



Republika e Kosovës
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Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF
THE MINISTRY OF AGRICULTURE, FORESTRY AND RURAL
DEVELOPMENT FOR THE YEAR 2021

Prishtina, June 2022

TABLE OF CONTENT

1	Audit Opinion.....	3
2	Findings and recommendations.....	9
3	Summary on budget planning and execution.....	23
4	Progress in implementing recommendations.....	26
	Annex I: Letter of confirmation/ Comments of BO regarding the audit report (if any).....	33
	Annex II: Explanation regarding different types of opinion applied by NAO and other parts of the Auditor's Report.....	34

1 Audit Opinion

We have completed the audit of the financial statements of the Ministry of Agriculture, Forestry and Rural Development for the year ended on 31 December 2021 in accordance with the Law on the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion the financial statements and conclusion on compliance with authorities¹.

Qualified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Ministry of Agriculture, Forestry and Rural Development (MAFRD) which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports², for the year ended as at 31 December 2021.

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

Basis for Qualified Opinion

- A1 Material errors have been found in the disclosure of financial information in the Annual Financial Statements which relate to: overstatement of outstanding liabilities balance by €2,313,000, understatement of non-capital assets (under €1,000) by €75,511, understatement of contingent liabilities balance by €454,473, overstatement of own source revenues to be carried forward by €1,224. In addition, the Ministry had not presented the Covid-19 pandemic management costs in a special annex.
- B1 The Ministry had not recorded in the asset accounting register the project Consolidation and Stocktaking of Agricultural Land in the Republic of Kosovo in the amount of €1,337,900, for which amount the accounting register was understated. This project was implemented during 2017-2021. In addition, there are yet properties of the Agricultural Institute of Kosovo that are not in use and controlled by the AIK.

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

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

B2 The Ministry had paid €103,710 in inadequate economic categories as a result of improper budget planning for the project Consolidation and Stocktaking of Agricultural Land in the Republic of Kosovo.

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

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. NAO is independent from the auditee in accordance with INTOSAI-P 10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusion on Compliance

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

In our conclusion, except for the effects of the matters described in the Basis for Compliance Conclusion paragraph transactions carried out in the process of execution of the Ministry of Agriculture, Forestry and Rural Development's budget have been, in all material respects, in compliance with the established audit criteria arising from the legislation applicable for the auditee related to the use of financial resources.

Basis for Conclusion

A2 The Ministry carried out Ex-Post controls on monitoring the implementation of agricultural development projects, however it did not take any actions to return the funds from the beneficiaries until the yearend 2021.

B3 In three tested samples amounting to €170,883 there were delays in the payment of liabilities. Delays were also identified in three payments to grants in the amount of €175,704.

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

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. NAO is independent from the auditee in accordance with INTOSAI-P 10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Key Audit Matters

Key audit matters in the audit of the MAFRD Financial Statements for 2021 were as follows:

1. Despite last year's recommendation, the Ministry had not managed to pay all farmers by the yearend and as a result the amount of outstanding liabilities to the farmers was €3,037,679. Out of which €724,679 were for direct payments (businesses) and €2,313,000 for individual beneficiaries (this is a variable value due to the applications being in the process of administrative and on-site controls). Direct payments have remained as a liability due to delayed approval of the Programme. This resulted in a delay in all of the subsidy stages, from administrative control, evaluation of applications, on-site control procedures to the finalisation of the payment, considering that the farmers have put in their applications in September with an extended deadline until 05 October 2021. However, the Ministry has done the budget plan for the following year to write off the remaining liabilities and the same amount has been approved for the 2022 budget on subsidies and transfers. By the end of our audit the liabilities from 2021 in the amount of €3,228,630 have been paid.

Other Matters

- 1 The Programme for Direct Payments – Subsidies relates to payments given directly to the farmer and aims to provide financial support for most of agriculture crops. In the recent years, we have drawn the Ministry's attention with our recommendation for drafting the Programme at the beginning of the year, so that the call for application and payment execution to the farmers are done within the year. Following the appropriation of additional funds by the Government, the Ministry had prepared and announced the Programme for 2021 with a delay because the Ministry had initially paid off the financial obligations carried over from 2020 of €41,118,270. The Ministry had taken actions to draft and approve the Programme for direct payments in time by approving it in March 2022.
- 2 The AAD is responsible for managing the subsidy process (direct payments and grants) from the beneficiaries' application to the payment execution. Since 2018, the AAD has established the Directorate of Finance with all the necessary job positions to operate as an independent agency. Regardless, payment execution

continuous to be done from the Ministry's main finance office, thus causing delays in payments.

- 3 We have not audited eight (8) of the selected samples/payments for audit from the category of subsidies and transfers in the total amount of €910,665, which according to provided evidence by the MAFRD are under investigation by the judicial authorities.
- 4 Within the audit of direct payments, five beneficiary files in the amount of €53,721 were provided to us after the end of audit (27/05/2022). According to the Ministry, failure to timely provide the audit evidence was due to insufficient spaces for archiving documentation and difficulties for their provision.

Responsibilities of Management and Those Charged with Governance for the AFS

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

The Minister is responsible to ensure the oversight of the Ministry of Agriculture, Forestry and Rural Development's financial reporting process.

