February 2023, the salaries of non-commissioned officers and the salaries of IT experts have increased significantly. All these transactions have additional financial implications.
- The final budget for goods and services compared to the initial budget was increased by €11,976,620. The increase in the budget in goods and services comes from the Government's decisions on the payment of customs obligations and military purchases. The implementation of the final budget was 95%. Compared to the previous year, there was an increase in expenses in this category by €37,506,082 as a result of advances (for military purchases) up to one hundred percent (100%) which are related to activities concerning the defence and security of the Republic of Kosovo.
- The final and initial budget for the municipalities was €1,138,000. The implementation of the final budget was 76%; and
- The final budget for capital investments compared to the initial budget was increased by €64,860,541. The increase in the budget in capital investments comes from the Government's decisions to cover contractual obligations, pay customs obligations and for military purchases. The implementation was 79%, because the procurement activity (classified activity) for the truck failed, for which around €9,300,000 were planned, as well as the return of a payment from the CBK as a result of the intermediary bank not completing the transaction on time, in the amount of €12,300,000. Compared to the previous year, there is a decrease in expenses from this category by €4,867,512, which is mainly related to the budget allowance for goods and services for military purchases.

Chart 1. Expenditures by economic categories for year 2023

In 2023, the Ministry did not collect any revenues, since there was no activity, but there were returns of the budget in the amount of €170,332 and these were recorded as revenues of the previous year. The reason for the return of this budget was the result of the interruption of the education of some cadets, etc.

Table 3. Revenues (in €)

Description	Initial budget	Final Budget	2023 Receipts	2022 Receipts	2021 Receipts
Total revenues	116,484	116,484	170,332	165,919	6,175
Non-tax revenues	116,484	116,484			
Other revenues	0	0	170,332	165,919	6,175

4 Progress in implementing recommendations

The audit report for the AFSs of 2022 resulted in seven (7) recommendations. The MoD had prepared an Action Plan, presenting how it would implement the given recommendations. It also submitted the Progress Report on the implementation of the recommendations on September 30 and March 15.

By the end of our 2023 audit, we have identified that four (4) recommendations had been implemented, one (1) repeated recommendation, and two (2) were partially implemented as shown in Chart 2 below. For a more complete description of the recommendations and how they were addressed, see Table 4 (or Table of recommendations).

It should be noted that the issue of open advances from goods and services that influenced last year's opinion has been addressed by the Ministry and is regulated by the Budget Law for 2023 in paragraph 5 of Article 13 "Advance Payments", where advances are allowed for projects and activities up to 100% from the current year's budget allocations related to the defence and security of the Republic of Kosovo.

