



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF THE MINISTRY
OF PUBLIC ADMINISTRATION
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 Public Administration in consultation with the Assistant Auditor General, Qerkin Morina, who supervised the audit.

The report issued is a result of the audit carried out by Kreshnike Haziri - Team Leader, and Valbona Tolaj and Lumturie Sopi - team members, under the management of the Head of Audit Department, Zukë Zuka.

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Executive Summary

This report summarises the key issues arising from our audit of the Ministry of Public Administration 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 were prepared and managed in accordance with the legislation in force, with the exception of some issues, which are presented in the respective categories. The payments of employees without attendance at work have affected the Emphasis of Matter at the opinion of the auditor.

The ministry has generally established controls for the spending of public money and reporting, but a more efficient financial management of expenditures constantly requires a more considerable management effort.

Implementation of recommendations remains a challenge for the ministry, because of our 12 recommendations from last year, only five (5) of them were implemented and seven (7) have not been implemented yet. Repeated recommendations are followed with shortcomings in significant ministry's systems and as such remain unaddressed.

Opinion of the Auditor General¹

Unmodified opinion with Emphasis of Matter

The Annual Financial Statements for the year ended 31st of December 2019 present a true and fair view in all material respects.

For more details, see Chapter 2.1 of this report.

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 audit outcomes can be found in Annex II.

1 Audit Opinion on Annual Financial Statements

We have audited the AFS of the Ministry of Public Administration (MPA) 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.

1. Unmodified Opinion with Emphasis of Matter

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.

Emphasis of Matter

We would like to draw your attention to the following issues:

1. *Compensation of salaries without work attendance*

According to decision no. 06/39, dated 22.07.2015, the Government of Kosovo approved the agreed conclusions for the Dissolution of the so-called "Civil Protection" which operated in the northern municipalities of Kosovo, and supports the commitments set out in these conclusions. Through this decision, the relevant ministries and agencies are obliged to implement the conclusions according to legal responsibility. MPA was obliged to systemise 20 employees of the Serb community. In 2019, the above-mentioned officials did not show up at the workplace, while the ministry paid their salaries for 2019 in the total amount of €100,582.

The reason for the non-appearance of these officials was the lack of proper working conditions, poor control and non-monitoring by the ministry's management.

2. *Prepayment for electricity expenses*

According to the LPFMA and Treasury rule 01/2013, spending of public funds should not be done before the receipt of goods/services. The ministry made the payment for electricity expenses in the amount of €111,501 in December, without receiving an expense invoice for the paid period.

Payment was made based on the November invoice. According to the ministry, this happened in order to execute the budget and that the expenditure was calculated based on the previous month, while the difference in value was paid in January 2020.

Responsibility of Management for AFS

The Secretary General of the Ministry of Public Administration 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.

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

Recommendations related to Annual Financial Statements

Recommendation B1 ²The minister should consider the reasons for the non-attendance of these workers, resolve the problem of their regular employment, or on the contrary, should stop the payment of their irregular salaries. Due to the complexity of this problem, the minister is recommended to address the issue of these payments to the Government.

Recommendation A1 The minister should ensure that payments are not made before receiving the service and the invoice; the same should be in accordance with LPFMA and Treasury rule 01/2013 for the execution of payments.

² Issue A and Recommendation A – means issues and new recommendations
Issue B and Recommendation B – means issues and recommendations repeated
Issue C and Recommendation C – means issues and recommendations partially repeated.

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

MPA spent 95.3% of the final budget for 2019, indicating a good performance at the overall level.

The ministry makes efforts to eliminate the weaknesses it constantly faces for consistent implementation of statutory rules and obligations, but despite this, the controls within the ministry do not function at a satisfactory level and are described with shortcomings in the spending of funds from the category of capital investments, goods and services as well as asset management.

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 ³	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Sources of Funds	28,864,620	31,015,873	29,559,141	95%	20,818,378	19,597,632
Government Grant - Budget	22,902,666	22,834,387	21,779,573	95%	20,797,772	19,580,107
PAK Revenues	5,944,348	8,158,335	7,763,354	95%	-	-
External Donations	17,606	23,151	16,214	70%	20,606	17,525

The final budget is higher than the initial budget by €2,151,253. This increase is a result of Government decisions for the payment of Microsoft licenses.