Management's Responsibility for Compliance

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

Auditor General's Responsibility for the audit of AFS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs

³ Collectively referred to as compliance with authorities

will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The audit report is published on the NAO's website, except

for information classified as sensitive or other legal or administrative prohibitions in accordance with applicable legislation.

2 Findings and recommendations

During the audit, we have identified areas of possible improvement, including annual financial statements, subsidies and transfers, assets management, etc., that are presented for your consideration below in the form of findings and recommendations. These findings and recommendations are intended to make necessary adjustment to the financial information presented in the financial statements, including disclosures in explanatory notes, and improve internal controls relevant to financial reporting and compliance with authorities in connection to the management of public sector funds.

This report has resulted in 11 recommendations, of which six (6) are new recommendations, four (4) repeated and one (1) partly repeated. We will follow up these recommendations during next year's audit.

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

2.1 Issues with impact on the audit opinion

Issue A1 – Untrue disclosures in Annual Financial Statements

Finding Regulation MoF- no.01/2017 on Annual Financial Statements of Budget Organizations, Article 1 defines the obligations of reporting, the reporting method and the form of reporting of budget organizations according to the Law no. 03 / L-048 on Public Financial Management and Accountability. In addition, according to Article 6- Budget Organizations keep accurate, complete, up to date accounting records and in compliance with applicable law on all financial information and other non-financial information.

According to Treasury's Circular (MF) on processes and deadlines for the preparation of financial statements for 2021, the financial statements of Budget Organisations should comprise a special section (annex) where expenditures regarding the management of Covid-19 pandemic are reported and disclosed with the necessary explanations for budget transparency.

Following the review of the Ministry's AFS and their comparison to KFMIS records, we found the following errors:

- Article 17 (Report on outstanding liabilities) – the amount of €2,313,000 was incorrectly presented as outstanding liability in the AFS, whilst this relates to the amount of liabilities for direct payments to farmers upon whom no assessment has been made and no decisions on financial support are taken. Although, this was clarified and disclosed in the AFS, it had an impact on the overstatement of liabilities balance for the same amount;

-Article 18 (Contingent Liabilities) – Contingent liabilities balance was understated for €454,473. This occurred due to the presentation of contingent liabilities in the AAD only for 2021 but not those of 2020.

-Article 19.3.2 (Capital Assets under €1,000) – Assets balance under €1,000 was presented in the amount of €183,234, whilst in the annex the disclosed amount was understated for €75,511 for assets of Forestry Agency;

-Article 21 (Report on unspent own source revenues) – In the remaining amount for carrying forward the amount of €1,224 was also included, which relates to previous year revenues (2020) and is not carried forward in the following year. According to KFA officer, this occurred due to the AFS format; and

-The Ministry had not disclosed the expenditures regarding the management of Covid-19 pandemic in a special annex.

On 21.03.2022, the Ministry made a request to the Treasury for the rectification of the AFS for the issues addressed above, however, they were not accepted by the Treasury due to exceeding the allowed deadline according to the Circular for the preparation of financial statements.

The errors in the disclosure of information in the AFS occurred because the information from the relevant departments was forwarded to the CFO with delay, influencing the consolidation of financial information for certain areas to be incorrect, as well as the fact that the Ministry of Education and Culture had not accurately implemented the requirements of financial reporting regulation and Treasury requirements.

Impact

These errors in the AFS resulted in unfair presentation of information in the financial statements in specific categories.

Recommendation A1 The Minister should ensure that an analysis on the findings leading to the modification of the audit opinion has been done and that necessary actions are taken to ensure that such shortcomings and errors do not occur during the preparation of the financial statements for 2022.

Entity management response (Has not been confirmed by the Ministry)

For more details see Annex 1

Issue B1- Irregularities in asset recording and reporting

Finding Regulation MoF - No 02/2013 on Management of Non- Financial Assets by Budget Organizations, Article 6.1 stipulates that each budget organization shall put in place and update a register of non-financial assets under its management. The register must be maintained separately for each asset individually and in aggregate form pursuant to categories classified according to the accounting plan; and Article 6.3, capital assets must be recorded in KFMIS, while the non- capital assets and stocks in the “e- assets” system.

Following the assets audit in MAFRD, we found that the project Consolidation and Stocktaking of Agricultural Lands in the Republic of Kosovo in the amount of €1,491,490, the last payment for which was made in 2021, was partly registered in the assets register. Two payments in the amount of €153,590 were recorded as ongoing assets in the last year, while the other total project amount of €1,337,900 was not recorded in the KFMIS asset register, understating the register for the same amount.

The acceptance of this project was done on 19.12.2020 by the monitoring committee, whilst we found that this project has not yet been put into use by the Agricultural Institute of Kosovo justifying that they did not have sufficient staff for project implementation. Failure to record the assets was as a result of poor budgeting of funds from the category of goods and services, not considering it as a capital project.

In addition, some of the properties of the Agricultural Institute of Kosovo are not controlled or used by the AIK this year either. We have received different lists from the AIK officials regarding these properties. For this matter, we cannot give assurance on the value and number of these properties, although a commission established by the Secretary General decision (dated 24.09.2021) for reviewing and valuating the immovable properties of AIK. This occurred due to inadequate internal controls regarding the assets recording and reporting.

