



Republika e Kosovës
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Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF
THE MINISTRY OF INTERNAL AFFAIRS
FOR THE YEAR 2019

Prishtina, July 2020

The National Audit Office of the Republic of Kosovo is the highest institution of financial control, which for its work is accountable to the Assembly of Kosovo.

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

This audit is carried out in line with the International Standards of Supreme Audit Institutions, and good European practices.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the *Ministry of Internal Affairs* in consultation with the Assistant Auditor General, *Arvita Zyferi-Hashani* of AAG, who supervised the audit.

The report issued is a result of the audit carried out by *Ardita Salihu and Mehmet Muçaj - Team Leader, and Enver Ramadani, Mimoza Morina-Kelani, Fjolla Bakalli-Sadiku and Riza Spanca - team members*, under the management of the Head of Audit Department, *Florim Beqiri*.

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Executive Summary

This report summarises the key issues arising from our audit of the Ministry of Internal Affairs (MIA) for 2019, which includes the Opinion of the Auditor General on Annual Financial Statements. Examination of 2019 financial statements was undertaken in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

Our audit focus has been on:



Conclusions

The Annual Financial Statements presented in the Annual Financial Report related to the Statement of Cash Receipts and Payments, Budget Execution Statement and Disclosures are true and fair.

The internal control system has generally functioned, yet shortcomings have been identified in certain areas that need to be improved.

Although the Ministry has prepared an action plan for the implementation of the recommendations, the implementation thereof is not at a satisfactory level.

Opinion of the Auditor General¹

Unmodified Opinion

For more details, see Chapter 1 of this report.

Management's Response on 2019 audit

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

The National Audit Office appreciates the cooperation of the management and personnel of the Ministry during the audit process.

¹ Annex I explains different types of Opinions in line with ISSAIs.

Audit Scope and Methodology

The Audit involves examination and evaluation of Financial Statements and other financial records in regard to as the following:

- Whether the financial statements give a true and fair view of the accounts and financial matters for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- Whether the internal controls and internal audit functions are appropriate and efficient; and
- Whether appropriate actions for implementation of audit recommendations have been undertaken.

The audit was based on risk assessment. We have analysed the Ministry's operations, the extent the management controls could be relied to in order to determine the level of in-depth testing required to obtain evidence supporting the Auditor General's opinion.

Our procedures have included a review of internal controls, accounting systems and interrelated substantive tests, as well as related governance arrangements to the extent considered necessary for the effective conduct of audit. Audit findings should not be regarded as representing a comprehensive overview of all the weaknesses that may exist, or of all improvements that could be made to the systems and procedures operated.

The following chapters provide in detail our audit findings and recommendations in each audited area. Management's responses to our findings can be found in Annex II.

1 Audit Opinion on Annual Financial Statements

We have audited the AFS of the Ministry of Internal Affairs (MIA) for the year ended on 31 December 2019 in accordance with the Law on NAO and the International Standards of Supreme Audit Institutions (ISSAIs). Audit examinations were carried out in order to allow expressing opinions on AFS which comprise the Statement of Cash Receipts and Payments, and Budget Execution Statement, provided further in detail.

Unmodified Opinion

In our opinion, the Annual Financial Statements for the year ended on 31 December 2019 give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards according to cash based accounting.

Basis for the Opinion

The audit is carried out in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the section 'Auditor's responsibilities for the audit of the Annual Financial Statements' of our report. In compliance with ISSAI 10 and 30, and other relevant requirements for audit of budget organisations' AFSs, the NAO is independent from the Ministry. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matters

We have not audited the selected sample of expenditures of the Kosovo Police for the category of Capital Investments in the amount of €10,937,823, because these expenditures are related to classified information (documents) that the Kosovo Police has classified based on the internal regulation.

Responsibility of Management for AFS

The Secretary General of MIA is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the 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 Financial Management and Accountability (as amended and supplemented) and Regulation No. 01/2017 on Annual Financial Statements of Budget Organisations.

The Minister is responsible to ensure the oversight of 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 conducted in accordance with ISSAIs. These standards require that we 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 every material misstatement that might exist. Misstatements may 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.

The 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.

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

We communicate with the management of the audited entity regarding the audit scope, planned time and significant findings including any significant shortcoming in internal control that we have identified during the audit.

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 Financial Management and Control

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Budget Organisations. Specifically, we have handled budget management, procurement, human resources and assets and liabilities as well as the internal audit function.

Financial Management and Control Conclusion

The Ministry has established controls in relation to its statutory obligations; however, the inconsistent implementation of the rules has caused shortcomings in many processes. The areas where more improvements are needed are revenue management, salaries, goods and services, capital investments and assets, contingent liabilities, receivables, etc.

2.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Sources of Funds	124,158,194	133,394,200	128,689,455	96	113,198,085	117,486,461
Government Grant -Budget	118,267,065	122,313,600	118,951,965	97	112,683,569	115,165,600
PAK Revenues	5,000,000	9,780,740	9,185,322	94	0	0
Carried forward from previous year	0	391,129	0	0	0	179,544
Own Source Revenues	891,129	891,129	550,380	62	500,000	890,887
External Donations	0	17,602	1,788	10	14,516	1,250,430

The final budget compared to the initial budget was increased by €9,236,006. This increase is a result of the increase of the Government grant in the amount of €4,046,535, the increase of

² Final budget - the budget approved by the Assembly subsequently adjusted by the Ministry of Finance.

revenues from the PAK fund in the amount of €4,780,740, external donations in the amount of €17,602, as well as the revenues carried forward in the amount of €391,129.