Chart 2. Progress in implementing prior year's recommendations

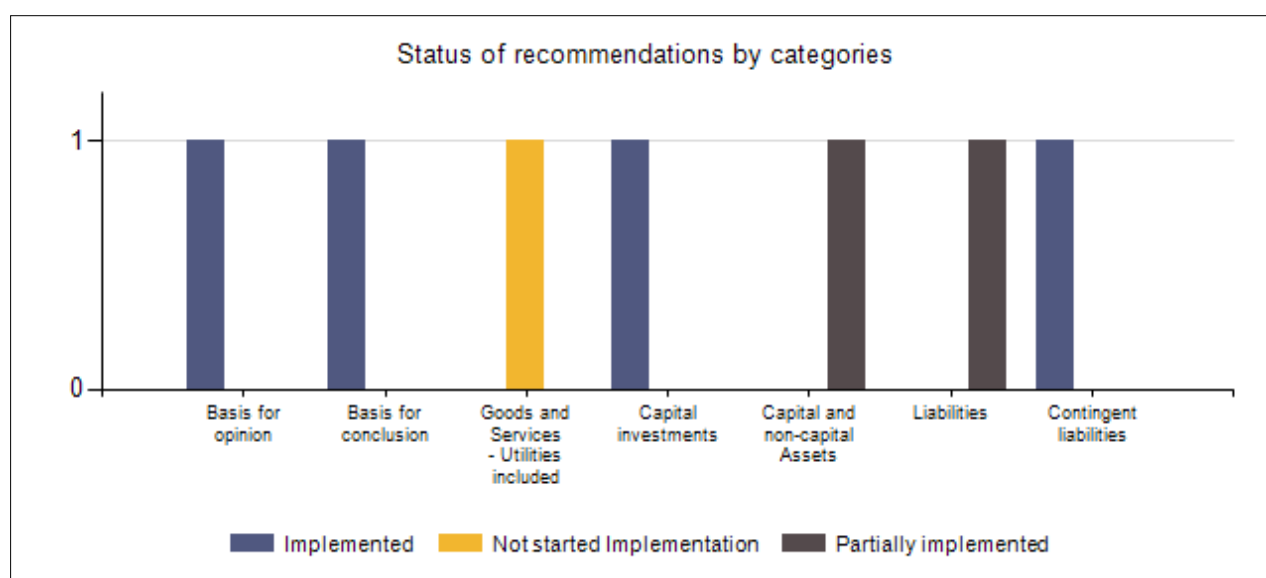


Table 4 Summary of prior year's recommendations

No.	Audit Area	Recommendations of 2022	Actions taken	Status
1.	Basis for opinion	The Minister should ensure that effective controls are in place in order to prevent the closing of advances before the training services have been received under the agreement. Also, an effective monitoring should be ensured regarding the acceptance of the trainings for which the advance was given.	The closing of advances from goods and services is regulated by the Budget Law for the year 2023 in point 5 of Article 13 "Advance Payments", where advances for projects and activities are allowed up to 100% of the current year's budget allocations related to defence and security of the Republic of Kosovo.	Implemented
2.	Basis for conclusion	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 are 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 should be ensured that penalties are applied due to significant delays in the delivery of goods.	For 2023 we did not identify such cases.	Implemented
3.	Goods and services and utilities	The Minister, in coordination with the KSF, should 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.	During the year 2023, we have identified such cases, in the category of capital investments.	Not addressed

4.	Capital investments	The Minister, through the procurement manager and requesting units, should ensure that the criteria in the tender file are specific, clear and measurable and that the required evidence is related to those criteria.	During the audit for 2023, we did not identify such cases.	Implemented
5.	Assets	The Minister should ensure through the e-assets officer that the errors are corrected so that the properties are correctly presented in the AFS. Likewise, any assets acquired-transferred from other BOs should have source documents.	Some corrections have been made, but we have still identified other problems in the e-assets system.	Partially implemented
6.	Outstanding liabilities	The Minister should ensure that all liabilities are paid within the legal term and that contract managers should take into account the term of the contracts, in order to avoid additional costs as a result of payments through enforcement or judicial procedures. Also, care should be taken when accepting invoices to avoid possible discrepancies between the invoice and the agreement.	There was also a delay in the payment of invoices in 2023, but it is worth noting that this year, even though there were delays, there were no additional enforcement payments.	Partially implemented
7.	Contingent liabilities	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 on Annual Financial Reporting.	No such shortcomings were identified in 2023	Implemented

**This report is a translation from the original Albanian version. In case of any discrepancy, the Albanian version shall prevail.*

Vlora Spanca, Auditor General

Zukë Zuka, Assistant Auditor General

Faruk Rrahmani, Head of Audit

Ariana Berisha Rexhëbeqaj, Team leader

Gazmend Namani, Team member

Adelina Selmani, Team member

Annex I: Letter of confirmation

REPUBLIKA E KOSOVËS - REPUBLIKA KOSOVO - REPUBLIC OF KOSOVO			
ZYRA KOMBËTARE E AUDITIMIT NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE			
Drejtori / Direktor Zyrtar / Official			
03	17	507	2



REPUBLIKA E KOSOVËS - REPUBLIKA KOSOVO - REPUBLIC OF KOSOVO	
MINISTRIA E MBROJTJES - MINISTRIJA OBRANE - MINISTRY OF DEFENSE	
No. Protok. / No. Protok. / No. Protok. / 1404	No. i Propoz. / No. i Propoz. / No. i Propoz. / 2
Data: 13.05.2024	
Firmatimi / n	

Republika e Kosovës
Republika Kosova - Republic of Kosovo
Qeveria - Vlada - Government
Ministria e Mbrojtjes
Ministarstvo Obrane / Ministry of Defense

DATË/A:	13.05.2024
REFERENCË:	1/320/2024
PËR/ZA/TO:	Zyrën e Kombëtare të Auditimit
CC:	Gafurr Dugolli, U.d Sekretar i Përgjithshëm në MM
PERMES/PREKO/THROUGH:	
NGA/OD/FROM:	Ejup Maqedonci, Ministër i Ministrisë së Mbrojtjes
TEMA/SUBJEKAT/SUBJECT:	Konfirmimi i pranimit të draft-raportit të auditimit për vitin 2023!

Të nderuar/a,

Bashkangjitur kësaj shkrese ju dërgojmë letër konfirmimit për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2023, dhe konfirmojmë se kemi pranuar draft-raportin e ZKA për auditimin e pasqyrave financiare të Ministrisë së Mbrojtjes.

Me respekt!

LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2023 dhe për zbatimin e rekomandimeve

Për: Zyrën e 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 Mbrojtjes**, për vitin 2023 (në tekstin e mëtejshëm "Raporti");
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit në përjashtim .
- 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.

Ejup Maqedonci, Ministër i Mbrojtjes,
Data: 13. Maj 2024

Me respekt!



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.

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.

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 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.