In 2019, the ministry spent 95% of the final budget or €29,559,141, compared to 2018, where 99% of the final budget was spent. The budget execution remains at a satisfactory level and explanations for the current position are detailed below.

³ Final budget - the budget approved by the Assembly subsequently adjusted by the Ministry of Finance.

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	28,864,620	31,015,873	29,559,141	95%	20,818,378	19,597,632
Wages and Salaries	2,172,960	2,220,876	2,220,876	100%	2,154,231	2,063,194
Goods and Services	6,862,352	10,470,503	9,771,291	93%	6,154,265	6,538,365
Utilities	2,949,600	2,459,600	2,325,377	95%	2,261,115	2,470,035
Capital Investments	16,879,708	15,864,894	15,241,597	96%	10,248,767	8,526,038

Explanations for changes in budget categories made by Government decisions are given below:

- In the category of Wages and Salaries, the final budget compared to the initial budget was increased by €47,916, for the payment of salaries of employees recruited during the year and after increasing the number of deputy ministers and their accompanying staff in the Minister's Cabinet;
- In the category of Goods and Services there was an increase in the final budget by €3,608,151 for the payment of Microsoft licenses;
- In the category of Utilities there was a decrease of the final budget by €490,000, of which €140,000 were transferred to goods and services; and
- In the category of Capital investments, there was a decrease of the final budget by €1,014,814.

2.1.1 Revenues

The ministry does not plan regular budget revenues. However, during 2019, revenues were generated in the amount of €127,050, which were from the sale of assets according to the public auction.

We have no recommendations in this area.

2.1.2 Wages and Salaries

The final budget for Wages and Salaries is €2,220,876, which has been spent in full. The number of employees by budget was 277, whereas by the end of the year the number of employees was 272. We have tested 21 samples of €12,839 as part of substantive testing, and eight (8) samples as part of compliance testing.

The issue identified for the non-attendance of staff at the workplace is addressed in the opinion section as an Emphasis of Matter in Chapter 1 of this report.

2.1.3 Goods and Services

The final budget for Goods and Services, including Utilities, in 2019 was €12,691,379, of which €11,992,166 was spent. They mainly deal with the supply of Microsoft licenses, electricity costs for 53 government facilities, water supply for 54 institutions, supplies of consumables, contracting services, IT equipment, district heating for 17 institutions, etc. We have tested 63 samples of €3,541,737 as part of substantive testing, and 11 samples as part of compliance testing.

Issue B2 - Special Service Agreements longer than six months and without simplified recruitment procedures

Finding According to Article 12 of the Law on Civil Service no. 03/L-149 and Article 10 of the Labour Law no. 03/L 212, budget organizations can hire fixed-term employees under “Special Services Agreement” contracts for less than six months.

The ministry has continued to engage employees with special service agreements not in accordance with legal requirements. We have identified that no recruitment procedures have been developed for employees for specific services at the time of their engagement.

During 2019, 50 officials were engaged with special service agreements, 21 of whom are over six months old, while five (5) of them have been engaged since 2017. In some case has the ministry implemented the simplified recruitment procedure. For current year employees, there is no evidence to confirm that the requesting units have filed a request on the need to engage these officers. Their engagement is not about experts in a certain field, but it is to cover regular positions. The need for additional staff and negligence to fill the vacancies approved by the budget has caused to extend these contracts.

Impact Engaging employees with special service agreements for regular positions, without procedures and in the absence of transparency increases the risk of filling positions with incompetent staff who do not have the necessary education and experience to perform their duties.

Recommendation B2 The minister should take action to ensure that the engagement of officials with special service agreements/employment contracts for specific tasks is done only in specific cases when a certain project or work cannot be performed with the current staff within the institution, and their engagement is done through a transparent process and in accordance with legal requirements.

Issue A2 – Delays in closing advances

Finding According to the procedure for registration of advances in KFMIS for official travel, the beneficiary of the advance for official travel is obliged to justify the advance no later than two weeks after returning from the official trip. We have noticed that at the end of the year, there were three unpaid advances in the amount of €484, two of which were related to the credit card of the minister and an advance for official travel. Advances were withdrawn in April, May and June for trips to France, Albania and Turkey.