In 2019, the Ministry spent €128,689,455 or about 96% of the final budget.

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

Description	Initial Budget	Final Budget	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Spending of funds by economic categories	124,158,194	133,394,200	128,689,455	96	113,198,085	117,486,461
Wages and Salaries	80,134,796	85,567,343	85,542,782	100	79,388,734	76,217,698
Goods and Services	23,358,194	24,764,917	23,456,350	95	22,056,241	26,468,081
Utilities	2,006,800	1,699,000	1,308,440	77	1,270,436	1,462,301
Subsidies and Transfers	2,031,367	1,802,063	950,627	53	1,989,392	5,137,971
Capital Investments	16,627,037	19,560,877	17,431,256	89	8,493,282	8,200,410

Explanations for changes in budget categories are given below:

The final budget for Wages and Salaries compared to the initial budget was increased by €5,432,547. The increase was made by Government decision no. 12/115, dated 17.12.2019, in the amount of €2,052,000, for the payment of the aggregated hours which resulted from 2018 and which are related to the work that Police had worked outside the regular working hours. There was also an increase by Government decision 03/115 in the amount of €3,380,547, dated 17.12.2019, for savings and budget appropriation to cover the deficit in salaries of the Kosovo Police at the end of 2019.

The final budget for Goods and Services compared to the initial budget was increased by €1,406,723. This increase was made:

- €134,000 were allocated by Government decisions: no. 02/113, dated 05.11.2019, and €450,491 were allocated by decision no. 03/115, dated 17.12.2019, and
- In accordance with Article 30 of the LPFMA, the Minister of Finance had approved the requests of the Ministry for the transfer of funds in the amount of 805,000 from other economic categories in the category of Goods and Services and had an increase from external donations in the amount of €17,232.

The final budget for Utilities was decreased by €307,800. The decrease of €203,000 was made in accordance with Article 30.2 of the LPFMA where the Minister of Finance had approved MIA's requests for budget transfers from this category to the category of Goods and Services and the decrease of €104,800 was made based on Government decisions on budget savings and allocations.

The final budget for Subsidies compared to the initial budget was decreased by €229,304. The change was the result of the Government's decision no 03/115, dated 17.12.2019, for savings and budget allocations where the budget was decreased by €620,803. There was also an increase in the budget from the carrying forward of own source revenues to the Kosovo Police in the amount of €391,129 and the transfer of an external donation in the amount of €370.

The final budget for Capital Investments compared to the initial budget was increased by €2,933,840. The budget increase was made by Government decision no. 02/113 for savings and budget allocations dated 05.11.2019, where €4,480,740 were allocated. Budget savings of €1,114,900 were made by Government decision 03/115, dated 17.12.2019, for budget savings and budget allocations. Furthermore, the decrease of €432,000 was made in accordance with Article 30.2 of the LPFMA where the Minister of Finance has approved the requests of MIA for budget transfers from this category to the category of Goods and Services.

2.1.1 Revenues

In 2019, MIA generated revenues in the amount of €62,209,192, which compared to the previous year (€55,919,738) marked an increase of €6,289,454. The Ministry according to budget law had been budgeted with the right to spend own source revenues in the amount of €891,129. The increase in revenues was as a result of increased traffic fines, increased tax revenues for travel documents and increased revenues from other taxes.

Revenues are generated from vehicle registration taxes, road taxes, travel document taxes, traffic fines and other taxes. We tested 100 samples for substantial tests in the amount of €249,136 and eight samples for compliance tests, while we encountered no irregularities.

Table 3. Revenues (in €)

Description	Initial Budget	Final Budget	2019 Receipts	2018 Receipts	2017 Receipts
Own source revenues	52,000,000	52,000,000	62,209,192	55,919,738	49,184,900
Total	52,000,000	52,000,000	62,209,192	55,919,738	49,184,900

2.1.2 Wages and Salaries

The final budget for Wages and Salaries for 2019 was €85,567,343, of which €85,542,782 was spent. The number of employees allowed by budget law was 10,868, whereas by the end of the year the ministry had 10,630 employees. We have tested 100 samples of €114,481 as part of substantive testing, and 26 samples as part of pf compliance testing.

During the audit, we identified the following shortcomings.

Issue A1 – Advertisement of competition not in line with the job catalogue**Finding**

The Job Catalogue in the Civil Service issued by the Ministry of Public Administration (MPA) in 2015, and amended in 2018 with “Job titles supplemented and amended in the Job Catalogue in the Civil Service of Kosovo”, determines the qualification and experience that must be met for certain job positions. According to this catalogue for the position “Budget and Finance Officer 1” as qualification criterion it is required “University degree or higher education diploma”.

EMA advertised the competition contrary to the criteria of the job catalogue and contrary to the approval of the application by the MPA. For the position advertised “Budget and Finance Officer 1” the criteria of “qualification and skills” required “University degree or Secondary Education diploma” not as specified in the catalogue as University Degree or Higher Education diploma. As a result, the candidate with secondary education was employed in this position.

