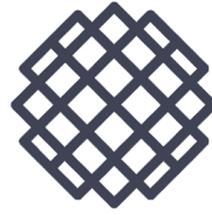




Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

**Document No: 21.22.1-2017-08**

**AUDIT REPORT**  
**ON THE ANNUAL FINANCIAL STATEMENTS OF THE MINISTRY**  
**OF ECONOMIC DEVELOPMENT FOR**  
**THE YEAR ENDED 31 DECEMBER 2017**

**Prishtina, June 2018**

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control which, according to the Constitution and domestic laws, enjoys functional, financial and operational independence. The National Audit Office undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

Our Mission is through quality audits strengthen accountability in public administration for an effective, efficient and economic use of national resources.

We perform audits in line with internationally recognized public sector auditing standards and good European practices.

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.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Ministry of Economic Development 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 Florim Maliqi (Team Leader) and Qëndresa Sogojeva and Lumturije Sopi (team members) under the management of the Head of Audit Department Samir Zymeri.

## TABLE OF CONTENTS

Executive Summary .....	4
1 Audit Scope and Methodology .....	6
2 Annual Financial Statements and other External Reporting Obligations .....	7
3 Financial Management and Control .....	11
4 Progress in implementing recommendations.....	21
5 Good Governance .....	22
Annex I: Explanation of the different types of opinion applied by NAO .....	25
Annex II: Prior and Earlier Year Recommendations .....	28
Annex III: Management Response to OAG Findings .....	31

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## Executive Summary

### Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Statements of Ministry of Economic development, which determines the Opinion given by the Auditor General. The examination of the 2017 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions (ISSAIs). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in our External Audit Plan for 2017.

Our audit focus has been on:



The level of work undertaken by the National Audit Office to complete the 2017 audit is determined depending of the quality of internal controls implemented by the Management of the Ministry of Economic development.

The National Audit Office acknowledges Ministry's Senior Management and Staff for cooperation during the audit process.

### Opinion of the Auditor General

#### **Unmodified Opinion with Emphasis of Matter**

The Annual Financial Statements for 2017 *present a true and fair view* in all material aspects.

#### **Emphasis of Matter**

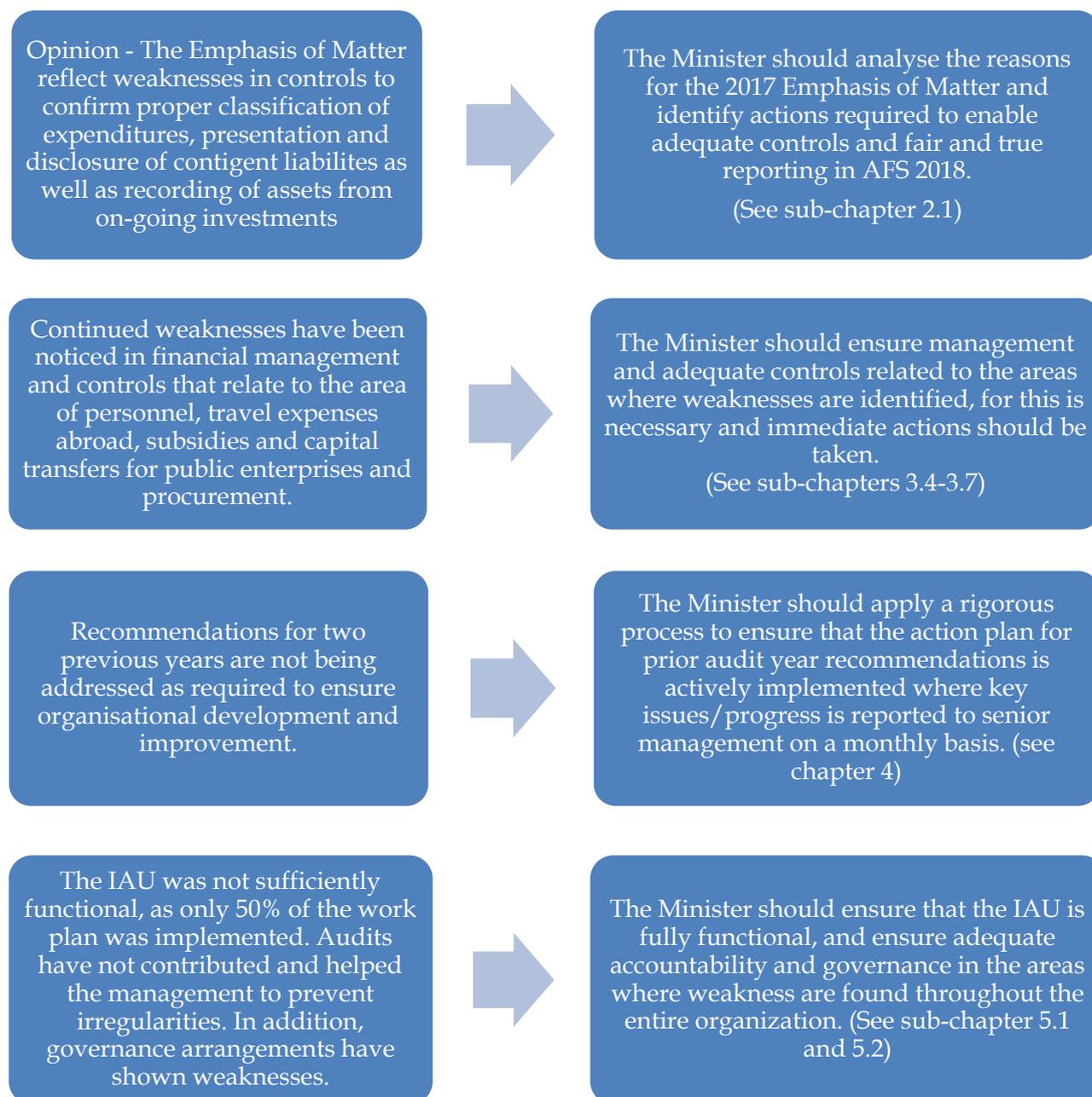
We draw your attention to the fact that capital investments/capital transfers were overstated by €332,814, contingent liabilities in the amount of €3,504,342 have not been disclosed in the financial statements, and assets as on-going investments in the amount of €4,421,627 were not recorded in the accounting register.

For more, please refer to Section 1.2 of this report.

Annex I explains the different types of Opinions applied by the National Audit Office.

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## Key Conclusions and Recommendations



## The Management's Response on 2017 audit

The Management has not agreed fully with all audit findings and conclusions. Comments are given in detail in Annex III.

# 1 Audit Scope and Methodology

## Introduction

The National Audit Office (NAO) is responsible for carrying out a Regularity Audit which involves the examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

Audit work undertaken reflected our audit risk assessment for Ministry of Economic Development. We have analysed the Ministry's business to the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the AG's opinion.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review. Management's responses to our findings can be found in Annex III.