This happened according to the ministry due to the modification of the module in Treasury.

Impact Exceeding the legal deadline for closing the advance and the failure of users of advance to justify the invoices increase the risk of non-return of surplus funds and using those funds for informal purposes.

Recommendation A2 The minister should establish controls regarding the management of advances for official travel, so that each user of the advance should close them, as required under the procedures.

Issue A3 – Lack of supply request

Finding According to the financial rule 01/2013 for the public funds expenditure, Article 25, para 1.1, the certification of the payment must be done after possessing the request for purchase from the requesting unit. In the payment in €1,921 for supply of outdoor flowers for the Ministry of Defence, we have not noticed a request for supply from the ministry. The acceptance commission consisted only of the MPA, not including any official of the supplied unit. This occurred due to inadequate controls and insufficient oversight in contract management.

Impact Performing supply services without request from the requesting unit may lead to the performance of unnecessary expenses for the ministry.

Recommendation A3 The minister should ensure that no supplies are made and no payments are processed for which no requests are made by the ministries, which are provided for by the contract for flower supplies for outdoor environments in the buildings.

Issue A4 – Signing supply certificate by the contract manager after making the payment

Finding According to the financial rule 01/2013 on Public Funds Expenditures, Article 25, para 1.4 the payment must be made if all levels of internal financial control have been applied.

Upon the contract “Supply with electrical material” in the amount of €14,491, the contract manager certified the payment on 13.09.2019, while the payment was executed on 26.08.2019. This issue has not been noticed in other levels of payment processing.

According to the ministry, this happened due to a technical error, however, it is noticed that the level of control during the payment processing was followed with uncertainty.

Impact Making payments with incomplete documentation may result in non-performance of contracts under its terms.

Recommendation A4 The minister should ensure that when costs are incurred, the contract manager and the certification officer apply effective controls in the process of spending public money to ensure that payments are made only for timely deliveries.

2.1.4 Capital Investments

The final budget for Capital Investments was €15,864,894, of which €15,241,597 was spent in 2019. They are related to the construction of educational buildings, administrative buildings and information technology equipment (software and hardware), etc. We have tested 95 samples of €10,055,501 as part of substantive testing, and five (5) samples as part of compliance testing.

Issue B3 – Classification of expenditures in inadequate categories

Finding According to the Law on Budget of the Republic of Kosovo No. 06-L-133 management of public finances and accountabilities specifies that expenditures should occur from adequate economic categories. Upon analysing payments according to economic codes, we found that payments were not made from adequate economic codes. Payments have resulted in errors due to incorrect classification since the approval phase of the Law on Budget Appropriations and direct payment by court decisions.

Expenditures were paid from the category of capital investments for "Interoperability Platform" €124,344, and for "Support for the implementation of public administration reform" €314,640, which by nature belonged to the category of goods and services.

Impact

Payments made from the wrong category may result in misleading representation of expenditure, by understating one category and overstating the other category of expenditure, resulting in inaccurate presentation of the balance sheet.

Recommendation B3 The minister should ensure that all necessary actions are taken to plan expenditures in adequate budget allocations (or to reallocate funds according to legal requirements), and payments and expenditure recording is done strictly according to adequate economic codes.

Issue A5 - Signing of contracts for construction without prior application for a construction permit**Finding**

According to the Rules and Operational Guidelines for Public Procurement, Article 20. Technical Specifications, para 20.10- for works contracts shall be prepared in full compliance with the specific legislation in force in the Republic of Kosovo as well as, where required, the rules laid down in the administrative certificates and permission(s) required for the works to be executed. According to the Law on Construction no. 04/L-110, Article 20 the request for issuance of construction permit, para 3, the copy of the plan and the certificate of ownership of the applicant are attached to the request for the construction permit, as certified by the competent bodies.