This happened due to the irresponsibility of the EMA officials to advertise the competition with the required criteria according to the Job catalogue in the civil service and approved by the MPA.

Article 29 of Regulation no. 02/2010 on recruitment procedures in the civil service stipulates; the selection commission of the civil service shall prepare a short list of at least three candidates and if the panel does not identify at least three adequate candidates for inclusion in the shortlist, the position must be re-advertised.

The recruitment selection commission for this position did not prepare the shortlist of candidates to make the candidates’ scoring by competition criteria.

The reason for not compiling the shortlist was the irresponsibility of the selection commission to draft this document.

Impact

Setting out and advertising criteria in the competition in discrepancy with the criteria of the job catalogue approved by the MPA and the lack of a shortlist showing candidates’ scoring impacted on setting favourable criteria, non-meritocratic employment and lacking professional competence.

Recommendation A1 The Minister, in co-operation with the General Director of EMA, should ensure that any position advertised for recruitment is in accordance with the job catalogue approved by the MPA. The Minister should also ensure that the selection commission drafts the documents as required by legislation when evaluating employment applications to ensure meritocratic and work-needs-based employment.

Issue A2 – Employing a candidate without meeting the criteria

Finding In the competition advertised for the job position "Driver" in EMA, the criterion of work experience required was at least one year of work experience as a driver. Article 6 of the Administrative Instruction (MLSW) no. 07/2017 on the regulation of competition procedures in the public sector stipulates that: public competition must be repeated if at least three candidates do not meet the criteria set by the competition.

Four candidates applied for the position who provided no evidence of work experience at all. Despite the non-fulfilment of this criterion, EMA did not cancel the competition and, as a result, one candidate was hired. Furthermore, the recruitment file was not completed as the list of applicants meeting the conditions and criteria (short list), which should be compiled by the Selection Commission, was missing.

This happened due to the irresponsibility of the selection commission to evaluate the candidates in accordance with the established criteria and to draft the candidates list meeting the criteria.

Impact Failure to comply with requirements of the competition and failure to compile the shortlist may result in the recruitment of inadequate persons for the advertised job position.

Recommendation A2 The Minister, in co-operation with the General Director of EMA, should ensure that in the future the recruitment selection commission will respect the requirements of acts regulating the establishment of employment relation and the competition criteria.

Issue B1 – Exercising job positions in discrepancy with the grades obtained**Finding**

Administrative Instruction (AI) No. 02/2018 on the regulation of labour relations in the Kosovo Police (KP), namely Article 39, paragraph 3, stipulates that; on decision of the General Director of Police, each police officer may be appointed to a job or transferred from one job to the other job if he/she meets the conditions and criteria provided for that job, regardless of level, position or rank. Furthermore, Administrative Instruction No. 02/2019 on the promotion procedure for police officers defines the criteria that each Police Officer must meet to participate in the promotion and the testing process to be subjected to obtain a certain rank.

The organizational structure of the Kosovo Police determines the required rank for each job position.

We have noticed that, in spite of a slight improvement from last year, a number of police staff have still been placed in job positions without meeting the degree criterion required by that position according to the organizational structure. According to data by personnel unit, 198 police officers keep being stationed in positions where a higher rank is required than the rank employees currently had achieved through the regular promotion process. It is worth mentioning that KP in 2019 carried out several grading processes to reduce the number of employees exercising positions with higher ranks, but these processes have so far been insufficient to fully meet the criteria for systematisation into job positions as per relevant ranks.

Impact

Staff systematisation in positions that do not conform to the adequate ranks may affect the job positions to be exercised by persons lacking professional competence.

Recommendation B1 The Minister and the KP General Director should ensure that the systematization of police staff in positions is done after meeting the grades and conditions for the particular job, and that the grading process is being conducted in response to the KP needs.

2.1.3 Goods and Services

The final budget for Goods and Services, and Utilities in 2019 was €26,463,917, of which €24,764,790 were spent. Those relate to office supplies, number plate supply, clothing supply, vehicle fuel, vehicle maintenance and repair, maintenance of the ID, passports and driving licenses system, food and beverage supply, building security, etc.

We have tested 100 samples of €10,177,436 as part of substantive testing, and 20 samples as part of compliance testing. During the audit, we identified the following shortcomings:

Issue A3 – Incorrect presentation of expenditures in the financial statements

Finding Articles 13 and 14 of Regulation MF 01/2017 on Annual Reporting of Budget Organizations requires that budget organizations present the exact total payments.

In Articles 13 and 14 of the AFS, the MIA reported expenditures in the amount of €128,701,000, while according to KFMIS, the expenditures for 2019 were €128,689,455. Therefore, there is an overstatement of expenditures by €11,545. Moreover, the total of receipts and payments reported in Article 13 of AFS are not reconciled by €2,000.

MIA officials confirm that the amount of expenditures at the time of preparation of the AFS was accurate and in line with the records of the KFMIS, but later on there was a change of records in KFMIS from the Treasury while the ministry was not aware of.

Impact Improper expenditures presentation makes users of financial statements not receive accurate information about expenses that were incurred during the year.

Recommendation A3 The Minister should ensure that expenditures are accurately presented in the financial statements as required by the regulation on Annual Financial Reporting.