Impact Untrue and incomplete recording of assets in KFMIS has led to understatement of assets in the accounting registers and untrue presentation of their balance in the AFS. In addition, failure to record the assets increases the risk for asset misuse, loss or alienated.

Recommendation B1 The Minister should ensure that this project is put into use and recorded in the relevant asset registers. Ensure that the established commission on reviewing and valuating the AIK properties will finalise the assets stocktaking and that the same are recorded in the asset registers.

Entity management response (Has not been confirmed by the Ministry)

For more details see Annex 1

Issue B2 – Inadequate classification of expenditures

Finding Financial Rule No. 01/2013 on Public Funds Expenditure, Article 18.3 provides that expenditures should be under adequate codes, defined under the chart of accounts.

In testing the expenses, we found that the last payment in the amount of €103,710 for the project Consolidation and Stocktaking of Agricultural Land in the Republic of Kosovo was executed from the category of goods and services, which by nature belongs to the category of capital investments.

This occurred due to the concluded contract in 2017, where this project was not budget as capital project.

Impact Payments made from the inadequate economic category have led to unfair presentation of expenses by providing the reader with incorrect information. In addition, by over/understating the adequate economic categories for this expense.

Recommendation B2 The Minister should ensure that budget planning complies with the projects' nature, so that the payments are executed according to the adequate economic categories, to enable their fair reporting in the AFS in compliance with the chart of accounts. If the budget planning does not correspond to the nature of the expenditure and the needs of the ministry, the funds should be redesignated in order to provide the funds for the regular payment of expenditures.

Entity management response (Has not been confirmed by the Ministry)

For more details see Annex 1

2.2 Issues with impact on the compliance conclusion

Issue A2 - Poor management of Ex-Post controls

Finding Administrative Instruction No. 05/2018 on the Measures and Criteria of Support in Rural Development, Article 2, point 1.23 defines that Ex-post monitoring period, means a time period of 3 years after completion of the investment, during which the beneficiary should keep the purpose of investment and all conditions under which he is selected as beneficiary. In addition, Article 6, point 1.4 stipulates that the monitoring period lasts three years, if the investment is not maintained, the beneficiary is obliged to return the financial amount of public support.

The Directorate of Control had carried out Ex-post controls on 486 beneficiaries to verify and monitor the implementation of the agricultural development projects. On 12.04.2021 the Directorate of Control prepared the monitoring report out of which we selected 15 samples with inactive businesses, missing benefited equipment such as (tractor, solar panels), employees' contribution payments, etc. Regardless the identified irregularities, the Directorate of Authorisation, as the responsible department during our audit (04/03/2022) had not taken any actions. However, from 15/03/2022 the AAD requested from the beneficiaries to fulfil legal and contractual obligations.

According to the ministry, this occurred due to the high volume of work in the Directorate of Authorisation and lack of staff during 2021.

Impact Failure to implement the projects according to the agreement and failure to take actions on the returning of funds increases the risk that the Ministry pays for activities that do not coincide with the objectives of the Ministry and affects their use for purposes other than those intended.

Recommendation A2 The Minister should ensure that all Ex-post controls reports are followed up with concrete actions in the time foreseen for their monitoring. In cases of beneficiaries' failure to fulfil the contractual obligations, measures on suspension and return of funds should be taken as required in the agreement.

Entity management response (Has not been confirmed by the Ministry)

For more details see Annex 1

Issue B3 –Delayed payment of liabilities

Finding Law on Public Financial Management and Accountability, Article 39, obliges the Ministry to pay any valid invoice within 30 days from the date the invoice or request for payment is received. Whilst the deadline to pay the grants are set by the guidelines issued by the ministry for the implementation of approved annual Programmes. Based on these guidelines, payments should be made 20 days after the decision is taken or 40 days from the date of application for payment, unless the deadline is exceeded for any objective reasons.

In three tested cases in the aggregate amount of €170,883 we found that invoices were not paid within the legal deadline of 30 days. Delays in payments range from 57 to 96 days.

Likewise, the set payment deadlines according to the guideline were not complied with in three payments of the given subsidies through the Agricultural Development Programme (grants) in the aggregate amount of €175,704.

This occurred due to poor internal controls in budget management and officials' neglect on paying invoices on time. Whilst, in the case of grants, namely subsidies and transfers, delays in payments had occurred as a result of the lack of staff in the Directorate of Authorisation and that of Control and also insufficient time since the submission of the request to the AAD Regional Offices, completion of documentation which should be sent to DA, on-site control up to payment finalisation.

Impact Failure to pay the liabilities within the set legal deadline leads to the increase of the outstanding liabilities as well as the possibility for the ministry to be subject to lawsuits and pay additional costs. Moreover, delayed payments for beneficiaries of grants may cause problems for farmers because the same may begin activities and enter into liabilities based on the payments/remunerations expected to be paid by the Ministry.