In the project "Construction of the building of the University of Mitrovica - Phase III", in the amount of €7,297,020, the contract was signed on 22.04.2016. However, due to additional works (amphitheatre annex) the deadline for completion of works was extended for another 75 working days through two annex contracts, because the MPA has developed procurement procedures and signed a contract in the absence of completing the documentation (without receiving consent of the location by the relevant municipal authorities). This happened because the place where the amphitheatre was to be built, part of the land plot was a plot of the Municipality of Mitrovica and the other part was owned by MESP. Because of these obstacles, the MPA was allowed to build the amphitheatre on 19.02.2020. The project manager has made a recommendation after obtaining permission for the amphitheatre to work on a new dynamic plan for which the project manager has recommended to make an annex contract and extend the deadline.

In the project “Wastewater Treatment Plant” (WwTP) in the amount of €599,304, signed on 13.09.2019, the dynamic plan, according to the Special Conditions of the Contract, had to be completed 36 months from the day of signing the contract, while according to contract management plan, the calculation of working days will be done upon obtaining a construction permit. Failure to possess a construction permit has prevented the commencement of works immediately after signing the contract. MPA applied for a construction permit on 29.10.2019, while the decision by the Municipality of Prishtina to allow the development of works was made on 23.12.2019. The amount of €89,895 was paid in advance for the project in question on 20.09.2019 according to the terms of the contract.

According to the MPA, the reason for not completing the works was the non-initial design in accordance with the real needs of the MPA. This was because MEST and MPA have signed a Memorandum of Understanding in previous years for the transfer of funds and capital projects for the construction and renovation of various facilities (educational and training facilities). In this case, the MPA’s competence was only to manage the construction of facilities and conduct tender procedures.

Impact

Lack of proper planning for construction projects increases the risk that projects will need additional funding and will not be implemented as planned. Delays in the implementation of capital projects have an impact on the work dynamics and may be subject to stagnation by the economic operator.

Recommendation A5 The minister should ensure that attention is paid to the specification of requirements when initiating procurement procedures for new construction projects, while planning of facilities is done taking into account all the elements that make up the facility as a functional entirety. This would help having no delays in the implementation of projects and having no need for additional funds.

2.1.5 Common Issues on Goods and Services and Capital Investments

The following common issues relate to Goods and Services, and Capital Investments:

Issue B4 - Additional expenses from payments by court decisions

Finding According to the legal provisions of Article 39, paragraph 1 of the LPFMA, late payment liabilities of the budget organization is considered the invoice, which is not paid 30 days after receipt by the organization.

From the category of capital investments based on the enforcement order for execution no. 440/19, dated 20.06.2019, the Treasury executed the payment in the amount of €1,273,660 (the value of the principal debt is €936,700 and the value of interest and enforcement costs is €336,960). Payment was made by the capital project "Construction of TAK facility".

From the category of goods and services, three (3) payments were made in the amount of €5,491 with court decisions. These payments have also resulted in additional court costs due to non-timely execution of these payments. Out of this payment, the amount of €3,994 was paid for legal interest, costs of the procedure and for the efficiency of the enforcement agent office.

This happened because the ministry refused to recognize the payment, alleging that the debtor's claim regarding the verification of the factual situation in the absence of evidence for the performance of additional work does not hold.

Impact The execution of such payments has budgetary implications and increases the risk that the initial projects will not be implemented, settling the obligations through direct payments or enforcement procedures beyond the planned expenditures.

Recommendation B4 The minister should ensure that outstanding liabilities are treated as a matter of priority upon budget planning, and should strengthen financial discipline and pay all liabilities on time.

2.2 Capital and non-capital assets

The amount of capital assets presented in AFS is €51,397,772 that of non-capital assets is €304,250, and of stock is €537,111. We have tested 100 samples of €12,120,880 as part of substantive testing, and four (4) samples as part of compliance testing.

Issue A6 – Shortcoming in the inventory report

Finding Regulation no. 02/2013, Article 4.7, provides for the drafting of the general report based on the individual reports of the Commission for Inventory of Non-Financial Assets at the appropriate time before preparing the annual financial statements. The inventory report should contain the physical condition of the non-financial assets, the conditions of their storage and the examination of the differences between the accounting balance and the ascertained damages. According to Article 19, the Commission for the Inventory of Non-Financial Assets will be a temporary body formed by the Chief Administrative Officer.

The inventory report was not completed on time; the value of the equipment was missing, making the AFS not to have a real stock value. This happened due to the non-functioning of e-assets system and due to the failure to take appropriate actions to improving their management.