Issue A4 – Exceeding of the value of framework contract**Finding**

Law no. 05/L-068 on amending and supplementing Law no. 04/L-042 on Public Procurement of the Republic of Kosovo amended and supplemented by Law no. 04/L-237, Article 22 stipulates, “If the public framework contract is concluded for less than thirty-six (36) months, it cannot be extended beyond the specified time limit without conducting new procurement procedures. This means that the duration of the public framework contract must be determined from the beginning of the procurement process. The estimated amount specified in the tender documents is only an indicative amount. The contracting authority shall specify, in the tender dossier, the value or amount of the contract as a threshold and shall allow deviation from it, also declaring the percentage of the allowed discrepancy. The allowable discrepancy cannot be higher than plus/minus thirty percent (30%). If the purchase orders exceed the total indicative amount or the total indicative value of the public framework contract (including + thirty percent (30%) regardless of the original date of the Public Framework Contract, the contract will be terminated automatically”.

On 14.01.2016, Kosovo Academy for Public Safety (KAPS) entered into a public contract framework for 36 months for “Food preparation and supply services for the needs of KAPS” in the total indicative value of €557,225. We have identified that KAPS fulfilled the contract in May 2019. The total contract execution was €735,832, using the allowed discrepancy plus 30% and exceeding the allowed threshold by €11,440. Furthermore, KAPS conducted an emergency procurement activity by applying the negotiated procedure without publishing the contract notice. The contract was made with the EO with which the preliminary contract had expired and the value of the negotiated contract was €206,393. The contract was concluded on 13.06.2019 and lasts until the end of the regular activity foreseen in the Procurement Plan.

This has come because of the unplanned increase in the number of users of daily meals, i.e. the increase in the number of cadet students (430 cadets) of the Kosovo Police (KP). In order to overcome this situation and not to stop the food supply, they have applied the negotiated procedure without publishing the contract notice.

Impact

Exceeding the framework contract above the allowable rate can affect the budget organization entering into unplanned financial liabilities and it resulted in the activity being conducted in conflict with regulatory framework.

Recommendation A4 The Minister, in co-operation with the Director of KAPS and the Director of Police in cases when it is planned to recruit new cadets, should have a co-ordination with each other so that operational and financial preparations are made on time.

2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €1,802,063, of which €950,627 were spent in 2019. Those mainly relate to financial support in order to reintegrate repatriated persons. We have tested eight (8) samples of €120,720 as part of substantive testing, and 20 samples as part of compliance testing.

Issue A5 – Distribution of subsidies to the staff of the ministry

Finding Law no. 03/L-147 on Salaries of Civil Servants, Article 20 - Salary Compensation, stipulates, Civil Servants are entitled to receive compensation of salary in the following cases: 1.1. Compensation for overtime work during working days; 1.2. Compensation for overtime work during weekends; and 1.3. Compensation for overtime work during official holidays. 1.4. Compensation for annual leave; 1.5. Compensation for the period of temporary incapability certified because of disease; 1.6. Compensation during pregnancy and maternity; 1.7. Compensation in case of being in special leave with payment; 1.8. Compensation in case of professional perfection specialized for the needs of body or state;

The minister with a decision (decision no. 383, dated 28.12.2018) decided to allocate €100 per person as gratitude for distinguished workers for their contribution in meeting the objectives of the ministry. Through this decision, 15 employees of the civil service from the category of Subsidies and Transfers were compensated.

This happened due to non-compliance with legal requirements on the part of the ministry's management.

Impact Money compensation of employees not through payroll system affects the increase of ministry's expenses and avoids payment of statutory required contributions and taxes.

Recommendation A5 The Minister should ensure that staff compensation is made only in cases provided for by the salary law and terminate such practices of compensation without legal basis. Furthermore, the funds from the category of subsidies and transfers should be allocated according to the destination for which they are allocated and in accordance with statutory requirements.

2.1.5 Capital Investments

The final budget for Capital Investments was €19,560,877, of which €17,431,256 were spent in 2019. The expenses are mainly related to payments for administrative buildings, information technology equipment and the purchase of other equipment. We have tested 62 samples of €4,120,911 as part of substantive testing, and eight (8) samples as part of compliance testing.

Issue A6 – Wrong classification of expenditures

Finding Administrative Instruction 2005/08 on Economic Classification of Expenditures stipulates that purchases over €1,000 and if they have a useful life of more than one year are classified as capital expenditures. While equipment in the amount of under €1,000, even if they have a useful life of more than one year are included in the definition of goods and services.

On 05.12.2019, the Kosovo Police concluded a contract for “Supply of parts and equipment for IT in the amount of €52,612. During the testing, we noticed that the payment in the amount of €10,997 was made from the economic category of Capital Investments, while the purchased items belong to the economic category Goods and Services. Items that were invoiced and paid with this invoice are in the amount of less than €1,000.

This happened due to incorrect budget planning because the project of supplying parts and equipment for IT was budgeted in the capital investment table.

Impact Planning of budget projects in inadequate economic categories affects the execution of payments and registration of expenses to be classified in inadequate categories and, as a result, affects AFR to overstate capital investments and understate goods and services.