Recommendation B3 The Minister through the finance office and respective directorates should strengthen responsibility measures towards financial officials and other administrative officials to ensure that all liabilities are paid within the legal deadline of 30 days upon receipt of invoices. Whilst in subsidies and transfers, actions for meeting the deadline from the time of request until payment finalisation should be taken, thus preventing for the payment deadline to be exceeded.

Entity management response (Has not been confirmed by the Ministry)

For more details see Annex 1

2.3 Findings on financial management and compliance issues

2.3.1 Subsidies and Transfers

The final budget for Subsidies and Transfers was € 68,639,685 of which €67,989,985 were spent. The category of subsidies and transfers constitutes 91% of the Ministry's general expenses, which mainly relate to direct payments, grants, damages caused by natural disasters in agriculture. The implementation of these Programmes is done on annual basis according to the Rural Development and Direct Payments Programme. The drafting of these policies is done by the department for Development of Agricultural Policies and Markets as well as by the Department of Rural Development Policies. Their implementation is done by the AAD, whilst the payment is executed by the Ministry's finance department.

Issue A3 – Irregularities in the estimation of compensation of damages for farmers

Finding Following the Government's decision (dated 14.07.2021) funds for compensation of damages caused by natural disasters in agriculture in 2020 have been appropriated at 30% of the number of damages.

The Ministry had implemented this decision by compensating farmers based on the lists sent to the Ministry's Commission, which had the mandate to accept, verify and review the reports assessed by the municipal damage commissions.

Out of 20 audited samples, in 6 of them belonging to the Municipality of Istog we found irregularities in the estimation of compensation where farmers were overcompensated at a total of €6,655. Through our audit it was found that in some cases the total value of compensation had increased while in some others the yield loss. This led to the total value of compensation increase e.g. (Yield loss 638.4 x Price 0.51 = total value €3,255, whilst its accurate estimation is €325).

Since there were no established legal criteria, the prices of agricultural crops and yields were calculated based on the Green Report 2020⁴, while the surface area was calculated based on the examination of the Municipal Commission in lack of ownership certificate. During our audit, five beneficiaries had returned funds in the amount of €3,496 to the Ministry's budget.

This occurred due to Municipality of Istog's errors in the estimation of damages and failure to properly verify the lists.

Impact

Overcompensations made to beneficiaries are irregular payments and damage the Ministry's budget. This also leads to lower compensations for some farmers due to lack of funds.

⁴Beneficiary Emine Berani, Measure 101 – Investments in physical assets of agricultural economies 101.2.1 – Sector of trees and greenhouses. The bank guarantee was valid until 10.08.2021 with a value of €18,000, while the second on-site inspection was carried out on 03.11.2021; Beneficiary Hyre Bajraktari, Measure 101 – Investments in physical assets of agricultural economies 101.1 Fruit trees. The bank guarantee was valid until 18.08.2021 with a value of €20,000, while the second on-site inspection was carried out on 21.06.2021. Since the beneficiary had not brought the solar panel, a re-check was done on 26.08.2021; Beneficiary Mustafa Hoxha, Measure 103 – Investments in physical assets in the processing and marketing of agricultural products. The bank guarantee was valid until 21.02.2022 in the amount of €100,000, while the request for payment was made on 11.02.2022 and the field inspection had not yet been carried out; Beneficiary Bajram Rrecaj, Measure 103 – Investments in physical assets in the processing and marketing of agricultural products 103.3 processing of fruits and vegetables. The bank guarantee was valid until 11.03.2022 with a value of €99,250, while the second check was made on 15.03.2022.

Recommendation A3 The Minister should thoroughly analyse the issue of overcompensations in the case of compensation for damages to farmers, as well as consult with the legal office and the respective Municipality to work on the return of these payments from the beneficiaries to the budget. Establishing a legal basis on which clear criteria for the application and valuation of damages will be set by strengthening controls prior to execution of expenses.

Entity management response (Has not been confirmed by the Ministry)

For more details see Annex 1

Issue A4 – Shortcomings in the price list for project approval

Finding Following the General Secretary's decision, the commission for drafting the price list for the approval of 2020 rural development projects was established as for: Measurement 101 regarding investments in physical assets in agricultural economies, Measurement 103 in investments in physical assets in the processing and marketing of agricultural products and Measurement 302 for farm diversification and businesses development. Upon project approval, investments and purchases are based on the List of eligible investments according to the price list.

During the audit of projects for the rural and agriculture development, we found that in five cases the prices of the products upon project approval were not recorded in the project approval price list, such as: water deionization equipment worth €5,000; 1000L distiller with three columns worth €26,000; steam generator worth €40,000; calibrator for cucumbers 5 tons worth €24,950; Bagin box wine filling machine (amounts of 3, 5 and 10 litres) worth €20,569.

With no reference prices, the Commission had approved the projects according to the requests of the applicants. In addition, in two cases we found that different prices have been approved for two identical products (25 kW solar panels), one worth €30,000 and the other €33,000.

The lack of prices for some equipment in the project approval price list has occurred as a result of insufficient market research by the Commission, various requests from applicants and the pandemic situation.

Impact The lack of some products in the project approval price list has affected the approval of prices for products based only on the applicants' offers, also this led to the Ministry paying different prices for the same products / equipment.