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

## 2 Annual Financial Statements and other External Reporting Obligations

### Introduction

Our audit of the Annual Financial Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information recorded in the AFS. We also consider the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance.

The declaration regarding presentation of the AFS incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the AFS. These assertions are intended to provide the Government with the assurance that all relevant information has been provided to ensure that an audit process can be undertaken.

### 2.1 Audit Opinion

#### **Unmodified Opinion with Emphasis of Matter**

We have audited the AFS of the Ministry of Economic development for the year ended on 31st of December 2016 which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement and the Explanatory Notes of the Financial Statements.

In our opinion, the Annual Financial Statements for the year ended on 31<sup>st</sup> of December 2016 present a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (cash based Accounting), Law no.03/L-048 on Public Finance Management and Accountability (as amended and supplemented) and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations issued by the Ministry of Finance.

#### **Basis for the opinion**

Our audit was conducted 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 AFS section of our report. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.

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## Emphasis of Matter

- We draw your attention to the fact that: out of capital transfers, MED paid expenses related to court decisions for the Publicly Owned Enterprise Trainkos in the amount of €195,904, which are not related to the capital project approved with the budget. Furthermore, for the Enterprise Trepça was approved/budgeted the project “Opening of new worksites in horizons X-XI” (value €634,999). On behalf of this project, Trepca has concluded a supply contract in the amount of €53,930, for which value the MED has made a capital transfer-payment for Trepca. However, based on the contract and the invoice it is noticed that the items belong to operational expenses, which have nothing to do with investments. Moreover, purchases in the amount of €13,230 are for mines in Kishnica, Hajvali and Artana, which are not related to the approved project. From these cases it is noted that monitoring of projects/capital transfers given through the MED is poor. Within the capital expenses was budgeted and paid the amount of €69,750 on behalf of the project “Inert river flows”, which by nature are expenses for research services and cannot be considered as capital;
- Post and Telecom of Kosovo had filed a lawsuit against the Ministry for not awarding funds for provision of universal and reserved services that derive from the agreement dated 06.02.2014 between PTK and MED based on the Law 03/L-173 on Postal Services. The value of this claim/lawsuit is €3,504,342. Also from the data obtained from the State Advocacy and MED we have identified six other cases/lawsuits in procedure (without any financial value). While Ministry has not made and disclosed risk assessment for these cases and had not presented in the AFS of 2017 contingent liabilities; and
- Article 11 of the Regulation no. 02/2013 on Management of Non-Financial Assets establishes that: non-financial capital assets that are in the stage of on-going investment or at the construction stage should be recorded in the accounting register, in the category of on-going investments. During 2017, MED made payments in the amount of €4,421,627 for capital projects/capital investments for renovation of public buildings and other investments. These payments were not recorded in the accounting register as on-going investments.

The abovementioned cases have not modified the opinion but have had impact on the Opinion with Emphasis of Matter in 2017.

## Responsibility of Management and Persons Charged with Governance for AFS

The Secretary General of the Ministry of Economic development is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Modified 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 number 03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

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The Minister is responsible to ensure the oversight 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. We conducted our audit in accordance with ISSAIs. These standards require that we comply with ethical requirements and plan and perform the audit to 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 any material misstatement that might exist. Misstatements can 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.

An 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.

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

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## 2.2 Compliance with AFS and other reporting requirements

The MED is required to comply with a specified reporting framework and other reporting requirements. We considered:

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
- Requirements of LPFMA no. 03/ L-048, on Management of Public Finances and Accountability (as amended and supplemented);
- Compliance with Financial Rule no.01/2013 and 02/2013;
- Action Plan on implementation of recommendations; and
- Requirements of Financial Management and Control (FMC) procedures.

### DECLARATION MADE BY THE MANAGEMENT OF MED

Given the above - the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance can be considered to be correct, even though there are issues that have had impact on audit opinion with emphasis of matter.

## 2.3 Recommendations related to Annual Financial Statements

**Recommendation 1** The Minister should ensure that an analysis is undertaken to determine the causes of the emphasis of matter. Furthermore, to ensure good management and adequate controls over capital transfers for public enterprises, so that they are done only for approved projects under the Budget by the Assembly, and to undertake specific actions to eliminate errors in classification of expenditures, particularly in capital investments/transfers.

**Recommendation 2** The Minister should ensure that contingent liabilities are handled and analysed carefully and in coordination with State Advocacy to secure information/evidence for adequate presentation of these cases. Also should be evaluated their risk and provide information / sufficient disclosures on contingent liabilities in the AFS.

**Recommendation 3** The Minister should undertake actions to ensure effective controls in the process of investments and accurate recording/reporting of capital assets, while Annual Financial Statements should be subject to rigorous review by the Chief Administrative Officer and Chief Financial Officer, before the declaration is signed and AFS submitted to the MoF.

## 3 Financial Management and Control

### Introduction

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Budget Organisations. Specifically, the focus of the audit was Budget management, Procurement issues, Human Resources as well as Assets and Liabilities.

### Financial Management and Control Conclusion

Our audit has revealed some weaknesses related to compliance upon implementation of procurement regulations, and insufficient oversight by the management over expenditures, particularly over capital transfers, subsidies and transfers, and travel expenses abroad. This reflects lack of adequate oversight by the MED in these areas, which is required to ensure fulfilment of all statutory obligations. Financial management and effective control requires review processes and accompanying guidelines that ensure full implementation of laws, internal regulations and other processes of control.

#### 3.1 Budget Planning and Execution

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

**Table 1. Sources of budgetary Funds (in €)**

Description	Initial Budget	Final Budget <sup>1</sup>	2017 Outturn	2016 Outturn	2015 Outturn
<b>Sources of Funds</b>	25,656,991	24,372,867	22,972,556	29,011,107	23,609,109
Government Grant -Budget	18,389,725	21,105,601	20,223,249	28,166,408	22,097,977
Financing from Borrowing	4,267,266	3,267,266	2,749,307	844,699	1,473,723
Revenues from PAK	3,000,000	0	0	0	0
External Donations	0	0	0	0	37,409

The final budget in relation to the initial budget has decreased by €1,284,124. Budget changes have resulted due to the increase of budget from the Government Grant in the amount of €2,715,876, while the budget reduction was due to borrowings in the amount of €1,000,000, and from revenues of the Privatization Agency of Kosovo (PAK) in the amount of €3,000,000 on behalf of the defence in arbitration.

<sup>1</sup> Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

In 2017, the Ministry had spent 94% of the final budget, with an improvement of 4% compared to 2016.