Impact Failure to update the asset register, alienate and record them increase the risk that assets are misused, lost while the assets of the organization reflected in the AFS are overstated/understated. The ministry will not have a control over its current situation. This hampers an effective asset management and control.

Recommendation A6 The minister should ensure that the members of the asset inventory and evaluation commission are appointed the competent and professional officers who would enable full inventory, in accordance with legal requirements and accurate presentation of assets in the AFS.

2.3 Liabilities

2.3.1 Outstanding liabilities

According to AFS, the statement of liabilities at the end of 2019 was €2,653. These liabilities are carried forward to be paid in 2020.

Issue B5 – Delays in paying liabilities

Finding According to the LPFMA, Article 39 requires that each valid invoice and demand for payment for goods and services, services supplied and/or work performed for the organization shall be paid within 30 calendar days after receipt of the invoice.

An invoice was paid from goods and services for the use of frequencies for the needs of the state network of Kosovo by RAEPC in the amount of €173,290, which belonged to the previous periods 2010-2019. These expenses/liabilities were not reported as such, due to the rejection of the ministry to recognize the expenses.

A selected sample which was presented as an outstanding liability in the AFS in the amount of €502 has not yet been paid, even during the audit period (June 2020), exceeding the legal deadline for payment of the invoice. This payment was not made due to not giving priority to the remaining invoices from previous months.

The reason for non-payment by RAEPC is because that the use of frequencies is done for the needs of the state network of Kosovo, while MPA has not recognised it as a debt and has constantly asked to be exempted from payment and not to be invoiced.

Impact Non-payment of liabilities within the legal deadline increases the possibility for suppliers to address the enforcement agents and courts, which incur additional costs for the ministry's budget. On the other hand, non-reporting of outstanding liabilities does not provide a fair reflection of liabilities in the AFS.

Recommendation B5 The minister should ensure the establishment of an effective system in which all outstanding invoices are processed on time for payment so that the value of outstanding liabilities at the end of the year (except for those that are not overdue) is avoided. There should also be fair reporting of liabilities in financial reporting.

2.3.2 Contingent liabilities

The value of contingent liabilities in the 2019 AFS was €3,713,074, which are related to lawsuits filed against the ministry for payments contested by the ministry, and the same are in court proceedings.

During our testing, we have identified:

Issue B6 – High level of contingent liabilities

Finding Article 46, para b. of Law no. 03/L-048 on Management of Public Finances and Accountabilities (as amended and supplemented) sets out an assessment of all contingent liabilities, including an assessment of their risk. During 2019, the ministry declared contingent liabilities in the AFS, in the amount of €3,713,074, while according to the records provided by the legal office, they are €3,957,585. The ministry has not developed any policy or strategy for risk assessment of these liabilities. This occurred due to the negligence of management to take action regarding the efficient management of contingent liabilities.

Impact The lack of risk assessment for the treatment of contingent liabilities increases the possibility of their conversion into factual liabilities that would cause budgetary difficulties at the levels of activities and projects for the ministry.

Recommendation B6 The minister should ensure that a risk assessment is done for contingent liabilities for the purpose of better financial planning and possible cash outflow during the budget year, so as not to risk the day-to-day activities of the ministry by unexpected court judgements.

2.3.3 Contractual obligations

The value of contractual obligations in MPA at the end of 2019 is €39,279,733. These liabilities are related to contracts which have been budgeted and concluded for a period longer than one year (framework contracts) and for which the liabilities are carried forward for payment in subsequent years upon the occurrence of supplies or services.

2.4 Internal audit function

The Internal Audit Unit (IAU) operates with two staff members, the head of audit and one auditor. According to the head of audit, this structure with this composition is considered sufficient to meet the objectives and audit planning for the following year .

The IAU has prepared the annual audit plan and the strategic plan 2019-2021. The audit focus was on 2019. For 2019, seven (7) audit reports have been planned and performed.

MPA has established the audit committee, and four working meetings were held during 2019.

An effective audit requires a comprehensive work programme that reflects the audited entity's financial and other risks and provides sufficient assurance on the effectiveness of internal control. The impact of Internal Audit reports should be judged by the importance that management places

on addressing the recommendations as well as the support provided by an Effective Audit Committee.

