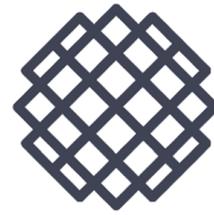




Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

**AUDIT REPORT ON THE ANNUAL FINANCIAL
STATEMENTS OF THE MINISTRY OF HEALTH FOR THE YEAR
2019**

Prishtina, July 2020

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control, which for its work is accountable to the Assembly of the Republic 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 Health in consultation with the Assistant Auditor General Emine Fazliu, who supervised the audit.

The report issued is a result of the audit carried out by Alban Beka - Team Leader, and Neslihane Mati and Arnisa Aliu - team members, under the management of the Head of Audit Department Faruk Rrahmani.

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Executive Summary

This report summarises the key issues arising from our audit of the Ministry of Health 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 are prepared in accordance with the requirements of the financial reporting framework with the exception of misclassification of expenditures and shortcomings in the disclosure of information regarding assets, accounts receivable and contingent liabilities.

The Ministry of Health has established a financial management and control system, but additional actions are still needed to improve revenue and expenditure management. The weakness in revenue management was the acceptance of cash receipts beyond the limit allowed by the financial rules and their late deposit in the bank.

Expenditure management processes were followed with many shortcomings. The most significant shortcomings were in the , tender evaluation and contract management. Assets, receivables and liabilities were not properly reported.

Implementation of recommendations remains a challenge to be addressed in the future in budget execution, asset management and accurate reporting of accounts receivable.

Opinion of the Auditor General¹

Unmodified Opinion with Emphasis of Matter

For more details, see Chapter 1 of this report.

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

Management's Response on 2019 audit

The Management of Ministry of Health 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.

Audit Scope and Methodology

The Audit involves examination and evaluation of Financial Statements and other financial records of the Ministry of Health (MoH) 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 MoH'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.

1 Audit Opinion on Annual Financial Statements

We have audited the AFS of the Ministry of Health 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 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 fact that, through court decisions and budget planning, the ministry paid and recorded expenditures in the amount of €299,894 from inadequate economic categories. In this report, this issue is addressed in subchapter 2.1 Budget Planning and Execution. Our opinion has not been modified on this matter.

Responsibility of Management for AFS

The Secretary General of the Ministry of Health 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 of Health 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 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 of Health spent 64% of the final budget for 2019, which means an unsatisfactory budget execution at the general level. The low level of budget spending has prevented the achievement of the objectives set for the strengthening of health capacities and consequently has affected the quality and provision of services to citizens.

In the context of financial systems, controls over revenues are generally appropriate with the exception of deviations in the receipt of payments over €10 at the cash register and delays in depositing them in the bank, which was contrary to financial rules, while controls established in the area of expenditures require further improvement and additional action.

Areas with the most significant problems in expenditures were financial management related to inadequate classification of expenditures and poor budget execution, contract management including delays in tender evaluation and the payment level of court decisions that have increased costs compared with the principal debt.

In addition, asset management was not at the required level, as assets were not recorded as required by the relevant rules and there were shortcomings in the presentation of accounts receivable and contingent liabilities.

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 €)

Sources of Funds	Initial Budget	Final Budget ²	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Total:	39,863,808	40,979,946	26,153,128	64%	58,559,449	57,567,776
Government Grant - Budget	31,366,871	27,751,165	20,953,471	76%	57,163,507	57,025,126
PAK Revenues	5,768,000	5,593,217	3,260,449	58%	0	0
Financing from Borrowing	2,728,937	6,856,083	1,717,078	25%	952,066	443,041
External Donations	0	779,481	222,130	28%	443,876	99,609

The final budget compared to the initial budget was increased by €1,116,138. This increase is a result of the increase of the budget through financing from borrowing and donations; on the other hand, there was a decrease from the Government grant and PAK revenues by Government decision no. 03/115 as a result of not spending the budget.

The change of the budget compared to last year was as a result of the reform of the health sector where some responsibilities have been transferred from the MoH to Hospital and University Clinical Service of Kosovo (HUCSK), such as the management of the essential list of drugs with effect in the category of goods and services. In addition, the Health Insurance Fund has been established since 2019 as an independent budget organization.