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

Description	Initial Budget	Final Budget	2017 Outturn	2016 Outturn	2015 Outturn
<b>Spending of funds by economic categories</b>	25,656,991	24,372,867	22,972,556	29,011,107	23,609,109
Wages and Salaries	1,123,242	1,131,242	1,116,910	1,073,641	947,753
Goods and Services	4,263,669	3,613,669	2,656,685	3,036,043	3,728,096
Utilities	46,210	46,210	18,311	22,341	43,144
Subsidies and Transfers	4,933,870	8,148,682	8,058,014	10,802,604	9,831,120
Capital Investments	15,290,000	11,433,064	11,122,636	14,076,478	9,058,996

Explanations for changes in budget categories are given below:

- The final budget for wages and salaries in relation to the initial budget has increased by €8,000. This increase was done based on Government for employment of two employees from the Serbian community;
- The final budget for goods and services was reduced by €650,000. With the budget review was decreased the code of various intellectual expenses by €800,000, while under the Government decision we have a budget increase by €150,000. Budget execution for this category was at 74%;
- The final budget for utilities had not suffered differences from the initial one. Spending of utilities is at 40%, due to transfer of electricity expenses to the Ministry of Public Administration for government facilities, and electricity expenses covered by the Airport of Gjakova;
- The final budget for subsidies and transfers has increased by €3,214,812 compared to the initial budget. The increase has occurred with the budget review as a result of three Government decisions to cover operational expenses of Publicly Owned Enterprises; and
- The final budget for capital expenditures compared to the initial budget has decreased by €3,856,936. With the initial budget were planned 19 capital projects. With budget review two projects in the amount of €3,000,000 were not included (Program for Implementation of Digital Economy in the amount of €2,000,000 and the Program for Implementation of Energy Efficiency in the amount of €1,000,000), as their funding is foreseen with revenues of the Privatization Agency of Kosovo, which were not approved by the Assembly of Kosovo. Budget execution for this category was at 97%.

## 3.2 Wages and Salaries

Expenditures for wages and salaries for 2017 were €1,116,910, which are paid through a centralised payments system managed by MPA and MoF.

In this category we have noticed that by October 2017, the Cabinet of the Minister had 22 official employees, four more than planned. Five of them were not included in the payroll but were paid from the category of goods and services. This situation is also presented in the audit reports of 2016 and 2015, while from October 2017 this issue was removed/improved. Our tests have not brought other issues in this area.

### **Recommendations**

We have no recommendations in the area.

## 3.3 Personnel Management

The Ministry is responsible for implementation of personnel procedures in accordance with the Law on Civil Service. We have tested a number of samples to ensure that actions taken in this area are in accordance with the relevant legislation.

### **Recommendations**

We have no recommendations in the area.

### 3.4 Goods and Services and Utilities

The final budget for goods and services in 2017 was € 3,613,669 while the expenditure was € 2,656,685. Expenditures relate to contract services in the amount of € 2,087,084, travel expenses abroad in the amount of € 206,452 and other expenditures. Our audit revealed irregularities in these costs, which are presented below:

#### Issue 4 – Extending the contract without a clear regulatory basis

**Finding** Regulations and Operational Guideline for Public Procurement<sup>2</sup> stipulates that: if the procurement activity contains an option (**possibility to extend the contract**), the value of the option will be estimated and foreseen under the estimated contract value. An option means that the Contracting Authority has the right to request additional deliveries at the same price and under the same conditions set out in the contract. Such options should be included in the publications and specified in the tender dossier. Otherwise, options cannot be requested.

MED during 2014 through procurement procedures has entered into two contracts for advisory services (Public Relations Advisor and Advisor for Energy Issues) for the Project Implementation Unit “TC Kosova e Re”. In the contract notice was stated that contracts were for services and the option for extension was not foreseen. Such option was foreseen only in the tender dossier.

Two tested contracts were entered into for two years (2014-2016). While under the special conditions of the contract was established the possibility of extension for three more years, and were introduced other elements of employment contract<sup>3</sup>.

In April 2016 these contracts were extended for three more years until 30.04.2019. Expenditures from these two contracts in 2017 were in the amount of €28,427.

**Risk** Extending contracts in this manner is not in accordance with public procurement rules and operational guidelines. Due to this, the Ministry may pay services without competition whereby not achieving the value for money.

**Recommendation 4** The Minister should take actions to increase controls over contracts, in order to ensure that spending of money is done through contracts that have legal support.

<sup>2</sup> Public Procurement Guideline (Section 13.8) and two previous documents Regulation of Public Procurement section 12.8 and section 2 point 6 of the , is a derivative of the Public Procurement Guidelines (which were in force at the time of the contract. While, the request/ term for options has also been prescribed by the PPRC in the template notice for contract.

<sup>3</sup> In addition to amending the procurement law on 21.01.2016, section 3.6 does not allow this law to apply for employment contracts.

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**Issue 5 - Contract for travel ticket expenses**

**Finding** According to clause 13.1 of the Public Procurement Operational Guideline, the estimated value of a public contract will be calculated prior to the initiation of the procurement procedure. Such calculation should be realistic and reasonable.

Expenses for abroad travelling tickets have exceeded their planning/contracting. The contract is foreseen €30,000 per year, while only in 2017 were spent €114,076.

The Ministry has a framework contract "Air travel services for the needs of MED", for 36 months (from 23.03.2015 until 23.03.2018), which was before the amendment/supplement of the procurement law. In the Article 3.1 of the contract is stipulated that the contract value should be approximately €30,000 per year. However, only during 2017 under this contract was paid €47,248 or 57% more than the value specified in the contract. Moreover, as of 13.04.2017, the Ministry has signed an agreement with the EO on the use of the CPA<sup>4</sup> contract, and with this contract were made payments for tickets in the amount of €66,828.

Use of the CPA contract has started without the conclusion of the individual contract of the MED with the EO. Moreover, in the CPA contract the price of service per unit was €1.27, which was higher compared to the previous contract which was 0.0000000001<sup>5</sup> cent per unit.

**Risk** Exceeding planned expenses poses a risk as expenses may not be incurred for purposes related with organization's objectives. While using the CPA contract without concluding the prior contract increases the risk towards contractual obligations, what is more, the contract was not even economic and has negative impact on achievement of value for money.

**Recommendation 5** The Minister should increase controls over the management of contracts for travelling expenses, and to ensure that planning is done according to real and reasonable needs, so that travelling expenses are in line with achievement of Ministry's objectives.

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<sup>4</sup> CPA - Central Procurement Authority has concluded a framework contract for air transport services, which can be used by 84 budget organizations

<sup>5</sup> This value (from: zero point ten zero one cent) was not invoiced on the invoices for purchase of tickets.

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**Issue 6 - Failure to justify expenses for official travel****Finding**

According to AI No.2004/07 clause 1 - after filling out the form for official travel, should also be attached the reasoning in written and approved by the supervisor of the civil servant, and the agenda of the official meeting. In addition, Articles 3 and 8 of this AI specify that requests should contain the value of financial means that should be justified with proper evidence on expenses of official travel.

Related to travel expenses, we have noticed that in three cases are missing invoices for accommodation expenses<sup>6</sup>. While in 11 cases there is no boarding pass, and the justification of trip was inadequate in most of the cases. In addition, the travel request form was not signed by the personnel officer, and was not used the official form for calculation of expenses for official travel.