Recommendation A6 The Minister, in co-operation with the Director of the Kosovo Police, should ensure that when planning the budget, expenditures are planned in the appropriate economic category according to the chart of accounts.

2.2 Capital and Non-capital Assets

The amount of capital assets presented in Annual Financial Statement (AFS) is €48,003,805, that of non-capital assets is €3,381,729, and of stock is €3,605,759. We have tested 75 samples of €4,885,240 as part of substantive testing. In terms of compliance, we have assessed whether the ministry has acted in accordance with the requirements of the asset regulation. The issues that have resulted from the audit are described below:

Issue A7 - Weaknesses in asset management

Finding Regulation No. 02/2013 on the Management of Non-financial Assets by Budget Organizations, Article 11, paragraph 3, stipulates; after the completion of the investment process, non-financial capital assets will be classified as non-financial assets in use. The depreciation will also be applied from the moment when the asset will be made for use.

From our tests, we have identified two³ projects with a total value of €58,803, which, although completed, were still held as ongoing investments, so they were not transferred to the relevant class (use) and the calculation of their depreciation had not begun.

This happened because of the lack of communication of contract managers with the asset official who is responsible for identifying and recording assets.

Impact Maintaining completed projects as ongoing investments affects the overstatement of assets due to non-deduction of depreciation by providing misleading information to users of the financial report.

Recommendation A7 The Minister, in co-operation with the Director of EMA, should ensure proper and timely communication between the responsible officials so that the assets register is updated in a timely manner, by recording all assets according to the requirements of the regulation.

³ Renovation of the EMA warehouse in amount of €40,489 was completed in 2018, while renovation of the building of VRC-DOC Skenderaj in amount of €18,314 was completed in 2019.

Issue A8 – Incomplete presentation of assets under €1,000 and stocks

Finding Article 19.3.2-Non-capital assets under €1,000 and Article 19.3.3 AFR stocks require that assets under €1,000 and stocks are presented in complete and accurate values.

From our tests, we found that the Emergency Management Agency (EMA) has not been able to generate asset records under €1,000 at the end of the year and, therefore, EMA assets under €1,000 were not reported at all in the AFR for 2019.

We have also identified that the stock value of €3,605,759 reported in the AFR is not accurate because the stocks of the auxiliary warehouse of the MIA and EMA were not reported in the AFR.

The reason for not presenting assets under €1,000 and stocks was the technical problems with the E-asset system, a system managed and administered by the MPA.

Impact Lack of complete evidence regarding the value of assets under €1000 and stocks affects the current figures presented in the AFR regarding these categories of assets are understated

Recommendation A8 The Minister, in co-operation with the Director of EMA, through MPA, should ensure the functioning and monitoring of the e-asset system in order to generate accurate information on assets under €1,000 and stocks, and the same are presented in the AFR.

2.3 Handling of cash and its equivalents

The statement of open advances presented in the AFR at the end of 2019 was €79,895. Issues related to advances are disclosed as follows:

Issue B2 - Open advances

Finding According to the Financial Rule No. 01/2013 MoF-Public Funds Expenditures and the Administrative Instruction no. MPS 2004/7 on Official Travel advances for official travel must be closed and unspent amounts must be returned to the bank account within 15 days upon returning from the official travel.

MIA presented open advances in the amount of €79,895 in the AFR of which €10,288 were advances belonging to 2019 and €69,607 had to do with advances carried forward since 2010.

Two advances of 2019 for official trips of the Kosovo Police in the amount of €7,788 were not closed because two police officers have gone on an official trip at the end of December 2019 and, after returning, were closed in 2020. While the other advance of 2019 in the amount of €2,500 in cash related to KAPS was not closed due to a technical error during the closing process. However, despite the KAPS's request to correct the expenditure, the Treasury did not make the correction.

Regarding the advances carried forward from 2010 in amount of €69,607, according to MIA officers, they appear open in the MoF, but the entity has not been able yet to identify which advances are in question. According to the MIA, all advances appear closed. MIA has held meetings with the Kosovo Treasury to identify these advances, but so far they have been unsuccessful.

Impact Non-closing of advances presents errors in the account of advances and therefore this account appears continuously open.

Recommendation B2 The Minister should take the necessary measures in co-operation with the Ministry of Finance to clarify the issue of open advances inherited from previous years and should ensure that such a problem will not appear in the future. In this regard a joint commission should be established to identify and close them.

2.4 Receivables

In the Annual Financial Report (AFR) of 2019, MIA disclosed accounts receivable in amount of €7,790,088. Compared to the previous year, the amount of accounts receivable is higher by €777,139. The vast majority of accounts receivable were from Police fines (€7,697,871). From the list of these accounts, we have selected 33 samples amounting €74,243 and the testing resulted in the following issue

Issue B3 – Incorrect registration of accounts receivable (A/R)

Finding Article 17 of the Annual Financial Report requires that the accounts receivable are presented truly and fairly.

We have identified that in 10 cases, in accordance with the laws in force, the Kosovo Police issued a report on offence (without specifying the financial value of the fine), proceeding to the Court. For these 10 cases, the police information system has calculated the financial value in the amount of €15,100, which were reported to the AFR. These fines should not have been reported to the AFR as accounts receivable after they were submitted to the courts management. According to officials, the reason for this phenomenon is that at the moment of issuing the ticket by the police to the court, the system automatically calculates the financial amount.