In 2019, the MoH spent 64% of the final budget or €26,153,128, with a decline of 28% compared to 2018. However, budget execution remains at an unsatisfactory level and below are the explanations for the current position.

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

Economic categories	Initial Budget	Final Budget	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Total	39,863,808	40,979,946	26,153,128	64%	58,559,449	57,567,776
Wages and Salaries	7,770,389	7,443,318	7,436,352	100%	8,050,649	8,313,972
Goods and Services	16,064,266	19,897,701	10,175,832	51%	34,337,305	29,506,459
Utilities	227,348	227,348	157,332	69%	155,407	183,802
Subsidies and Transfers	2,313,805	2,313,805	1,929,033	83%	11,016,744	14,350,049
Capital Investments	13,488,000	11,097,774	6,454,579	58%	4,999,344	5,213,494

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

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries compared to the initial budget was decreased by €327,071. The changes occurred as a result of the increase of the budget from external donations by €37,956, while with the Government decision as budget savings, the budget was decreased by €365,027;
- The final budget for Goods and Services compared to the initial budget was increased by €3,833,435. The changes occurred as a result of the increase of the budget from the financing from borrowing for the project “Kosovo Health” in the amount of €4,127,146, external donations by €638,795, while with the Government decision as budget savings, the budget was decreased by €932,506; and
- The final budget for Capital Investments compared to the initial budget was decreased by €2,390,227. With the Government decision as budget savings, the budget was decreased by €2,492,957, while from external donations there was an increase of the budget by €102,730.

Issue A1 – Inadequate classification of expenditures**Finding**

According to Article 18 para 3 of Financial Rule no. 01/2013, the expenses must be in adequate codes, determined by the chart of accounts. Article 11 of AI 19/2009 on the chart of accounts requires the CAO and CFO must ensure that all transactions are recorded in KFMIS according to the structure of the chart of accounts and classifications defined by this AI.

As we have highlighted in the Emphasis of Matter, in 2019, MoH through budget planning and court decisions, paid and recorded expenses in the amount of €299,894 in inadequate economic categories, as follows:

- Payment in the amount of €189,020³ for the functionalization of the Health Information System (HIS) was made by the Treasury based on the court decision from the category of goods and services, but by nature these expenses belong to the category of capital investments;
- Payments in the amount of €31,055⁴ for compensation of medical treatment abroad were made by the Treasury based on court decisions from the category of goods and services, but by nature these expenses belong to the category of subsidies. The Ministry informed the Treasury that two payments for medical treatments had to be paid by the Health Insurance Fund, but since according to the enforcement order the debtor was the Ministry of Health the payments were made from the budget of the MoH;
- Payments in the amount of €24,158⁵ for the compensation of jubilee salaries were made from the category of goods and services, but by nature these expenses belonged to the category of wages and salaries; and
- Payments in the amount of €55,661 for servicing of medical equipment were budgeted and paid from the category of capital investments, although these expenses by nature belong to the category of goods and services.

³ The payment is related to the contract "Functionalization of HIS, VOIP & HPRO Card Management System"

⁴ Payments with expenditure coupons: 181250; 139633 and 191243

⁵ Payments in the amount of €9,508 were made by a court decision from the Treasury, while payments in the amount of €14,650 were made according to Article 39.2 by the Treasury.

According to ministry officials, payments by court decisions were executed directly by the treasury and there were cases where funds were taken from the ministry, without notification by the Treasury. During the year, the ministry has not taken measures for reallocation of funds according to law. While payments for servicing equipment according to ministry officials were a consequence of the limited budget for goods and services, which were necessary.

Impact

Incorrect reporting or classification of data in the financial statements leads to misunderstanding of the financial activities of the ministry, by overstating/understating the relevant economic categories.

Recommendation A1 The minister should ensure that the necessary actions are taken so that expenditures are planned in the appropriate budget allocations (or reallocation of funds is done according to legal requirements) and the payment and recording of expenditures is done according to adequate economic categories, to enable their fair reporting to the AFS in accordance with the chart of accounts. An effective co-operation with the Minister of Finance would facilitate finding solutions, in order to avoid these deviations.