Furthermore, official travel to Turkey in the amount of €996 was paid for a former official of the Ministry, who was engaged in the Ministry on voluntarily basis after reaching the retirement age. According to the Regulation no. 20/2012 for voluntary work of civil servants, Article 7 defines responsibilities of the institution upon engagement of retired civil servants for voluntary work, wherein covering of these expenses is not foreseen.

**Risk**

Lack of travel evidence and inadequate justification regarding official travel is in disagreement with applicable rules, and poses a risk where such expenditures may not have been incurred for the right purpose. In addition, paying engaged officials for voluntary work does not have legal support.

**Recommendation 6**

The Minister should increase controls in this area and ensure that official travel expenses are incurred based on established rules, and are only carried out for the right purposes of the Ministry. In addition, to analyse travels without sufficient justification and ensure that such practices are not repeated.

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<sup>6</sup> Travel to Greece with nr. of obligatory order for payment (UOP) 21317948, travel to Norway with nr. of obligatory order for payment UOP 21317832 and travel in Switzerland with nr. of UP 213171045 (for these cases there are no accommodation/hotel bills).

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## 3.5 Subsidies and Transfers

The final budget for subsidies and transfers was €8,148,682, while expenditures for 2017 were €8,058,013, out of which the amount of €8,022,682 was mainly used to cover operational expenses for public enterprises. While the amount of €35,332 was given based on the decision of the secretary or minister depending on requests.

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### Issue 7 - Weaknesses in evaluation and monitoring of public enterprises

**Finding** According to the Article 28.3 of the Law no. 03/L-087 on Publicly Owned Enterprises, the Policy and Monitoring Unit of Public Enterprise (PMUPE) on annual basis should assess the effectiveness of directors of each Publicly Owned Enterprises (POE) and publish this assessment on the website. For 2017 this unit has not managed to produce/publish such assessment.

In addition, the Ministry with each Publicly Owned Enterprises that benefits from subsidies and capital investments has signed an agreement on monitoring and checking these expenditures. Signed agreements do not clearly specify how to justify or document awarded subsidies.

**Risk** Lack of assessment of effectiveness of directors of Publicly Owned Enterprises weakens accountability and is in disagreement applicable rules. Furthermore, failure to establish clear criteria on expenditure reporting poses a risk, as funds may not be used for intended purpose.

**Recommendation 7** The Minister should ensure adequate monitoring of Publicly Owned Enterprises, proper management and control of subsidy expenditures, by establishing clear criteria on reporting of these expenditures.

### Issue 8 - Insufficient justification of subsidies

**Finding** The Regional Waste Company "Uniteti" has concluded an agreement with the MED for financial support, under which the MED will provide subsidies to cover minority cases (Serb, Roma, Ashkali, Bosnian and Turkish) and the part in Mitrovica north according to the registry of customers and within the budget opportunities.

Under this agreement, with the request of the Company were carried out two payments of €30,000 (€total 60,000) on 03.03.2017 and 20.07.2017. Upon the request, the company has provided simple lists of settlements inhabited by minorities, names/surnames, and the monthly value of the financial charge. The documentation provided by the company does not provide sufficient evidence that these persons are active customers of the company registered in its system (including identification number, coupon number, billing for these customers, and in general the debt history etc.)

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**Risk** Lack of clarity/assurance on customer records regarding the invoicing by Publicly Owned Enterprises, makes Ministry's oversight difficult regarding the transfer of financial assistance. Due to this, public money may not be used for the purpose intended and results in inaccurate financial reporting by the Ministry.

**Recommendation 8** The Minister should ensure proper controls over the monitoring of subsidies, and ask from responsible officials to examine documentation and subsidies should be award after ensuring that they serve the intended purpose.

### 3.6 Capital Investments

The final budget for capital investments was €11,433,064 while expenditure were in the amount of €11,122,636. The amount of €4,822,299 are capital transfers to public entities, while the rest are for investments in public buildings. In the following we will present weaknesses identified in this area:

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#### Issue 9 – Failure to transfer ownership upon purchase of vehicles / trucks

**Finding** Within the project no. 12054, "Installation of filtering equipment and equipment for improvement of technology and work conditions" for the Enterprise Trepça-North the MED had carried out a payment for capital transfers in the amount of €103,198 (date 09.08.2017). The transfer was done for purchase of three vehicles (one transport truck in the amount of €18,190 with production year 2011, one truck in the amount of €63,720 with production year 2007, and a loading vehicle in the amount of €21,288.) Based on the evidence obtained from the Ministry (PMUPE), it is noticed that contracted vehicles were received according to the committee, but we have found that two trucks were not transferred into the ownership of Trepca. The MED had provided copies of vehicle registration documents for these trucks, which confirm that they are still owned by the seller (private company).

**Risk** Lack of monitoring and controls over capital transfers in POEs increases the risk, as funds may not be used for the intended purpose and in line with targeted objectives of the project. In addition, failure to transfer ownership does not ensure that the asset belongs to the organization.

**Recommendation 9** The Minister should ensure effective monitoring over capital transfers for projects in publicly owned enterprises, so that they are spent in accordance with their approval. In addition, to ensure that assets are transferred only after correct procedures for purchase and transfer ownership is done.

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### 3.7 Common Issues on Goods and Services and Capital Investments

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

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#### **Issue 10 - Concluding contracts through inadequate procedures**

**Finding** According to the Article 35.2 of the LPP, conclusion of contract with a negotiated procedure without publication of a contract notice can be done in cases where for technical reasons there is only one potential economic operator, or because of the existence of exclusive copyright of the author, in cases of extreme urgency. The Ministry has signed a contract in the amount of €5,474, dated 13.12.2017 for maintenance and transfer of the MED inventory by using a negotiated procedure without publication of the contract notice. This type of service is not foreseen in the abovementioned Article of the law. This has happened because the open procedure was accompanied by complaints during the procurement process, and was not managed to announce the winner.

**Risk** Using inadequate procurement procedures besides being in disagreement with legal requirements, it also does not promote competition and increases the risk of not achieving market pricing.

**Recommendation 10** The Minister should ensure adequate controls and management in the area of procurement by ensuring adequate procurement/contracting procedures.

#### **Issue 11 - Exceeding the value of the contract**

**Finding** Article 38 of the Law no. 04/L-042 on Public Procurement (supplemented and amended on data 06.01.2016) determines the allowed discrepancy of the framework contract plus/minus 30% of the contract value. If the 30% is exceeded, regardless of the date of expiration of the public framework contract, the contract shall be terminated automatically.

For the framework contract "Production of video reports from meetings and activities in MED for the needs of the Ministry's website and distribution to media", signed on 08.03.2016 in the amount of €3.945, only in 2017 were paid €5,860€ or was exceeded by 49% or 19% above the allowed limit.

**Risk** Exceeding the framework contract is in disagreement with applicable laws, and reflects weakness in contract management. This increases the risk as funds may not be used for the intended purpose and may cause the Ministry to enter into unplanned financial liabilities.