Recommendation A4 The Minister should ensure the update of the price list, based on which the grant prices are approved, by conducting market research for the relevant measures, so that it is more comprehensive and enables equal treatment of beneficiaries' requests.

Entity management response (Has not been confirmed by the Ministry)

For more details see Annex 1

Issue A5 – Expiry of the bank guarantee for grants

Finding Administrative Instruction no. 02/2020 on the Measures and Criteria of Support in Agriculture and Rural Development for the Measures 101 and 103, Article 6 and Article 13, section 7.5 define that the bank guarantee should be ensured only for the advance payment of 50% of the public support, namely until the final decision on payment/acceptance or refusal of payment.

During the audit of the grants, in four cases⁵ we found that the bank guarantee in the total amount of €237,250 offered by the beneficiaries to cover the guarantee period of the grants, which verifies the completion of the investments according to the agreement, specifically before taking the final decision to accept the payment, had expired before the period when on-site inspections are carried out and AAD had not requested an extension of the guarantee deadline.

According to the Ministry, this occurred due to scarce capacity and heavy workload in the Directorate of Authorisation and Control, as a result the monitoring of bank guarantee expiration was not possible.

Impact Failure to cover the bank guarantee until the approval period or refusal of the project's second payment leads to the risk of failure to execute the grant as according to the approval and prevents the guarantee from being withdrawn. In addition, this leads the Ministry to undertake alternative legal remedies to have such funds returned.

⁵ The Green Report 2020 is an overview of the data which proves the work and development in the agricultural sector in the Republic of Kosovo, which was carried out by the MAFRD.

Recommendation A5 The Minister should ensure that concrete measures/actions are taken to ensure that the bank guarantees offered by the beneficiaries for the advance payment of 50% of the public support cover the period until the final decision on payment or refusal of payment, in order to obtain security and avoid court procedures in case of failure to fulfil the beneficiaries' projects.

Entity management response (Has not been confirmed by the Ministry)

For more details see Annex 1

2.3.2 Capital and Non-capital assets

The amount of capital assets presented in AFS is €43,988,596, that of non-capital assets is €183,235, and of stock is €18,245.

Issue B4 – Failure to reconcile the stocktaking report with the asset registers

Finding Regulation no.02/2013 on Management of non-financial assets in budget organisations, Article 19, section 4.3, stipulates that one of the responsibilities of the Non-Financial Assets Stocktaking Commission is to reconcile the stocktaking balance with the balance of non-financial assets in the registers. Whilst Article 20 stipulates that the budget organization must evaluate the non-financial assets to verify the necessity for non-financial assets for the organization, physical situation and the possibility to use on the other units of the organization.

In regards to assets management, we found that the respective commissions in the Ministry conducted the asset stocktaking for 2021 by preparing comprehensive reports. However, the reconciliation of the stocktaking balance with the balance of non-financial assets in the registers was not done, whilst asset reporting in the AFS was done in accordance with the accounting registers. The valuation commission in MAFRD prepared the report after drafting the financial statements. Due to failure to reconcile the asset register with the notes of the stocktaking commission, we found a car which in KFMIS is listed as asset in use with a remaining value of €10,266, whilst during on-site examination we found that it was out of use (broken-down) and the same was not recorded as such in the reports of the stocktaking/valuation commission.

This occurred due to inadequate internal controls over assets management.

Impact

Failure to reconcile the stocktaking balance with the asset registers and the evaluation commission's failure to report on time leads to over/understatement of assets balance. This increases the risk of assets being misused, lost or alienated and at the same time leads to their unfair presentation in the AFS.

Recommendation B4 The Minister should ensure that the asset stocktaking and valuation commissions complete their work prior to the preparation of financial statements and also compare the records as a result of stocktaking asset balance in the accounting registers. Lacking, excess and damaged assets should be presented in the report to be approved by the management in order to have the changes made to the accounting registers presented in the AFS.

Entity management response (Has not been confirmed by the Ministry)

For more details see Annex 1

2.3.3 Receivables

Accounts receivables disclosed by the MAFRD in 2021 AFS were in the amount of €3,813,713. 94.8% or €3,616,566 of receivables belonging to the Kosovo Forestry Agency relate to operators who are subject to lawsuits for the use of public property.

Issue C1- Ministry's failure to take actions to collect accounts receivable

Finding

Based on Article 3 of the concluded contracts between the Ministry and tenants for the use of property- the payment should be made by the 10th of each following month; Article 6 -the landlord may terminate the contract if the tenant does not pay the rent.

In two of the cases, we found that property users had not paid liabilities in the amount of €15,200 to the Ministry. Although the Ministry noticed tenants three times during 2021 for non-fulfilment of contractual obligations, no concrete actions had been taken for the unilateral termination of the contract and the initiation of court proceedings for failure to pay the debt, as foreseen by the contract.

This occurred due to the Ministry's failure to take actions to collect accounts receivable and also due to tenants' lack of responsibility.

Impact Failure to take concrete actions to collect receivables increases the risk of financial loss for the Ministry and may set a precedent by negatively affecting other subjects on paying their liabilities on time, whilst their age undermines the collection.

Recommendation C1 The Minister should ensure higher efficacy in the collection of accounts receivable by undertaking all legal actions in addressing old debts from the renting of agricultural lands.