2.1.1 Revenues

Revenues generated were in the amount of €4,868,318. The Ministry of Health collects revenues from the following services: fines from inspectorate, licenses for individual and free activities, licenses for medicinal products, sale of services, participations, banderols and sanitary inspection. The ministry does not have an agreement on the use of revenues generated, but all receipts are deposited to the Kosovo budget.

Table 3. Revenues (in €)

Description	Initial Budget	Final Budget	2019 Receipts	% of 2019 Receipts	2018 Receipts	2017 Receipts
Revenues	4,282,200	4,282,200	4,868,318	114%	4,717,275	4,614,915

Issue A2 – Collection of revenues over €10 in cash**Finding**

Article 11.1 of Financial Rule 03/2010 on revenues, stipulates that all payments for services in the amount of over €10 must be made through commercial banks/licensed non-bank financial institutions. Article 11.2 stipulates that at the end of the day the money collected within the BOs' cash registers must be deposited in the bank. We found that:

- In NIPHK Prishtinë - 15⁶ payments were collected through the cash register even though the value of the payment was over €10. Deposit of revenues in the bank was done after five (5) days;
- In NIPHK Gjilan - 25⁷ payments were collected through the cash register even though the value of the payment was over €10. Deposit of revenues in the bank was done after three (3) days;
- In NIPHK Prizren - 19⁸ payments were collected through the cash register even though the value of the payment was over €10. Deposit of revenues in the bank was done after four (4) days; and
- In NIPHK Ferizaj - 21⁹ payments were collected through the cash register even though the value of the payment was over €10. Deposit of revenues in the bank was done after two (2) days.

The value of payments received through the cash register mainly was by €15. Cash collection of these revenues occurred because there are no banks or financial institutions inside or near health facilities where payments can be made. The deposit of delayed revenues has occurred due to negligence by the responsible persons.

Impact

Failure to comply with the legal requirements regarding cash collection, and improper handling of the management of the revenue deposition process can cause misuse of cash, and may result in its loss.

Recommendation A2 The minister should ensure through financial managers that the collection of revenues over €10 is carried out through a bank account and their deposit in the bank is done on a daily basis. If this is not possible then the alternative is addressing the Ministry of Finance to change the current regulation.

⁶ Revenues on 16.04.2019 in the value of €2,201, we found that 15 collected payments were over €10

⁷ In the revenues on 10.01. 2019 in the amount of €202 we found 9 payments collected in the amount of over €10 and in the revenues dated 12.04.2019 in the amount of €263 we found 16 payments collected in the amount of over €10

⁸ In the revenues dated 06.06. 2019 in the amount of €353, we found 18 payments collected in the amount of over €10 and in the revenues dated 04.01.2019 in the amount of €22 we found 1 payment collected in the amount of over €10

2.1.2 Wages and Salaries

The final budget for Wages and Salaries was €7,443,318, which was executed at 100%. The number of employees by budget was 1,160, whereas by the end of the year the current number of employees was 864. According to the responsible officials, the reasons for not filling the positions regarding residents¹⁰ (223 vacancies) is the non-advertisement of the competition by the minister, despite the requests, while for other departments, despite the fact that the positions were approved by law, the budget was insufficient for them.

During 2019 there were employed 42 new staff. We have tested 79 samples of €65,591 as part of substantive testing, and 11 samples as part of compliance testing.

2.1.3 Goods and Services, and Utilities

The final budget for Goods and Services in 2019 was €20,125,049 (including the budget for Utilities), of which €10,333,164 was spent. They are mainly related to expenses for the purchase of medicines, maintenance and other expenses. We have tested 77 samples of €5,677,831 as part of substantive testing, and seven (7) samples as part of compliance testing.

⁹ In the revenues dated 07.0.2019 in the amount of €322, we found 21 payments collected in the amount of over €10

¹⁰ In 2020, the ministry advertised a competition for health professionals. 15

Issue A3 – Additional expenses as a result of payments on court/enforcement decisions

Finding

Article 39 of the LPFMA determines that the CFO of a budget organization shall be responsible for ensuring that every valid invoice and demand for payment for goods, services and/or works supplied to the budget organization is paid within thirty (30) calendar days after the budget organization receives such an invoice or demand for payment. While jubilee and accompanying salaries are regulated according to Sectoral Collective Agreement.