**Recommendation 11** The Minister should ensure proper controls over the area of procurement and adequate management of public contracts for the purpose of their proper implementation and achievement of value for money.

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### 3.8 Capital and Non-Capital Assets

The Ministry of Economic Development during 2017 has made significant progress in terms of assets recording compared to the previous year. Despite the progress, assets register is not yet complete and accurate. Regarding the assets we have presented an issue in sub-chapter 2.1, which the Ministry should take into account in 2018. We have no other issues to report.

### 3.9 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2017 was €9,000, while in 2016 were €64,000, thus we notice a decrease of liabilities by €55,000. These liabilities were carried forward to be paid in 2018. Except for issues presented in the subchapter 2.1, we have no issues that need reporting.

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## 4 Progress in implementing recommendations

For our audit recommendations of 2015 and 2016, the MED has produced action plans for implementation recommendations. As part of our audit, in 2017 we have concluded that out of 10 recommendations given for 2016, three recommendations have been implemented, three partially, and four have not been implemented. While out of five recommendations carried forward from 2015, one has been implemented, and three are still in the process of implementation and one has not been implemented yet.

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### Issue 12 - Implementation of recommendations from previous and earlier year

**Finding** Despite efforts made by MED to implement recommendations, a large number of recommendations remain unimplemented. As a result, the same deficiencies have been repeated as in previous years. This was more evident in preparation of the AFS, IAU system, goods and services, subsidies and transfers, and assets.

**Risk** Due to non-implementation of recommendations were repeated the same weaknesses in management controls and in other controls of key financial systems, and there is a risk that this situation may continue to remain as such.

**Recommendation 12** The Minister should analyse the reasons behind non-implementation of prior recommendations, and ensure that a revised action plan will address all weaknesses and is subject to regular monitoring by the management.

## 5 Good Governance

### Introduction

Good Governance implies basic principles of accountability, effectiveness of controls, risk management, independence of internal audit, and coordination of NAO with internal audit and good governance with public assets.

A key tool supporting effective governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. The level of compliance with FMC requirements by Budget Organizations is monitored by the self-assessment checklists completed by all BOs, which are submitted at the end of the year to the Ministry of Finance.

Specific areas of our governance-related reviews have been the accountability and risk management process, while the other components are handled within the chapters or subchapters above.

### Overall Governance Conclusion

Regarding the good governance we appreciate the progress made by MED in compiling the risks list and the action plan for management of risks. Although the MED has drafted the Strategic Development Plan for the years 2017-2020 by establishing four main objectives, this represents only one step for good governance. To this action plan should be added actions for implementation.

There are a number of governance weaknesses within the MED as mentioned above regarding the non-implementation of recommendations from previous years, and there is lack of a clear plan of expenditures related to capital projects as capital transfers for public entities.

#### 5.1 Internal Audit System

The Internal Audit Unit (IAU) consists of two auditors, the Director and one auditor. IAU had planned four audits out of which only two were carried out.

The Audit Committee had held regular quarterly meetings wherein was discussed implementation of recommendations and managing deficiencies of IAU by recommending the management to take actions. Weaknesses identified in this area are as follows:

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**Issue 13 - Weakness in the functioning of IAU****Finding**

According to the law no. 03/L-128 on Internal Audit, the annual strategic audit plan should be submitted to the Central Harmonization Unit for Internal Audit (CHU/IA), no later than October 31<sup>st</sup> of each calendar year, after the approval of senior management and the audit committee. In addition, the IAU is also responsible for preparation and submission of quarterly and annual reports on audit activities to the CHU/IA.

Even during 2017 the management and the work of the IAU was followed by weaknesses.

- Approval of the annual plan and the updating of the strategic plan was made with a two-month delay (05.01.2017);
- In the annual audit plan are planned four audits, while only two have been completed;
- IAU for 2017 had only reported on the first quarter to the CHU/IA; and
- Although completed audits in the planning were considered as high-risk audits, they have not resulted as such. The audit "Handling and identification of liabilities of 2016" was completed on 27.03.2017, while in the action plan the finance directorate has stated that liabilities were paid in February. In addition, in the audit "Monitoring of the Boards of Directors of Central Publicly Owned Enterprises", was changed the audit objective, by auditing the "Management System of the Unit for Monitoring of Publicly Owned Enterprises".

**Risk**

Identified weaknesses have resulted due to inadequate planning of audit objectives, which reduces the assurance given to the management related to functioning of key financial systems. Furthermore, this may also results in non-identification of potential weaknesses and continuation of ineffective practices.

**Recommendation 13** The Minister should take immediate measures to ensure effective functioning of the IAU, so that benefits of this Unit are maximal by contributing to proper functioning of internal controls.

## 5.2 Management Reporting, Accountability and Risk Management

Management has implemented a number of internal controls to ensure that financial systems function properly. It is important that they include proper reporting to the management to enable an effective and timely response to identified operational problems.

The internal reporting process in the MED functions according to the accountability chain, law and organizational structure. Regarding this, management holds regular meetings with all heads of department, where the minister is often a participant, wherein were discussed reports and other issues on its activities. Departments report on weekly basis on their activities. However, there is no information and monitoring over the achievement of organization's objectives, which was self-assessed with poor grade in the self-assessment report by the organization itself.

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### Issue 14 - Weakness in management controls, and management of risk/projects

**Finding** Ministry during 2017 had not managed to apply sufficiently management controls. We have identified the following weaknesses:

- According to the rules of Financial Management and Control (FMC), the MED should have a risks register. Although the risks register has been compiled, its content is not actively managed in terms of updating and ensuring that actions are taken to mitigate the risks. In the self-assessment report was seen that MED still has still weaknesses. In Component 4 - Information and Communication, on eight questions the responses were negative.
- On 20.10.2017 was paid the amount of €498,986 for the purchase of the SEM device for the Kosovo Geology Laboratory. On October 18, 2017, the committee consisting of three members had physically received the device, but has not tested it as the Ministry has not yet secured the location for installation of these devices. We have physically examined the device in May 2018, which is still packaged. The Ministry is trying to secure a location/facility for these devices (in coordination with other Institutions), but has not yet managed to secure.

**Risk** Self-assessment of activities with negative response gives a signal that controls over financial management cannot prevent errors in certain areas. In addition, the purchase of equipment without prior assurance of the location results that device remains unused and not useful for the respective needs, while expenditure incurred has not achieved the intended purpose.

**Recommendation 14** The Minister should ensure that are taken specific actions to improve poor grading in the self-assessment process, and ensure that all payments for project have achieved the intended purpose and ensure that equipment is purchased based on plans/needs of the Ministry, initially providing location/object.

*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.