Furthermore, we identified four cases where the values of fines imposed were €770, while in the fine register for the same cases the figures were reported as accounts receivable in the amount of €17,400. This resulted due to incorrect entry of information into the electronic system.

Impact System registering of applications that have been submitted to the courts as well as errors made in the registration of accounts receivable have caused the A/R to be inaccurate and the same are wrongly presented in the AFR.

Recommendation B3 The Minister, in co-operation with the General Director of the KP, should ensure that the report for offence, submitted to the courts, are not included in the accounts receivable and upon registration of fines in the system, the exact values of fines should be presented so that A/R is presented correctly in the AFR.

2.5 Liabilities

2.5.1 Outstanding liabilities

The statement of unpaid liabilities to suppliers at the end of 2019 was €97,131. Unpaid liabilities for more than 30 days were €811, while those less than 30 days were €96,320. These liabilities consist of goods and services €90,382, utilities €1,450 and subsidies €5,068. These liabilities are carried forward to be paid in 2020.

While for contractual obligations, MIA has not managed to compile a register of obligations expected to be executed in the coming years.

2.5.2 Contingent liabilities

The contingent liabilities at the end of 2019 are €1,162,901 and were mainly related to the claims of the parties regarding some contracts that the entity has had years ago and for which it is in court proceedings.

Issue A9 – Incorrect presentation of contingent liabilities

Finding Article 18 of the Regulation MoF - No. 01/2017 for Annual Financial Reporting by Budget Organizations requires reporting on contingent liabilities.

Finding MIA has reported contingent liabilities of €1,162,901 in the AFR. This reported value was not accurate because the AFR included a lawsuit (claim) of the MIA against an Economic Operator in amount of €203,066. Therefore, this is not about contingent liability but about contingent assets because the ministry expects to win the dispute and generate revenues from this lawsuit. This happened due to the ambiguity about court disputes because according to them once MIA was a respondent, while in the last case, it is in the capacity of the claimant; all these have caused ambiguities and has been reported as a contingent liability.

Impact Disclosure of such values in AFR in addition to not being accurate affects that AFR users are poorly informed about contingent liabilities.

Recommendation A9 The Minister should ensure that contingent liabilities are presented in full and accurate amounts and should keep full records regarding the cases pending before courts.

2.6 Internal Audit Function

MIA and Independent Agencies under its umbrella (KP, PIK and KAPS) have established Internal Audit Units (IAU) which operate with MIA (4 auditors), KP (3 auditors), KAPS (1 auditor) and PIK (1 auditor). Each unit had drafted a strategic plan, and an annual audit plan based on risk assessment and priorities, while the scope of the audits performed included mainly 2019.

These audit units in 2019 planned and carried out 30 audit reports and reported to the CHU for Internal Audit on a six-month basis.

On 18.03.2019, MIA established the AC, which functioned until October 2019. During this period the committee managed to hold two regular meetings and then one of the members resigned. On 03 October 2019, the MIA established a new Audit Committee, which managed to hold two meetings, one for 2019 and one meeting in January 2020.

Issue A10 – Composition of Audit Committee not in compliance with the law

Finding Based on Law no. 06/L-021 on Public Internal Financial Control, the Audit Committee consists of three (3) or five (5) members, where two thirds (2/3) are external from the respective audit field, while the rest from internal staff of the public sector entity.

We have identified that all members of the new Audit Committee were ministry's employees. This has happened due to negligence of management to appoint the members of committee in accordance with the legal requirements.

Impact Appointment of all members to the Audit Committee by the entity itself may affect the AC not to ensure work independence and proper support for internal auditors.

Recommendation A10 The Minister should ensure that the Audit Committee composition is in line with legal requirements so that the AC can cover its own responsibilities independently.

3 Progress in Implementing Recommendations

Our Audit Report on the 2018 AFS of MIA resulted in 13 key recommendations. MIA had prepared an Action Plan stating how all recommendations will be implemented.

MIA did not prepare and submit the Progress report on implementation of recommendations (30th of September and 15th of March) under requests deriving from the Rules of Procedure on implementation of audit and action plans.

At the end of our 2019 audit, three (3) recommendations were implemented, four (4) have not been addressed yet, and six (6) are closed unimplemented. For a more thorough description of the recommendations and the way they have been addressed, see Table 4 (or Table of recommendations).

Issue A11 - Failure to appoint a responsible contact person according to NAO regulation and failure to submit progress reports on implementation of recommendations made by NAO**Finding**

Article 14, paragraph 4 of the Rules of Procedure for the Implementation of Audit and Action Plans of the National Audit Office provides: After drafting the Action Plan, the audited entity shall submit reports on progress in implementation of recommendations to the Auditor General and the Assembly/Shareholder. Reports shall be submitted twice a year, namely by 30th of September and by 15th of March. In addition, paragraph 7 of Article 14 of the regulation stipulates: The head of the audited entity must appoint a contact person to communicate with the National Audit Office in regard to implementation of the Action Plan.

The ministry has not drafted reports on progress in implementation of recommendations despite our requests to the ministry for their submission. The ministry has not appointed any contact person to communicate with the National Audit Office in regard to implementation of the Action Plan. This is due to the management's negligence to respond to this request.