The main audit areas covered during this year are: vehicle management, asset management, procurement, budget management and expenditure.

Issue A7 - Low implementation of internal audit recommendations

Finding According to the Law on Public Finance Internal Control, the CAO, among others, should take action to improve the systems in accordance with the recommendations of the internal audit. During 2019, 38 recommendations were made and only 15 of them were implemented, 10 were in process and 13 were not addressed at all. The reason for the non-implementation of recommendations at the required level is that there was no formal monitoring of the recommendations by the management.

Impact Failure to fully address IAU recommendations increases the risk of repetition of identified errors and shortcomings in the functioning of internal controls.

Recommendation A7 The minister should increase the responsibility on all management levels of the ministry that the recommendations arising from the audit are handled with maximum care.

3 Progress in Implementing Recommendations

Our Audit Report on the 2018 AFS of Ministry of Public Administration resulted in 12 key recommendations. The Ministry prepared an Action Plan stating how all recommendations will be implemented.

BO submitted the Progress report on implementation of recommendations by 30th of September, but not also by 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, five (5) recommendations have been implemented, and seven (7) have not been implemented yet. For a more thorough description of the recommendations and the way they have been addressed, see Table 4 (or Table of recommendations).

Table 4 Summary of prior year recommendations and of 2019

No	Audit area	Recommendations of 2018	Actions undertaken	Status
1	AFS	Recommendation A1 The Minister should look into the reasons of these employees not attending work, to resolve the issue by engaging them regularly at work, or on the contrary, halt irregular payments of their wages. It is also necessary to analyse the need of paying rent for the buildings that are not currently ready for use. Due to complexity of this problem, the Minister is recommended to address the abovementioned issue of payments in the Government as well.	No action has been taken.	Recommendation unimplemented
2	AFS	Recommendation B1 The Minister should ensure increased attention when drafting the budget by classifying expenditure in accordance with chart of accounts approved by MoF-Treasury and administrative instruction 05/2018 on economic classification of expenditures.	No action has been taken.	Recommendation unimplemented
3	AFS	Recommendation A2 The Minister should ensure an adequate and systematic functioning of controls related to completeness of asset registers and ensuring that the Annual Financial Statements are	Appropriate actions have been taken to complete the asset registers.	Recommendation implemented

		subject to rigorous review and assessment by the Chief Administrative Officer and Chief Financial Officer, before the declaration is signed and AFS submitted to the Ministry of Finance.		
4	Goods and Services	Recommendation A3 The Minister should take action to ensure that hiring staff with special service agreements/employment contracts for specific tasks is done only in specific cases, when a particular project or task cannot be completed with the current staff of the institution, and the process of hiring them should be transparent and in compliance with legal requirements.	No action has been taken.	Recommendation unimplemented
5	Goods and Services	Recommendation B2 The Minister should ensure that outstanding liabilities are treated with priority when planning the budget, as well as strengthen financial discipline and pay all the invoices in timely manner.	No action has been taken.	Recommendation unimplemented
6	Capital Investments	Recommendation A4 The Minister should ensure proper planning of capital projects for all years, and sufficient budget for each contract to financing contractual obligations.	Management was assured to have sufficient budget before concluding contracts.	Recommendation implemented
7	Capital Investments	Recommendation A5 The Minister should increase controls over managing the expenditures for capital projects and ensure proper justification of advances in accordance with contractual requirements.	Contracts are signed in accordance with budget allocations.	Recommendation implemented
8	Capital Investments	Recommendation C1 The Minister should strengthen responsibility and accountability measures of the officials in charge for approval of requests for advance payments.	Advances have not exceeded the permitted value by the budget law.	Recommendation implemented
9	Assets	Recommendation B3 The Minister should clarify the regulatory requirements, issue internal guideline on inventorying of non-financial assets and train the relevant staff to implement consistently	No action has been taken.	Recommendation unimplemented