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*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 1705<sup>19</sup> 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: Prior and Earlier Year Recommendations

Audit Component	Recommendation carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
2.3 Prior Year Recommendations	The Minister should constantly ensure that responsible persons are kept accountable as set out in the action plan for addressing AG's recommendations according to the timelines in the Action Plan.		Out of five recommendations carried forward in 2017, only one was implemented, while two are in process and the other two have not been implemented.	
2.4 FMC Self-Assessment Checklist	The Minister should initiate drafting of an inclusive MED strategy followed by the financial cost that may impact the achievement of objectives intended. In addition, the Minister should take actions for addressing areas of weaknesses identified in the self-assessment checklist.		Based on the self-assessment checklist no measures have been taken yet towards implementation of all areas. The review of this list has resulted being partial, as only some parts of this recommendation have been implemented.	
2.5.2 Internal Audit System	The Minister should analyse the reasons of timely preparation and qualitative preparation of the annual plan and non-completion of audits by IAU and should take measures for functionalization of IAU as an important internal control.			No actions taken
3.5.1 Remunerations (Wages and Salaries)	The Minister should ensure that in cooperation with the Ministry of Finance they have included all officers employed with regular employment contract in the payroll list, always taking into account the number approved with the Budget Law.			No actions taken

Audit Component	Recommendations given in 2016	Implemented	Under implementation	Not implemented
1.2 Compliance with AFS and other reporting requirements	The Minister should ensure that the budgeting and classification of projects are well analysed and that they belong to the adequate category in order to avoid misclassification. Moreover, the Minister should ensure that noncapital assets under €1,000 are correctly reported.			No actions taken
2.1 Progress in the Implementation of Prior Year Recommendations	The Minister should ensure that the action plan is reviewed while analysing the causes behind incomplete implementation of recommendations and set out a new timetable for their implementation with initial focus on most important areas and implementation of this plan should be monitored on an ongoing basis.		Partly, as actions for implementation have been taken, but not all recommendations have been implemented yet.	
2.2 Self-Assessment Checklist of FMC components	The Minister should ensure that the risk management plan is drafted based on the identified risks and provided for regular reporting on the implementation of requirements in this area by monitoring the risks management on a continuous basis.		Partly, as the plan has been prepared, but there is still no regular reporting on implementation of this recommendation.	
2.3 Internal Audit System	The Minister should analyse the causes behind IAU's failure to operate effectively and influence on the elimination of obstacles between the relevant actors, by making IAU, as a very important internal control component, operational.			No actions taken
3.1 Budget Planning and Execution	The Minister should ensure that an assessment of the reasons behind the identified obstacles in the process of this project's implementation has been made and that lessons are drawn in order to prevent these practices from being repeated. In cases of financing from loans or other forms of co-financing, project management requirements should be clearly defined.	Implemented		

3.1.1 Wages and Salaries	The Minister should ensure that the legal framework is adhered to when it comes to the budgeted number of staff and that all officials who have regular contracts are paid from the Payroll.		Until October 2017, actions has not been taken, improvements has come with change of staff in the cabinet of the Minister.	
3.1.2 Goods and Services and Utilities	The Minister should ensure that controls over the payment execution process are effective and prevent any irregularities before the payment is made. A continuous monitoring of the effectiveness of established controls could also be provided by the IAU.	Implemented		
3.1.3 Subsidies and Transfers	The Minister should ensure that any subsidy payment has been previously approved by POE/PMU and fully in compliance with the signed monitoring agreement.			No actions taken
3.1.4 Capital Investments	The Minister should, through the Procurement Manager, ensure that the established criteria are fully in line with the LPP and that evidence that established criteria can be met are clearly specified.	Implemented		
3.2 Assets	The Minister should ensure that registers are managed in line with general rules on assets management, i.e. to ensure that the e-assets system is operational. In addition, the Minister should take action to create the conditions in order that equipment for the geology laboratory are put to use.			No actions taken

## Annex III: Management Response to OAG Findings

Findings/ Issues	Agree Yes/No	Comments from the BO in case of disagreement	NAO view
Recommendation 1	Partially Agree	POEPMU has always followed-up cases of POEs, whereby has secured necessary documentation through which has ensured good management and control so that payments for capital transfers and subsidies are carried out within the planned timeframes in appropriate classification of expenditures (payments) in economic codes Subsidies or Capital Transfer, as planned in these economic codes.	MED comment or explanation does not change the finding/recommendation.
Recommendation 2	Partially Agree	Contingency obligations cannot be handled if there is no judicial decision or in the present case, the claimant - The Post and of Kosovo fully implements the agreement and fulfils the conditions for compensation of expenses for the exercise of reserved postal service. In this case, the Post of Kosovo had not met either of foreseen conditions and for this reason the MED could not handle it as a "contingent liability" and present the same in the Financial Statements of 2018. Also, conclusions on six other lawsuits based on the data obtained from the State Advocacy Office, only three of them relate to the MED, while other lawsuits have been addressed to public enterprises and is a decision for the PRB, Therefore, it is cannot be foreseen disclosure of risk assessment and presentation in the AFS, cases which are not against the MED as disputes or contingent liabilities.	<p>Under Regulation 01/2017, the contingent liability is an obligation that materializes only after the occurrence of certain events in the future. Under accounting standards, contingent liabilities appear if the opportunity arises, but it is not sufficiently reliable that the obligation exists or the amount cannot be safely assessed.</p> <p>In case of PTK, it is a document filed on 19.06.2017 submitted to the Treasury on behalf of the Bailiff for the debt of the MED on PTK and a complaint of the State Advocate against the claim of PTK. There are also six other cases as presented in the audit report.</p>

			<p>Article 18 of the MF 01/2017 Regulation stipulates that the budget organizations in, report all contingent liabilities accordance with the LPFMA. While the LPFMA requires an assessment of all contingent liabilities, including a risk assessment.</p> <p>Therefore the finding and the recommendation do not change.</p>
Recommendation 3	Partially Agree	<p>The Ministry of Economic Development during 2017 has made significant progress in terms of assets recording compared to the previous year. Also, the adjustment of Financial Statements has occurred on 22.02.2018 where was adjusted the Note 10 at non-tax revenues, as revenues from licenses which have been collected as revenues for authorization and examination of "Pressure vessels" for parties authorized by the MED in the amount of €2,100. Since revenues were not presented in the Financial Report for the nine-month period of 2017 and the Annual Financial Report submitted on 30th January 2018, this adjustment was done with the revision of the AFS. Changes have occurred at Article 13 and Article 14 in the AFS, in the code goods and services in the amount of €-114.93. Therefore, as emphasized in this report by you, we consider that statements present true and fair situation, given what was emphasised above.</p>	<p>The Ministry's comment further explains the timing of preparing the financial statements and the progress in asset registration, while our finding and recommendation relates to failure to record the ongoing investments and failure to present them in the statement of financial position. Therefore the finding and the recommendation do not change.</p>
Issue 4: Extending contract without a clear regulatory basis	Partially Agree	<p>Conclusions in the issue regarding the specific case do not stand as Article 13.8 of the PPL has entered into force on 16.04.2018, while the procedure was developed and the contract was signed in 2014, where this contract until the end will continue with applicable laws when procedures for this contract were developed, this is clarified by the relevant provisions of the legislation, with the current Law. It is worth mentioning that in the Tender Dossier and in the contract is the option of extension, where you have been informed and we have sent it to you</p>	<p>We referred to the Rules and the Procurement Guideline which were in force at the time of signing the contract, not the LPP.</p> <p>Our finding is related to following the procurement rules and the preparation/extension of the contract.</p>