Entity management response (Has not been confirmed by the Ministry)

For more details see Annex 1

2.3.4 Internal Audit Function

The Internal Audit Unit (IAU) in MAFRD operates with three staff members – Acting/Director of the IAU and two auditors. For 2021, this unit had drafted the annual work plan based on the strategic plan, where it had planned eight audits, of which it had carried out eight regular audit and two at the request of the Management. Two separate Internal Audit Units operate within the MAFRD, AAD and KFA. The IAU in AAD operates with two staff members- Director of the IAU and one auditor. For 2021, this unit had had planned four audits, of which it had carried out two regular audits and one at the request of the Management. Whilst the IAU in KFA operates only with one auditor. For 2021, this unit had had planned four audits, all of which were carried out. It is worth noting that due to the irregularities found during the audit of the central inspectorate for forestry and hunting, this unit also drafted a follow-up report.

Issue A6 – Audit commission’s failure to address the audit reports of AAD and KFA

Finding Administrative Instruction MF- no. 01/2019 on Establishment and Functioning of Audit Committee at Public Sector Entity, Article 5.1 states that the Audit Committee assists the head of public sector entity on improving the public internal finance control system, with purpose to achieve targeted objectives of the organization, providing advices and recommendation for the head of public sector entity which deals with governance, risk management and internal control processes. Whilst based on Article 7, section 1.5 the Audit Committee supervises and assesses the performance of audit activity in realization of approved plan through periodic reports by the head of internal audit unit and reviews summary reports, findings, recommendation of internal audit and ensures that those have been addressed properly by the head of public sector entity.

The Audit Committee of 5 members held five meetings during 2021. Reports, IAU findings of MAFRD, their recommendations and progress have been reviewed in these meetings. However, the audits and work of the IAU of AAD and KFA had not been addressed and followed up. The latter did not participate in the meetings of the committee either.

This occurred due to failure to implement the legal requirements for the review of risk management and internal control environment by the Audit Committee.

Impact

The Audit Committee failure to review the work of the two IAUs, which are complex and sensitive in terms of budget and their operation, results in poor monitoring of the IAU's work for AAD and KFA by not providing security and support to the management regarding the effectiveness of key financial controls.

Recommendation A6 The Minister should ensure that AC role, work and mission is being met and the internal audit function is well monitored in order to achieve the organisation's set objectives.

Entity management response (Has not been confirmed by the Ministry)

For more details see Annex 1

3 Summary on budget planning and execution

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

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

Description	Initial Budget	Final Budget ⁶	2021 Outturn	2020 Outturn	2019 Outturn
Sources of Funds	61,255,496	78,317,466	74,998,863	69,734,309	54,938,293
Government Grant -Budget	54,986,960	71,935,364	71,157,826	64,104,081	51,029,046
Funding through borrowing	2,399,472	2,399,472	1,917,705	4,073,675	3,404,476
Funding through borrowing-investment clause	3,685,909	3,685,909	1,777,899	1,414,197	12,000
Carried forward from previous year	0	113,566	112,342	72,768	0
Own source revenues	183,155	183,155	33,092	69,589	110,151
Revenues from PAK	0	0	0	0	382,620

The final budget is higher than the initial budget by €17,061,970 or around 28%. The increase of €19,500,000 is a result of the Government's decision and spending of own source revenues in the amount of €113,565. Whilst the decrease is a result of budget savings in the amount of €2,551,595 by the Ministry of Finance, Labour and Transfers.

In 2021, the MAFRD spent around 96% of the budget, similar to last year, the budget was spent at 97%. Explanations regarding budget execution and the current position are detailed below.

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

Description	Initial Budget	Final Budget	2021 Outturn	2020 Outturn	2019 Outturn
Spending of funds by economic categories	61,255,496	78,317,466	74,998,863	69,734,309	54,938,293
Wages and Salaries	2,891,505	2,469,393	2,468,689	2,595,904	2,619,825

⁶ Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance

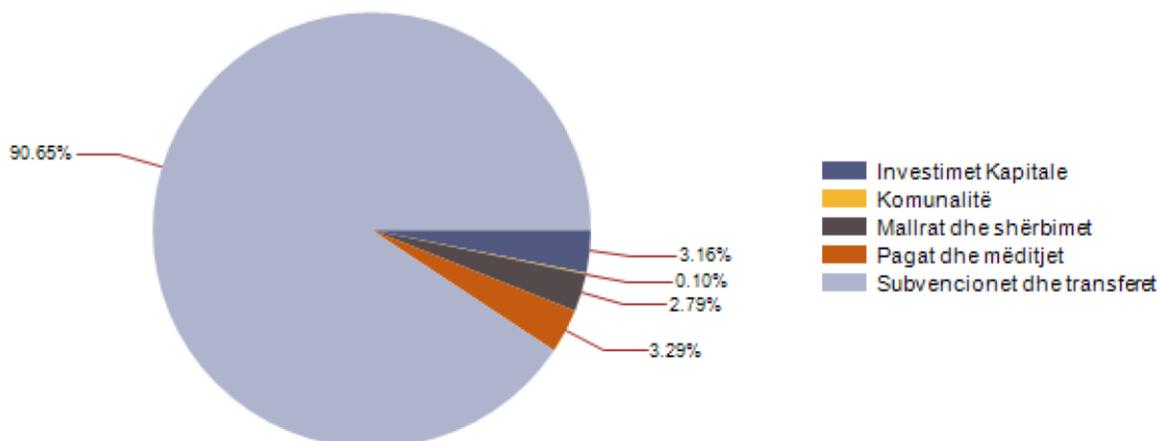
Goods and Services	2,815,401	2,533,187	2,096,169	3,325,787	3,938,577
Utilities	135,660	75,087	72,956	61,003	70,328
Subsidies and Transfers	49,477,022	68,639,685	67,989,985	61,643,007	45,768,940
Capital Investments	5,935,909	4,600,113	2,371,064	2,108,609	2,540,622