Impact

Non-drafting of reports by the ministry's management regarding the progress in implementation of recommendations and non-appointment of the contact person as per the request of the regulation may affect the ministry's management not to have knowledge about the progress of addressing the recommendations made by the NAO whereby recommendations remain unaddressed.

Recommendation A11 The Minister should ensure a contact person is appointed as required by regulation and prepare progress reports on implementation of recommendations. After drafting these reports, the minister should submit them to NAO and the Assembly.

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

Table 4 Summary of prior year recommendations and of 2019

No	Audit area	Recommendations of 2018	Actions undertaken	Status
C1	AFS	The Minister, in cooperation with the General Director of the Kosovo Police and heads of other Agencies within the Ministry, should increase the responsibility with the responsible staff regarding the weaknesses that have caused the Emphasis of Matter. In this respect, should be ensured that all assets and contingent liabilities are recorded and correctly disclosed in the financial statements. In addition, the Minister should ensure that expenditures are planned and executed in the appropriate economic category in order to present them correctly in the AFS.	MIA has updated the capital asset register by registering the capital assets identified in the 2018 report. Even in 2019, we encountered errors in the presentation of contingent liabilities and payments made from the wrong codes.	Recommendation closed
B1	Budget Planning and Execution	The Minister and Director General of KP should undertake a systematic assessment of the reasons for the non-implementation of capital projects and for the low level of budget spending in this category. Concrete and practical measures should be defined in order to overcome any potential identified barriers to improve the implementation of capital projects and budget execution.	It was planned in the action plan that the recommendation will be implemented in 2019, so the level of budget execution was improved compared to last year (89% budget execution for capital investments).	Recommendation closed
B2	Personnel management – Exercising job positions in inconsistency with the grades given	The Minister and the General Director of the KP should ensure that the placement of the staff in vacant positions is done after meeting the criteria or after regular recruitment within the KP, and compensation of the employees should be done in accordance with the current approved salary ranks and	KP has developed several grading processes during 2019, but has not yet managed to fully address the prior year recommendation as a similar situation was	Recommendation unimplemented

		system.	identified in 2019.	
B3	Agreements for special services in regular positions and for longer periods than allowed by law	The Minister, in cooperation with the EMA General Director, should consider the reasons why such cases have occurred and terminate temporary staff engagement practices for regular positions. In case of special service needs, engagements should be secured by being subject to legal requirements and procedures.	EMA had 11 such cases that were carried forward from the previous year, but all were discontinued during the year. While MIA, respectively CRA had 59 cases of employees in this form but all were terminated by the end of the year.	Recommendation implemented
A1	Deficiencies in engagement procedures with special service agreements.	The EMA General Director should ensure that in case of need to engage staff for a short period of time, all legal procedures should be observed, including candidates' correct and based evaluation by the recruiting commission.	After the expiration of special service agreements, they have not been extended.	Recommendation implemented
A2	Goods and Services - Lack of written statement regarding the tender with abnormally low prices	Chief Executive Officer of PIK should ensure that each contract is signed after all required procedures under the PPL and additional regulations have been implemented. In the case of bids with abnormally low prices, the review of the reliability of the tenders should be made and necessary clarifications should be requested from the Bid Evaluation Commission before proceeding with further steps.	During the testing of procurement procedures, we have not identified problems of such nature.	Recommendation closed
B4	Common Issues - Deficiencies in payments' processing	The Minister should ensure that financial officers conscientiously apply the expenditure procedures according to the steps set out in the regulation of public spending of funds, and such cases should not be repeated.	This phenomenon continues in processing payments, which was treated in the management's letter as it is of low priority.	Recommendation unimplemented
B5	Capital and non-capital assets - Management	The Minister, in cooperation with the KP General Director, should make an assessment of the current situation in the fleet	The issues raised last year were addressed because the Kosovo Police	Recommendation closed

	of vehicle fleet	of vehicles to determine the actions needed to improve the vehicle servicing process.	removed some of the identified vehicles from the register, which were on the waiting list for service. However, there are still vehicles that are on the waiting list for service. Moreover, the KP has assessed the situation and alienated 313 vehicles, which in fact has made assessment of the current situation.	
B6	Weaknesses in asset register management and inventory process	The Minister and the General Director of EMA should ensure that all assets worth under €1,000 should be recorded in e-assets system, and carry out assets inventory and harmonise inventory reports with asset registers before 2019 AFS are prepared.	Even in 2019, we noticed that the asset register under €1,000 is not complete. We have noticed this through audit tests.	Recommendation closed
B7	Handling of cash – Open advances	General Director of KP in co-operation with the Ministry of Finance, should take all measures to clarify the issue of open advances, inherited from previous years and ensure that such a problem will not appear in the future.	It is emphasised in the action plan that it will be addressed in 2019, but the situation continues to be the same as last year.	Recommendation unimplemented
A3	Receivables – Inaccurate registration of the amount of fines	The General Director of KP should ensure that the registration of mandatory fines in the electronic system is made on the basis of the amounts of imposed fines, so that information regarding these accounts is accurate and as such is reported in AFS.	During the testing of the accounts receivable, we noticed that there were similar problems of this nature in 2019 as well.	Recommendation unimplemented
A4	Internal Audit – Failure by KAPS to fulfil	KAPS Director should ensure that the vacant position is staffed within a reasonable time.	IA in KAPS has met the annual audit plan.	Recommendation implemented