From the review of ministry's payments through court decisions, we have identified that as a result of non-payment of liabilities on time for EO and beneficiaries of jubilee salaries, the same through court proceedings exercised their legal rights. The value of court decisions executed by the Treasury was €276,040. Of these, the principal debt was €237,429 while the court procedural (enforcement) costs and interest were €38,611.

The MoH contested the cases handled by the enforcement agents and sent them to the court, but even there the operators won the cases, while in the jubilee and accompanying salaries, according to the ministry officials, the reasons for non-timely payment was lack of budget.

Impact

Payments through court decisions affect the unreasonable increase of the ministry's expenditures, as the ministry will receive in return no goods/services for the part of the expenditures that exceed the principle debt.

Recommendation A3 The minister should ensure that the liabilities arising from the collective agreement are planned/budgeted and paid on time and all received invoices are paid within the deadlines in order to avoid additional costs.

2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €2,313,805, of which €1,929,033 were spent in 2019. Those relate to subsidizing residents and Non-Governmental Organizations. We have tested 21 samples of €79,172 as part of substantive testing, and five (5) samples as part of compliance testing.

2.1.5 Capital Investments

The final budget for Capital Investments was €11,097,774, of which €6,454,579 were spent in 2019. They are related to the construction of health facilities, expansion of infrastructure for HIS, purchase of medical equipment, etc. We have tested 46 samples of €4,460,377 as part of substantive testing, and five samples for compliance tests.

Issue A4 - Amendment of Bill of Quantity for non-framework contracts without the approval by CAO**Finding**

According to Article 61.23 of Rules and Operational Guidelines for Public Procurement, "A contract amendment shall not be issued to the economic operator prior to obtaining approval from the CAO". Where the contract is amended in order to change the initial terms and conditions, the contract amendment will be prepared by the procurement department. Amendment of quantities shall be allowed in framework contracts.

We have noticed that in the non-framework contract "Replacement of emergency room doors and renovation of the Emergency Reception in UCCK" in the amount of €114,217, the quantities executed in some positions were amended, increasing/decreasing the contracted quantity, but without changing the total contract price. Out of 100 positions in the contract, 23 have been amended. Approvals for these changes were not obtained from the CAO but only from the contract manager.

Impact

Amending the contracted bill of quantity without the approval from the CAO highlights contract weaknesses and the controls exercised by senior management.

Recommendation A4 The minister should ensure that contract managers report any deviations from the terms and conditions of the contract justifying these amendments with specific analyses and should obtain prior approval from the procurement office and the CAO.

Issue A5 – Delays in tender evaluation process

Finding

According to Article 41.2 of Rules and Operational Guidelines for Public Procurement, "The procedure for examination, evaluation and comparison of tenders shall be completed by the CA within the shortest possible period of time and no more than 30 days from the opening of the tenders. Only in exceptional and well justified cases, in particular with the contracts of a complex nature, this period may be extended for additional term of 20 days.

In the procurement procedure "Supply of Medical Equipment" which consisted of 32 lots, there was a delay in evaluation by 84¹¹ days since the opening of bids.

According to the members of the tender evaluation commission, the delays occurred due to the complexity of the procedure where for some equipment they have requested additional clarifications from the EO.

Impact

Delays in the tender evaluation, in addition to not complying with the rules, have affected the delays in the contracts and consequently on the postponement of supplies and delivery of services for citizens.

Recommendation A5 The minister should ensure that the bid evaluation is completed within the deadlines defined, enabling supplies to be received on time. In cases involving complex procedures, a larger number of members of the evaluation commission should be formed to accelerate the process.

¹¹ Opening of bids was made on 27.09.2018, while the tender evaluation ended on 21.12.2018

2.1.6 Common Issues on Goods and Services and Capital Investments

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

Issue B1 – Poor implementation of capital projects and supply with goods and services

Finding According to the final budget for 2019, the ministry had funds to implement 26 capital projects in the amount of €11,097,774 and for the supply of goods and services (mostly with medicines) in the amount of €19,897,701. We identified that:

- The level of capital project expenditures was 58% compared to the final budget. Out of 26 planned projects, five of them had no costs, while six projects were implemented from 3 to 40%. The reason for the low level of project implementation was poor project planning and introduction of projects in the budget law, without any proper preliminary analysis of projects. There were also cases when contracts with EO were terminated due to non-performance of works under the contract; and
- The level of expenditures of goods and services was 51% compared to the final budget. From the €10.3 million budget for the purchase of medicines for the primary health¹² level, only €5.4 million was spent. The supply of medicines was not executed as a result of delays in the initiation of procedures, complaints filed to the PRB and delays in signing contracts.