MAFRD had budget transfers from one category to another. However, all transfers/changes were supported by relevant decision of Ministry of Finances and the Government. Explanations for changes in budget categories are given below:

- The final budget of Wages and Salaries was decreased by €422,112 as a result of the Government's Decision No. 11/52 due to failure to staff the vacancies according to Law of Budget. The budget for this category was spent at 99%;
- The final budget of Goods and services, compared to the initial budget, was decreased by €282,214 as a result of transfers in the amount of €184,918 from the category of subsidies and transfers, carried forward own source revenues of €113,566 allowed to be used, as well as a decrease of €580,697 by Government's decisions on budget savings. The budget for this category was spent at 83%;
- The final budget of Utilities was decreased by €60,573. This change was as a result of MF budget savings at the yearend.
- The final budget of Subsidies and Transfers, compared to the initial budget, was increased by €19,162,663. This was as a result of allocations in the amount of €19,500,000 by Government's decisions (Decision no. 06/58, 20/50, 09/21), transfer of funds in the amount of €184,918 in the category of goods and services and budget cuts in the amount of €152,419 by the MFLT at the yearend. The budget for this category was spent at around 99%;
- The budget of Capital Investments, compared to the initial budget, was decreased by €1,335,796. This was as a result of budget savings by the MFLT. Despite the project's budget decrease, MAFRD could not spend more than 52% of the capital investments budget. This occurred due to different reasons such as: cases that are currently in the PRB, late development of procurement procedures within the co-financing agreements with the respective municipalities and non-initiation of procurement procedures.
- Expenditures incurred for the management of the COVID 19 pandemic by the Ministry were in the amount of €19,342,944. They relate to funds appropriated by the Government for the implementation of the economic recovery programme under the "Agricultural and Market Policies" programme for direct payments to support farmers.

Chart 1. Expenditures by economic categories for year 2021

Grafiku 1. Shpenzimet sipas kategorive ekonomike për vitin 2021



Revenues generated by MAFRD in 2021 totalled to €2,680,064. Compared to last year, revenue collection increased by €315,783 or 13%. The revenues were executed from the license issuance, revenues from the rent of the land given for use, sale of services, etc. The amount of €2,271,030 or 85% of the aggregate amount were generated from the Kosovo Forestry Agency (KFA), whilst the other part was generated from other departments. The amount of €15,966 relates to funds return from the previous year.

Table 3. Revenues (in €)

Description	Initial budget	Final Budget	2021 Receipts	2020 Receipts	2019 Receipts
Total revenues	2,082,300	2,515,914	2,680,063	2,364,281	2,328,064
Non-tax revenues	2,082,300	2,515,914	2,664,098	2,235,803	2,324,319
Other revenues	0	0	15,966	128,477	3,745

4 Progress in implementing recommendations

Our audit report on 2020 AFS of the Ministry of Agriculture, Forestry and Rural Development resulted in 12 key recommendations. MAFRD prepared an Action Plan stating how all recommendations will be implemented.

By the end of our 2021 audit, six (6) recommendations have been implemented, one (1) partly implemented, and four (4) have not been addressed yet, one (1) was no longer applicable. For a more thorough description of the recommendations and how they are addressed, see Table of recommendations.

Chart 2. Progress in implementing prior year's recommendations



Table 4 Summary of prior year's recommendations

No.	Audit Area	Recommendations of 2020	Actions taken	Status
1.	Basis for opinion	The Minister should take actions to ensure complete and accurate registration of assets as provided for by Regulation No. 02/2013 on the Management of Non-Financial Assets, in order to give a true and fair view of assets.	The Ministry had not implemented the recommendation, since even this year for the remaining part of the "Consolidation and Inventory of Agricultural Lands in the Republic of Kosovo" project, it was not registered in the asset register and some of the properties of AIK are still used and controlled by AIK. See issue B1.	Has not been addressed
2.	Basis for opinion	The Minister should ensure that budget planning complies with the projects' nature, so that the payments are executed according to the adequate economic categories, to enable their fair reporting in the AFS in compliance with the chart of accounts	The payment for the "Consolidation and Inventory of Agricultural Lands in the Republic of Kosovo" project was made from the category of goods and services this year too, whilst by nature it should have been paid from the capital investments. See issue B2.	Has not been addressed
3.	Basis for opinion	The Minister should ensure that adequate internal control procedures are applied when preparing the AFS	This issue has been addressed under basis for opinion A1-	No longer applicable