	the annual audit plan			
B8	Weaknesses in risk management	The Minister should ensure that the responsible persons are fulfilling all the obligations regarding risk management, including the establishment of adequate review and reporting mechanisms for the implementation of the requirements in this field.	MIA and subordinate units had a list of risks with the exception of EMA.	Recommendation closed
No	Audit area	Recommendations of 2019		
A1	Advertisement of competition not in line with the job catalogue	The Minister, in co-operation with the General Director of EMA, should ensure that any position advertised for recruitment is in accordance with the job catalogue approved by the MPA. The Minister should also ensure that the selection commission drafts the documents as required by legislation when evaluating employment applications to ensure meritocratic and work-needs-based employment.		
A2	Employing a candidate without meeting the criteria	The Minister, in co-operation with the General Director of EMA, should ensure that in the future the recruitment selection commission will respect the requirements of acts regulating the establishment of employment relation and the competition criteria.		
B1	Exercising job positions in discrepancy with the grades obtained	The Minister and the KP General Director should ensure that the systematization of police staff in positions is done after meeting the grades and conditions for the particular job, and that the grading process is being conducted in response to the KP needs.		
A3	Incorrect presentation of expenditures in the financial statements	The Minister should ensure that expenditures are accurately presented in the financial statements as required by the regulation on Annual Financial Reporting.		
A4	Exceeding of the value of framework contract	The Minister, in co-operation with the Director of KAPS and the Director of Police in cases when it is planned to recruit new cadets, should have a co-ordination with each other so that operational and financial preparations are made on time.		
A5	Distribution of subsidies to the staff of the ministry	The Minister should ensure that staff compensation is made only in cases provided for by the salary law and terminate such practices of compensation without legal basis. Furthermore, the funds from the category of subsidies and transfers should be allocated according to the destination for which they are allocated and in accordance with statutory requirements.		

A6	Wrong classification of expenditures	The Minister, in co-operation with the Director of the Kosovo Police, should ensure that when planning the budget, expenditures are planned in the appropriate economic category according to the chart of accounts.
A7	Weaknesses in asset management	The Minister, in co-operation with the Director of EMA, should ensure proper and timely communication between the responsible officials so that the assets register is updated in a timely manner, by recording all assets according to the requirements of the regulation.
A8	Incomplete presentation of assets under €1,000 and stocks	The Minister, in co-operation with the Director of EMA, through MPA, should ensure the functioning and monitoring of the e-asset system in order to generate accurate information on assets under €1,000 and stocks, and the same are presented in the AFR.
B2	Open advances	The Minister should take the necessary measures in co-operation with the Ministry of Finance to clarify the issue of open advances inherited from previous years and should ensure that such a problem will not appear in the future. In this regard a joint commission should be established to identify and close them.
B3	Incorrect registration of accounts receivable	The Minister, in co-operation with the General Director of the KP, should ensure that the report for offence, submitted to the courts, are not included in the accounts receivable and upon registration of fines in the system, the exact values of fines should be presented so that A/R is presented correctly in the AFR.
A9	Incorrect presentation of contingent liabilities	The Minister should ensure that contingent liabilities are presented in full and accurate amounts and should keep full records regarding the cases pending before courts.
A10	Internal Audit Function	The Minister should ensure that the Audit Committee composition is in line with legal requirements so that the AC can cover its own responsibilities independently.
A11	Failure to appoint a responsible contact person according to NAO regulation and failure to submit progress reports on implementation of recommendations made by NAO	The Minister should ensure a contact person is appointed as required by regulation and prepare progress reports on implementation of recommendations. After drafting these reports, the minister should submit them to NAO and the Assembly.

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 emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor’s opinion is not modified in respect of the matter emphasised.

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

Annex II: Letter of confirmation

REPUBLIC OF KOSOVO / REPUBLIKA KOSOVA / REPUBLIC OF KOSOVO ZYRA KOMBËTARE E AUDITIMIT / NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE			
DOKUMENTI Nr. Dokumenti 03	Kodet e Klasifikimit 47	Nr. Protokollit 1104	Nr. Stranës 1



Titulli i Dokumentit / Dokument Title: _____
 Data e Dokumentit / Document Date: _____
 Nr. i Dokumentit / Document No: _____
 Nr. i Stranës / No. of Pages: _____

REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA/ REPUBLIC OF KOSOVA

QEVERIA / VLADA / GOVERNMENT

MINISTRIA E PUNËVE TË BRENDSHME / MINISTARSTVO UNUTRAŠNJIH POSLOVA/
MINISTRY OF INTERNAL AFFAIRS

ZYRA E SEKRETARIT TË PËRGJITHSHËM/ KANCELARIA STAFINOG SEKRETARA
OFFICE OF THE SECRETARY GENERAL

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Zyrës Kombëtare të Auditimit në Raportin e auditimit për vitin 2019 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 Punëve të Brendshme për vitin e përfunduar më 31 dhjetor 2019 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Lulzim Ejupi

Sekretar i Përgjithshëm i Ministrisë së Punëve të Brendshme

16 korrik 2020, Prishtinë

Faqe 1 nga 1