		<p>in electronic and physical form. When it comes to Article 3.6 that excludes employment, this contract is not employment, but engagement of an advisor for advisory services for relevant needs according to the government decision, and we have acted according to the Government decision of the of Kosovo. In addition, these two contracts were signed in 2014, their extension was done in 2016, while the NAO in the audit of the financial statements for 2016 did not have any remarks regarding this. At the same time, as you have been informed, to allow signing of these contracts there was also a decision of the Procurement Review Body dated 15.04.2014 wherein it is allowed the CA to proceed with this case and sign the contract.</p>	<p>With the fact that the Ministry in the contract notice has not foreseen the option/possibility of extension.</p> <p>The evidence presented, the decision of the government and the decision of the PRB regarding a complaint of the EO, are not related to the finding, therefore the finding and recommendation does not change.</p>
Issue 5: Contracts / Expenses for Travel Tickets	Do not agree	<p>According to point 13.1 of the Public Procurement Operational Guidelines, the estimated value of a public contract is assessed before commencement of the procurement procedure. In this case, the value foreseen in the contract (€30,000) is for 2015, at the time the contract is signed with the economic operator. Whereas, for 2016 travel expenditures were planned in the amount of €205,245.00. And for 2017 in the amount of €214,637.00. This calculation is always made based on the expenditures incurred in the previous year, and based on the official agendas and planning for the upcoming year. Further on, speaking of this contract we should take into account that for these contracts accurate estimates cannot be made, because the airline ticket prices are not fixed and travel planning cannot always be accurately predicted. This is the case that happened in 2017 where many trips were carried out without prior and urgent planning. Concerning the issue of switching to the CPA contract prior to finalize the individual contract, it is correct that the MED had a 36-month individual framework contract but, after completion of the contract in the amount and the value it was concluded, and automatically, according to the decision of the Government we were obliged to use the contract of the CPA, whose terms were stipulated by that contract, as well as the service price by unit in the amount of €1.27.</p>	<p>Our issue is related to the contract signed with EO and the value provided in the contract. We relied on Article 3.1 of the contract, which foresees that €30,000 per year, which means for the 3 years that the contract was in force. While the use of the CPA contract was requested after the end of the individual contract with the EO.</p> <p>The issue set out in the report does not change since the finding is related to the Framework Contract for Travel Ticket Expenditures. Therefore the finding and the recommendation do not change</p>

Issue 6: Failure to properly reason Official Travel Costs	Partially agree	<p>The trip to Greece, this case folder contains the hotel bill no. AA255482, in the amount of 273 euros while on the same trip (case) the individual concerned has also travelled to Croatia but, in that case the overnight expenses were covered by the organizer and the individual was not paid nor calculated for this type of expenditures. Documentation: Full case file for Trip to Greece and Croatia: KP 94399</p> <p>Traveling to Switzerland also has the "POSTHORN" Hotel bill in the amount of CHF 77S with accurate data for the time of stay of the individual that has travelled. Documentation: Full file case of paid expenditures for the trip concerned: KP 2017-2175609 Trip to Norway, has the bill of accommodation expenditures, for this trip that individual concerned has paid on behalf of "AIRBNB" No. 3/40/2017, in the amount of: 1430 euros for the stay from date 02/ September / 2017 to 13 / September / 2017. Documentation: The case file KP; 2017-225424. Concerning the (boarding pass) and justification for the trip, each case file contains a ticket and a justification attached, as proving documentation. We confirm that upon receipt of your draft report, we are accomplishing this request for (boarding pass), which was not a requirement for the individuals who have travelled abroad by plane. The issue of traveling of an official who is not a regular MED employee cannot be treated as a violation since MED has taken over to cover all expenditures related to the activities and working condition in the post-retirement agreement. Mutual agreement for post-retirement work. Non-signing of a formal travel document by the Personnel Officer was only practiced when traveling was made for participation in trainings or workshops related to the sectorial activities of the Ministry. Nowadays we have the form modified by the MoF, and it does not contain the requirement for the signature of Personnel Officer.</p>	<p>Comments made for the trip to Greece and Norway are not relevant because they are not related to our tested samples (we have tested two other trips specified in relation to the Order of Purchase Order).</p> <p>While for travel to Switzerland, a document is provided that is not an invoice, but confirmation of reservation.</p> <p>The ministry has also claimed that now they are requesting boarding pass for each trip.</p> <p>Regarding the travel of an employee who is not a regular MED employee, the purpose of the trip was not related to the duties for which he was engaged in the ministry.</p> <p>Therefore, comments and evidences are not relevant and the Ministry's reasoning do not change our issue.</p>
Issue 7: Weakness in	Partially Agree	In the absence of capacities to assess the effectiveness of the Boards' Directors, the POEPMU has made efforts to achieve this by initiating	We have assessed that the requests for subsidising reasoning are poor in the

the assessment and monitoring of publicly owned enterprises		the request for contracting external companies to evaluate the effectiveness of the Board Directors at POEs, but due to the lack of funds this could not be achieved. While the agreements specify the necessary requirements for execution of the expenditures for the subsidies allocated by the Law on Budget and executed as in such capacity. The method of keeping and materialisation of the documents is the POE's legal responsibility, and according to the applicable laws we as POEPMU do not have the right to interfere in the managerial area.	Agreement, as a result we found irregularities in this area. Therefore the finding and the recommendation do not change.
Issue 8: Insufficient Reasoning for Subsidies	Partially agree	Based on budget allocations, the code of water and waste management code shows that MED during 2017 has allocated funds to public enterprise KRM Uniteti J.S.C. These funds were intended to cover operating expenditures incurred by non- settlement of bills from the minority community, throughout the region covered by enterprise. The MED does not pay outstanding bills of the enterprise consumers. Due to this fact we have not asked for the invoices by POE as proof, but only the list of families that are billed, upon which the subsidy is calculated.	We have foreseen that the reasoning for the subsidies was insufficient. Therefore finding and recommendation remain the same.
Issue 10: Entering into contract under inadequate procedure	Do not agree	We disagree with the issue 10, because Article 35 of LPP, quote: The Contracting Authority can use the negotiated procedures without publishing the contract notification to exercise the procurement activity only in accordance with this Article. PPRC in accordance with Article 87, paragraph 2, subparagraph 2.3 of this Law, should be notified by the concerned Contracting Authority within two (2) days from the date when the decision to use such procedures has been taken. The Contracting Authority, in the notification should provide a detailed explanation of considered facts and justification for the use of procedure. Based on this, we have refrained 100% to LPP and Article 35 paragraph. Article 35.2 of LPP it is not only for one operator procedure but also from several operator and that: Article 52.8 of ROGP: When the Contracting Authority decides to develop the negotiations with more than one economic operator, the negotiations will be developed	The type of service (maintenance and transfer of MED inventory) as presented in the report is not foreseen are developed through Article 35 of the LPP. Therefore, the finding and the recommendation remain.