Impact The low level of project implementation and supply of medicines results in inefficient use of available resources and all this affects the failure to achieve the intended objectives and, consequently, the quality and delivery of services to citizens.

Recommendation B1 The minister should address the barriers affecting the low level of budget execution in these categories. Projects should be analysed according to the required standards before initiating the procurement process so that there is no interruption of works, and projects should be implemented according to the dynamic plan. In addition, delays should be eliminated in the supply of medicines, both at the beginning of the procedures and in the signing of contracts.

¹² The Ministry of Health purchases medicines for the primary health, while the HUČSK purchases medicines for the secondary and tertiary health.

2.2 Capital and non-capital assets

The amount of capital assets presented in AFS is €8,851,815, that of non-capital assets is €428,412, and of stock is €2,017,653. We have tested 70 samples of €5,655,823 as part of substantive testing, and samples as part of compliance testing.

We have reviewed whether the record keeping process complies with the requirements of MoF Regulation no. 02/2013 on Management of Non-financial Assets by Budget Organizations, the inventory process and the physical existence of assets. For stocks, we tested samples from the pharmaceutical stock about their registration in the system as well as their management.

Issue B2 - Weaknesses in accounting assets register

Finding Asset management is regulated by Regulation no. 02/2013 on Asset Management (hereinafter Regulation). From our tests and analysis of the asset register, we have verified that the assets of the ministry were overstated by €58,013, while understated by €1,309,372. Detailed information can be seen as follows:

- Three (3) payments in the amount of €1,271,514¹³ were not recorded in the asset register, which is contrary to Article 10 of the Regulation which states that all assets upon receipt must be registered regardless of whether they are paid or partially paid;
- The National Centre for Blood Transfusion (NCBT) has presented assets under €1,000 in the amount of €12,215, while their exact value was €50,073 (with an understatement of €37,858). NCBT because of the technical error has reported only the purchases of 2019. This understatement was also reflected in the ministry's AFS; and
- Kosovo Medicines Agency (KMA) has presented assets under €1,000 in the amount of €121,692, while their exact value was €63,679 (with an overstatement of €58,013). This happened since the same assets were recorded in two registers. This overstatement was also reflected in the ministry's AFS. Assets were also reported without calculating depreciation contrary to para 3 of Article 24 of the Regulation.

¹³ Payment with expenditure coupon 2019-192470 in the amount of €218,894, payment with expenditure coupon of 2019-326,997 in the amount of €695,250 as well as payment of expenditure coupon 2019-326911 in the amount of €357,370.

Impact Lack of accurate and complete asset records and inadequate reporting hampers an effective asset management and control. As a result of these shortcomings, we have overstatement/understatement of assets resulting in their incorrect presentation in the financial statements.

Recommendation B2 The minister should ensure that all units co-operate effectively with asset officers to have a complete and accurate asset register. Errors recorded in the asset register should be corrected so that the value of the assets is real. Adequate training should also be provided for asset officers in order for the competence to be at the appropriate level to avoid all uncertainties faced by asset officers.

2.3 Handling of cash and its equivalents

According to the Treasury records and presentation in the AFS, the balance of open advances in the ministry for official trips for 2019 is €720,038. Since the issue of open advances is under investigation by the competent authorities, we have not addressed this category.

2.4 Receivables

The Ministry of Health has disclosed accounts receivable (A/R) in the AFS, in amount of €612,172, or for € 293,258 more than the previous year. This value consists of A/R presented by NCBTK, NIPH, KMA, Health and Pharmaceutical Inspectorate.