		requirements of the regulation on assets.		
10	Liabilities	Recommendation B4 The Minister should ensure that budget expenditures are in line with budget limits and on this basis to plan the budget and enter into contracting liabilities.	No action has been taken.	Recommendation unimplemented
11	Contingent Liabilities	Recommendation B5 The Minister should ensure risk assessment for contingent liabilities with a purpose of better financial planning, and possible cash outflows during the budget year, in order to avoid compromising of daily activities of the Ministry by unexpected court rulings.	No action has been taken.	Recommendation unimplemented
12	IAU	Recommendation C2 The Minister should ensure that the purpose of audit scope of actual year is to, timely eliminate shortcomings in the systems, and not after the events occurred, take measures to address the recommendations given by the IAU, and hold the Audit Committee responsible for a supervisory role.	The IA focus was on the current year.	Recommendation implemented
No	Audit area	Recommendations of 2019		
1	AFS	The minister should consider the reasons for the non-attendance of these workers, resolve the problem of their regular employment, or on the contrary, should stop the payment of their irregular salaries. Due to the complexity of this problem, the minister is recommended to address the issue of these payments to the Government.		
2	AFS	The minister should ensure that payments are not made before receiving the service and the invoice; the same should be in accordance with LPFMA and Treasury rule 01/2013 for the execution of payments.		
3	Goods and Services	The minister should take action to ensure that the engagement of officials with special service agreements/employment contracts for specific tasks is done only in specific cases when a certain project or work cannot be performed with the current staff within the institution, and their engagement is done through a transparent process and in accordance with legal requirements.		
4	Goods and Services	The minister should establish controls regarding the management of advances for official travel, so that each user of the advance should close		

		them, as required under the procedures.
5	Goods and Services	The minister should ensure that no supplies are made and no payments are processed for which no requests are made by the ministries, which are provided for by the contract for flower supplies for outdoor environments in the buildings.
6	Goods and Services	The minister should ensure that when costs are incurred, the contract manager and the certification officer apply effective controls in the process of spending public money to ensure that payments are made only for timely deliveries.
7	Capital Investments	The minister should ensure that all necessary actions are taken to plan expenditures in adequate budget allocations (or to reallocate funds according to legal requirements), and payments and expenditure recording is done strictly according to adequate economic codes.
8	Capital Investments	The minister should ensure that attention is paid to the specification of requirements when initiating procurement procedures for new construction projects, while planning of facilities is done taking into account all the elements that make up the facility as a functional entirety. This would help having no delays in the implementation of projects and having no need for additional funds.
9	Common Issues on Goods and Services, and Capital Investments	The minister should ensure that outstanding liabilities are treated as a matter of priority upon budget planning, and should strengthen financial discipline and pay all liabilities on time.
10	Assets	The minister should ensure that the members of the asset inventory and evaluation commission are appointed the competent and professional officers who would enable full inventory, in accordance with legal requirements and accurate presentation of assets in the AFS.
11	Outstanding Liabilities	The minister should ensure the establishment of an effective system in which all outstanding invoices are processed on time for payment so that the value of outstanding liabilities at the end of the year (except for those that are not overdue) is avoided. There should also be fair reporting of liabilities in financial reporting.
12	Contingent Liabilities	The minister should ensure that a risk assessment is done for contingent liabilities for the purpose of better financial planning and possible cash outflow during the budget year, so as not to risk the day-to-day activities of the ministry by unexpected court judgements.
13	Internal Audit	The minister should increase the responsibility on all management levels of the ministry that the recommendations arising from the audit are handled with maximum care.

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

Annex I: Explanation of the Different Types of Opinion Applied by NAO

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

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

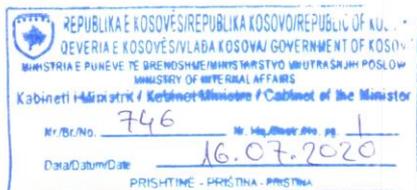
157. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not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

158. An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading "Emphasis of Matter" or another appropriate heading;
- include a clear reference to the matter being 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



REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA/ REPUBLIC OF KOSOVA

QEVERIA / VLADA / GOVERNMENT

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

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm 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 Raportit/Pasqyrave Financiare të **Ministrit së Administratës Publike** 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 zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Agim Veliu

Ministër i Punëve të Brendshme

16 korrik 2020, Prishtinë

Faqe 1 nga 1

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