		<p>according to the dispositions of Articles 51.15 - 51.22 of this regulations, in this case we have send the bids of 5 economic operators where we were informed when this case was audited. For your information, the price is lower than the published contract with legal deadline. Regarding this type of services ascertained by you, that this procedures is not foreseen, does not stand because it is a procedure of LPP Article 3S. I inform you that the notification for this procedure was done on 06.12.2017 in PPRC, with the form 50, where the monitoring is performed by the Department for monitoring that has a legal obligation if it is not in accordance with the LPP for refusal and approval, and we did not have any procedural remarks.</p>	
Issue 11: Exceeding Contract Value		<p>The finding of the National Audit Office in point 13 does not match with the factual situation. This due to the fact that the EO "Ekonomia Online" for the reporting period has had two contracts for different services with MED, the framework contract "Production of video reports from MED meetings and activities for the need of the Ministry's website and media dissemination" in the amount of €3,345 and the contract for Publications (25.08.2015) with X two year deadline in the total amount of €15,840. Therefore, on the occasion of the audit, the Auditor in question has reported the two lines of expenditures as a contract expenditure, which constitutes in wrong reporting of €623,000. These expenditures are for the two contracts of the EO in question. Whereas, the LPP with amendments has entered into force on 21.01.2016, but also after that, some deficiencies have been noticed and the last entry of LPP with amendments is on 01.03.2016, and it does not stand the fact that the LPP with the amendments in question, has entered into force on 06.01.2016 as you have mentioned in the report. The finding of issue 11 does not stand because here we are not dealing with a framework contract as the auditor pretends, but we are dealing with a public contract with the procedure of the Price Quotation.</p>	<p>The Ministry provided two contracts with the same EO, but has not provided any evidence on the claim that the payments cover two contracts.</p> <p>For the value of the payment presented in the report, we have the evidence that they were made through a contract (Video Reports from MED meetings and activities for the needs of the Ministry's web site and media distribution).</p> <p>Regarding the type of contract, in the contract notice, point II.1.3 The notification includes, the establishment of a public framework contract. Also article 3.3 of the contract stipulates that this is a framework contract.</p> <p>Therefore, the finding and the recommendation do not change.</p>
Issue 12: Implementing	Do not	<p>As stated in point 3.9, of this draft report on capital and non-capital assets, the Ministry of Economic Development has made significant</p>	<p>The Ministry comment explains the chronology of FS preparation and</p>

prior and earlier year recommendations	agree	progress in the aspect of assets recording in 2017 compared to the previous year, so in 2018 we will present the account register of assets to be complete and accurate. The correction of the Financial Statements occurred on 22.02.2018 where the note 10 to the non-tax revenues, where they were presented as revenues from the license and which have been executed as revenues for the authorization and examination of the "Vessels under pressure", for the authorized parties by MED in the amount of €2,100. Since the revenues were not presented in the Financial Report for the 2017 nine-month period and the Annual Financial Report submitted on 30 January 2018, this change was made with the correction of the AFS. The changes occurred also to Article 13 and Article 14 in the AFS to the code goods and services in the amount of -€114.93. Therefore, as it has been emphasized in this draft report by your side, we consider that the statements present the real and fair situation having into consideration what was emphasized above.	progress made. Whilst we have discussed the unimplemented recommendations which are detailed in the table in Annex II of this report. The situation of unimplemented recommendations derives from the factual situation in the organization. Therefore, the recommendation and the findings do not change.
Issue 13: Weaknesses in the functioning of IAU	Partially agree	Failure to compile the annual and strategic plan in time has come as a result of subjective health reasons this year even though it was within the time of drafting them. Further on, failure to execute the IAU's annual plan was made due to small capacity of the IAU staff, despite ongoing efforts to increase the number of the employees in IAU. The needs in the budget requests for increasing the measure have been addressed continuously for more than 3 years by the IAU and the Senior Management. Further on, in the Mid-Term Expenditures Framework (MTEF) 2019, the request has been filed but so far we have been unsuccessful with the budget increase in MoF.	The Ministry has commented on the reasons for the current situation in IAU. They have also provided evidence on the actions/requests that CFO has made to the Minister of Finance in 2018 to increase the number of auditors in this unit. But these do not change the situation presented in the report. Therefore, the issue and the recommendation for IAU remain and do not change.
Issue 14: weaknesses in managerial controls and risk/ projects		The payment for the SEM equipment, Geology Laboratory, in the amount of €498,986 in the name of supply with equipment for the Kosovo Geology Laboratory. For this equipment the Committee of three members had made the physical acceptance but not the testing, still unable to provide the most convenient location for placing these	The Ministry explained the process and the situation by confirming that the equipment is purchased and packaged. Therefore, the finding and the recommendation do not change.

management	<p>equipment's. Regarding the ascertainment, failure to use the purchased equipment's results that the need for that equipment was not necessary and the incurred expenditure did not reach the intended purpose. Such ascertainment do not correspond with the reality, because based on the Law no. 06/L-039 in Article 5, are determined the Duties and Responsibilities of the Kosovo Geological Service approved in the Assembly of the Republic of Kosovo and such equipment's for the KGS laboratory are a necessity for providing quality services for performing necessary studies, laboratory analyses, all these for the need of the local institutions and businesses which in some way create conditions for providing services and economic development of the country. After the receipt of the equipment in absence of the proper space, by the manufacturer we have strong recommendations and suggestions that the installation should not be made in a temporary locations for many reasons:</p> <p>i.</p> <p>First installation and testing including also the staff training is included in equipment supply price with the purchase guarantee, and this guarantee is still valid.</p> <p>ii. Equipment is packed in a special vacuum wrapping, and only the manufacturer experts can open it and make the installation of this equipment.</p> <p>iii. The second installation of the Microscope (SEM) has a high financial cost and based on the manufacturer recommendations it costs at least €20,000, because the equipment should be repacked in the special packs and the equipment's calibration should be done from the beginning (first calibration is guaranteed by the manufacturer) and all parts should be carefully repacked and to be placed in vacuum with special equipment.</p> <p>iv. In the manufacturer recommendations is made a remarks that the producer does not guarantee for the equipment (guarantee period) in</p>	
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		<p>case of dislocating in another place after the first installation. Therefore, regarding the provision of space or creating of the work conditions for the KGS laboratory, the Management of the Ministry and the KGS has consistently made efforts to seek from the MPA who is responsible for providing facilities for Governmental Institutions. There has an attempt to reach an agreement with the University to place the equipment's in the proper spaces that they have in Faculties and also to be used by students for their training during the studies, but has resulted unsuccessfully by the University representatives. In this sense, the MPA has drafted the facility construction project for some Agencies and for the KGS as well, and this now it depends on MPA to build the necessary spaces.</p>	
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