Issue B3 – Shortcomings in reporting and management of accounts receivable

Finding According to Article 16 of Regulation 01/2017 on Annual Financial Reporting “Budget organizations that collect revenues are obliged to keep records of collected revenues and invoiced but uncollected amounts. Receivables are disclosed in the annual financial report in the relevant table by type of revenues”. From the tests and analyses in the registers, we have identified that A/R were overstated by €189,481. The information from agencies was incorrectly transferred to the AFS of the MoH during the consolidation and the details can be seen as follows:

- KMA has declared the value of A/R of €37,633 while the ministry presented €123,000 in the AFS. After analysing the register, we verified that the correct value of A/R of KMA was €26,786;
- NCBT has declared the value of A/R in the amount of €46,733, while the ministry presented the value of €13,200 in the AFS;

- The Health Inspectorate has declared the value of A/R in the amount of €185,400, while the ministry presented the value of €231,700 in the AFS; and
- The Pharmaceutical Inspectorate declared the value of A/R in the amount of €74,500, while the ministry presented the value of €155,000 in the AFS.

The non-presentation of accounts receivable by the units occurred due to technical errors, negligence of officials responsible for the registration, preservation and fair and complete presentation of A/R and frequent changes of responsible officials. Deficiencies have occurred as a result of inefficient controls in this area by the Ministry of Health

Impact

Improper reporting hampers effective management and control over receivables. As a result of these shortcomings, we have over declaration of A/R resulting in their incorrect presentation in the financial statements.

Recommendation B3 The minister should ensure through the finance manager that data consolidation by agencies is subject to a thorough review of data accuracy and errors are prevented in order for the presentation of accounts receivable to be accurate in the AFS.

2.5 Liabilities

2.5.1 Outstanding liabilities

Statement of liabilities at the end of 2019 was €214,896, of them invoices with a payment deadline of less than 30 days €210,128 and €4,768 more than 30 days. Compared to the previous year, we have a significant decrease in liabilities due to the fact that HIF was independent as a BO and the biggest value were liabilities for the treatment of patients abroad. These liabilities are carried forward to be paid in 2020.

Issue C1 - Delays in the payment of invoices

Finding According to Article 37.1 of Financial Rule No. 01/2013 MoF, Public Funds Expenditure, all invoices received by the budget organization must be paid within 30 days.

In four¹⁴ out of the 10 samples tested, there were delays in payments; these delays were up to 70 days beyond the legal deadline.

Based on the report on the work performed received by the contract manager all services are were done according to the contract .

Impact Delays in the execution of payments may make the ministry to be the subject to lawsuits and may incur additional costs. Delays may also be followed by direct payments by the Treasury that reflect the expenditure of funds that are intended for other purposes.

Recommendation C1 The minister should ensure that all invoices are paid within the legal deadline and the ordering of goods, works or services is done only when the ministry provides funds in advance or allocates sufficient budget funds for payment.

¹⁴ Payment in the amount of €1,500 "SERVICE OF MEDICAL EQUIPMENT" was paid with 69 days delay; Payment in the amount of €4,162.96 "MEDICAL EQUIPMENT SERVICE" was paid with 70 days delay; Payment in the amount of €4,306.16 "SERVICE OF MEDICAL APPARATUS" was paid with 68 days delay; and payment in the amount of €27,832.89 "VALIDATION SERVICING" was paid with four (4) days delay.

2.5.2 Contingent liabilities

The statement of contingent liabilities at the end of 2019 disclosed in the AFS were around €1,178,758. From the data analysis, we have identified shortcomings in their presentation.

Issue A6 – Understatement of contingent liabilities

Finding According to Article 3.1.1 of MoF Regulation no. 01/2017 on Annual Financial Reporting, “Contingent liability is an obligation which materializes only after the occurrence of certain events in the future.” The ministry has understated the value of contingent liabilities by €256,497, because the legal office has reported to the CFO only the liabilities of 2019. The chronology of liabilities carried forward from previous years, which were still disputed was not followed. According to the list sent to the ministry by the human resources, there were nine suspended officials, while their possible salaries were not reported in the AFS as contingent liabilities.

Impact Inaccurate and incomplete presentation of liabilities may cause ambiguity among readers and users regarding the content of AFS and economic events that occurred during the year.

Recommendation A6 The minister should ensure through the financial manager that the complete review of data related to contingent liabilities is performed and their presentation in the AFS is in accordance with accurate information.