		by verifying the accuracy and completeness of data on outstanding liabilities.	Untrue disclosures in Annual Financial Statements, along with other incomplete/untrue disclosures.	
4.	Basis for conclusion	The Minister should ensure that the procedures set out in the regulation are adhered to, so that prior to executing the payment funds are committed, the purchase order is issued, goods/services are accepted and the payment is made.	During the audit process for 2021 we have not found cases of commitment and purchase order being executed after receiving the invoice.	Implemented
5.	Basis for conclusion	The Minister should, together with the rest of the management, analyse in detail the balance of liabilities incurred according to various subsidy programs, and make a balance cut off by the date of the report. Initially, ensure that all grants, direct payments and other liabilities incurred earlier are paid and then incur new obligations to farmers.	We found delays in payment of liabilities this year too in the category of goods and services and subsidies and transfers. See issue B3.	Has not been addressed
6.	Subsidies and Transfers	The Minister should review the above cases and ensure that the funding of farmers is done only after all the requirements set out in the AI have been met. Controls related to the appropriation of subsidies should be much more rigorous.	During the audit of direct payments for 2021, we did not find such cases. In all cases, the family connection was proven with proof of family relationship or contract of renting the land.	Implemented

7.	Subsidies and Transfers	The Minister should ensure that the program for subsidies is drafted and approved at the beginning of the fiscal year, in order to have it aligned with the budget cycle, the call for annual appropriation of subsidies, the execution of payments within the year, as well as to determine the exact criteria in the program so that the financial support for farmers is in accordance with the approved annual budget.	Although the Program for Direct Payments in 2021 has been approved in July 2021, this was done after the settle of debts carried forward from 2020. PDP for the following year was approved on March 2022.	Implemented
8.	Subsidies and Transfers	The Minister should ensure that the criteria set out in the Administrative Instruction are strictly implemented by the responsible officials of the AAD and ensure that no beneficiary who has not fulfilled the conditions of the preliminary contract will go through the evaluation process.	During the audit of the grants, we did not find any cases where beneficiaries, who are on the black list or who did not comply with the preliminary contractual conditions with the Ministry, were selected.	Implemented
9.	Assets	The Minister should ensure that the stocktaking commission will compare the assets balance according to the stocktaking report with the balance of asset registers, update the register with the results of the stocktaking and present the updated balance in the AFS.	The Ministry had carried out the asset stocktaking for 2021, but it had not succeeded in reconciling the results of the stocktaking with the balance of the asset registers this year either. See issue B4.	Has not been addressed.
10.	Accounts Receivable	The Minister should ensure that the renting of agricultural land for use is done in accordance with the criteria	During the audit of accounts receivable, we did not find such	Partly implemented

		provided by law, in compliance with market prices, and also should ensure that the necessary steps are taken regarding the collection of revenues for their use.	cases where the destination of agricultural land was temporarily changed. Meanwhile, even this year we have cases where the obligations according to the contract have not been performed by the operators and the Ministry had not taken actions for the collection of the debt. See issue C1.	
11.	Outstanding Liabilities	The Minister in cooperation with the Government should provide the necessary funds to fulfil the obligations incurred. Likewise, the Minister should establish adequate controls to ensure that any decision on financial support will be made in accordance with the approved budget.	The government appropriated the necessary funds to cover the liabilities for direct payments and the liabilities carried forward from 2020 were settled. Initially, the remaining liabilities were settled and the program for direct payments was announced in 2021. To pay the remaining part of the liabilities that at the yearend were in the evaluation and administrative control stage, an additional budget was appropriated in 2022.	Implemented

12.	Internal Audit	The Minister and the Chief Executive Officer of AAD should ensure that the IAU is operational and with sufficient capacity in order to complete the audits planned with the annual work plan and that the scope of the IAU is focused on the current year.	The recommendation has been implemented, because IAU and AAD completed two of the four reports planned for 2021 and the third was completed at the beginning of 2022.	Implemented
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Vlora Spanca, Auditor General

Emine Fazliu, Assistant Auditor General

Arian Haxha, Head of Audit

Nora Rashiti Nishefci, Team leader

Ajtene Llapashtica, Team member

Lumturije Sopi, Team member

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

Issue	Comments from the BO	KNAO view

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

Auditor's Report on the financial statements⁷ should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities⁸. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

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

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

(extract from ISSAI 200)

Forms of opinion

Unmodified opinion

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

⁷ Financial statements in the public sector include also the statement(s) of budget execution

⁸ Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

Limitation of scope occurs when an auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

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

Modifications to the opinion in the auditor's report

The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement and/or non-compliance, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement and/or non-compliance, the auditor should modify the opinion in the auditor's report. A modified opinion may be:

- Modified (qualified)
- Adverse, or
- Disclaimer

Qualified opinion

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

Adverse opinion

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

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

- a) Are not confined to specific elements, accounts or items of the financial statements

- b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Disclaimer of opinion

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

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

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

An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading "Emphasis of Matter" or another appropriate heading;
- include a clear reference to the matter being emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor's opinion is not modified in respect of the matter emphasised.

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