2.5.3 Contractual obligations

Based on the information provided by the ministry, the contractual liabilities were in the amount of €20,192,409. About 46% are related to long-term projects such as “Construction of Hospital in Ferizaj”, “Expansion of existing infrastructure for HIS”, “Construction of MFMC in Gjilan”. The rest has to do with framework contracts from the category of goods and services.

2.6 Internal audit function

The Internal Audit Unit (IAU) consists of the head and two auditors. The IAU has drafted the annual work plan where 11 audits were planned, which were conducted during the year.

Internal audit reports resulted in a significant number of findings for which 45 recommendations were made. Of these, 24 recommendations have been implemented, seven were in process and 14 have not been implemented yet. The planned audits covered mainly 2018 and 2019 and covered

audits such as contract management, financial support of NGOs, asset management, Kosovo Health project.

The IAU has reported to the CHU-IA, including the implementation of reports, the number of recommendations made and how many of them have been implemented, etc.

During the year, the Audit Committee held five meetings where they issued conclusions and recommendations for improving the IAU system.

3 Progress in Implementing Recommendations

Our Audit Report on the 2018 AFS resulted in nine (9) recommendations. The ministry prepared an Action Plan stating how all recommendations will be implemented.

Ministry of Health submitted the Progress report on implementation of recommendations (September 2019 and March 2020) 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, one (1) was partly addressed, two¹⁵ (2) were not addressed yet and three were considered closed. Three closed recommendations belong to the Health Insurance Fund (HIS) and will be addressed in the HIS audit report. For a more thorough description of the recommendations and the way they have been addressed, see Table 4 (or Table of recommendations).

¹⁵ In the audit report of 2018, in the statements, a recommendation is made that has included assets and A/R. This recommendation is related to recommendation B2 and B3~~25~~25 this report.

Table 4. Summary of prior year recommendations and of 2019

No	Audit area	Recommendations of 2018	Actions undertaken	Status
1	Financial Statements	The Minister should ensure registration of all Capital and non-Capital Assets and reporting of all Accounts Receivable.	Even in 2019 there were assets purchased that were not registered. As for accounts receivable, no action has been taken. See B2 & B3	Recommendation unimplemented
2	Budget Planning and Execution	The Minister should determine a more appropriate activity dynamics, improve controls in the field of contracting, overseeing and executing of projects, to ensure that they are implemented according to the foreseen plan.	No actions have been taken this year either; the budget execution is at a low level. See recommendation B1	Recommendation unimplemented
3	Wages and Salaries	The Minister should undertake all actions to ensure regular attendance at work of these employees by constant monitoring, as set forth by legal acts. If the problem cannot be resolved within the Ministry itself, this issue should be discussed at Government level and come out with proper decisions.	Management has addressed this issue. From the evidence provided, the employees have been signed in the attendance lists for 2019.	Recommendation implemented
4	Goods and Services	The Minister should ensure that the Executive Director of NCBT implements Regulation requirements consistently and establishes commissions for receipt of goods and other non-financial purchased assets on time.	From the testing of payments for 2019, we have confirmed that in all cases, a commission for the receipt of goods has been formed.	Recommendation implemented
5	Goods and Services	The Minister should ensure that the Executive Director of the NCBT is complying with legal requirement and that all	During the tests of this year, we have not	Recommendation unimplemented

		contract managers, upon completion of contracts have produced detailed reports, in line with procurement regulations.	encountered such cases.	
6	Subsidies and Transfers	The Minister should immediately establish a committee to perform reconciliation that will include all private hospitals, and that each fund that is paid to these hospitals and have exceeded actual treating expenditures is returned to the MoH.	This recommendation is for the Health Insurance Fund. As the Fund from 2019 is an organization in its own, the actions taken will be addressed in the 2019 HIF report.	Recommendation closed
7	Subsidies and Transfers	The Minister should establish effective mechanisms to ensure that benefiting parties are complying with obligations on justification of expenditures that are subsidized by the Ministry.	This recommendation is for the Health Insurance Fund. As the Fund from 2019 is an organization in its own, the actions taken will be addressed in the 2019 HIF report.	Recommendation closed
8	Outstanding liabilities	The Minister should ensure that MoH units record and receive invoices through protocol book and that they are registered and processed on time for its payment.	From the tests this year, we have not encountered cases of non-recording, but we have encountered delays in the payment of invoices. See recommendation C1	Recommendation partly implemented
9	Outstanding liabilities	The Minister should ensure that the Executive Board of the MTOPI should take into account the available budgetary funds when approving patient treatment requests and disapprove request that constitute obligations in the following years.	This recommendation is for the Health Insurance Fund. As the Fund from 2019 is an organization in its own, the actions taken will be addressed in the 2019 HIF report.	Recommendation closed

No	Audit area	Recommendations of 2019
1	Budget Planning and Execution	The minister should ensure that the necessary actions are taken so that expenditures are planned in the appropriate budget allocations (or reallocation of funds is done according to legal requirements) and the payment and recording of expenditures is done according to adequate economic categories, to enable their fair reporting to the AFS in accordance with the chart of accounts. An effective co-operation with the Minister of Finance would facilitate finding solutions, in order to avoid these deviations.
2	Revenues	The minister should ensure through financial managers that the collection of revenues over €10 is carried out through a bank account and their deposit in the bank is done on a daily basis. If this is not possible then the alternative is addressing the Ministry of Finance to change the current regulation.
3	Goods and Services	The minister should ensure that the liabilities arising from the collective agreement are planned/budgeted and paid on time and all received invoices are paid within the deadlines in order to avoid additional costs.
4	Capital Investments	The minister should ensure that contract managers report any deviations from the terms and conditions of the contract justifying these amendments with specific analyses and should obtain prior approval from the procurement office and the CAO.
5	Capital Investments	The minister should ensure that the bid evaluation is completed within the deadlines defined, enabling supplies to be received on time. In cases involving complex procedures, a larger number of members of the evaluation commission should be formed to accelerate the process.
6	Common Issues on Goods and Services, and Capital Investments	The minister should address the barriers affecting the low level of budget execution in these categories. Projects should be analysed according to the required standards before initiating the procurement process so that there is no interruption of works, and projects should be implemented according to the dynamic plan. In addition, delays should be eliminated in the supply of medicines, both at the beginning of the procedures and in the signing of contracts.
7	Capital and Non-capital Assets	The minister should ensure that all units co-operate effectively with asset officers to have a complete and accurate asset register. Errors recorded in the asset register should be corrected so that the value of the assets is real. Adequate training should also be provided for asset officers in order for the competence to be at the appropriate level to avoid all uncertainties faced by asset officers.

8	Receivables	The minister should ensure through the finance manager that data consolidation by agencies is subject to a thorough review of data accuracy and errors are prevented in order for the presentation of accounts receivable to be accurate in the AFS.
9	Outstanding Liabilities	The minister should ensure that all invoices are paid within the legal deadline and the ordering of goods, works or services is done only when the ministry provides funds in advance or allocates sufficient budget funds for payment.
10	Contingent Liabilities	The minister should ensure through the financial manager that the complete review of data related to contingent liabilities is performed and their presentation in the AFS is in accordance with accurate information.

** 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 KOSOVO ZYRA KOMBËTARE E AUDITIMIT NACIONALNA KANCELARIJA REVIZIJE-NATIONAL AUDIT OFFICE			
DATI PRANORITIZIMIT DATE OF PROVISIONALIZATION 16.07.2020			
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Republika e Kosovës
 Republika Kosova-Republic of Kosovo
 Qeveria -Vlada-Government

MINISTRIA E SHËNDETËSISË/MINISTARSTVO ZDRAVSTVA/MINISTRY OF HEALTH
 Zyra e Sekretarit të Përgjithshëm/Ured Generalnog Sekretara/Office of the Secretary General

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për pasqyrat financiare të Ministrisë së Shëndetësisë për vitin 2019 dhe për zbatimin e rekomandimeve.

Për: Zyrën Kombëtare të Auditimit

Datë: 16.07.2020

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit/Pasqyrave Financiare të Ministrisë së Shëndetësisë, për vitin e përfunduar më 31 dhjetor 2019 (në tekstin e mëtejshëm "Raport");
- 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.

Prof. Asoc. Dr. Milazim Gjocaj

UD Sekretar i Përgjithshëm.

Ministria e Shëndetësisë,

