



Republika e Kosovës
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Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT
OF THE MINISTRY OF TRADE AND INDUSTRY
FOR YEAR ENDED 31 DECEMBER 2018

Prishtina, jun 2019

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

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

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

This audit is carried out in line with internationally recognized public sector auditing standards and good European practices.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the *Ministry of Trade and Industry*, in consultation with the Assistant Auditor General, Mr. Qerkin Morina, who supervised the audit.

The report issued is a result of the audit carried out by *Muhamet Balaj, Qëndresa Sogojeva and Lumturije Sopi*, under the management of the Head of Audit Department *Blerim Kabashi*.

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Executive Summary

This report summarises the key issues arising from our audit of the Ministry of Trade and Industry for 2018, which includes the Opinion of the Auditor General on Annual Financial Statements. Examination of 2018 financial statements was undertaken in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). Our approach included tests and procedures that were necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in the External Audit Plan dated 20.12. 2018.

Our audit focus has been on:



The level of work undertaken to carry out the audit was determined depending on the quality of internal controls implemented by the Management of the Ministry of Trade and Industry.

The National Audit Office appreciates senior management and staff of the Ministry for the cooperation during the audit process.

Opinion of the Auditor General

Qualified Opinion with Emphasis of Matter

The Annual Financial Statements for 2018 *present a true and fair view* in all material aspects, apart from expenditures for salaries in the amount of €139,711 for 26 employees for work attendance.

Emphasis of Matter

We draw your attention to the fact that capital investments were overstated by €350,087 and contingent liabilities were understated by €119,107.

For more details, refer to Section 2.1 of this report.

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

Key Conclusions and Recommendations



Management's Response on 2018 audit

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

1 Audit Scope and Methodology

The Audit involves examination and evaluation of Financial Statements and other financial records, as follows:

- 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;
- Whether the internal controls and internal audit functions are appropriate and efficient; and
- Whether have been taken appropriate actions for implementation of audit recommendations.

Audit work undertaken is based on risk assessment. We have analysed Ministry's business, the level of reliance on management controls, in order to determine the level of detailed testing required to provide the necessary evidence and that support the opinion of the AG.

Our procedures have included a review of internal controls, accounting systems and related substantive tests, as well as 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 that may exist, or of all improvements that could be made to the systems and procedures operated.

The following sections provide a detailed summary of our audit findings and recommendations in each area of review. Management's responses to our findings can be found in Annex II.

2 AFS and other External Reporting Obligations

Our audit of the Annual Financial Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information presented in the AFS, including the declaration made by the Chief Administrative Officer and Chief Financial Officer.

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

2.1 Audit Opinion

Qualified Opinion with Emphasis of Matter

We have audited the AFS of the Ministry of Trade and Industry for the year ended on 31st of December 2018, which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement and the Explanatory Notes of the Financial Statements.

In our opinion, except for the effects of the issue described in the Basis for Qualified Opinion paragraph, the Annual Financial Statements for the year ended on 31st of December 2018 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 MoF no. 01/2017 on Annual Financial Reporting by Budget Organisations.

Basis for Qualified Opinion

Expenditures for salaries in the amount of €139,711 for 26 employees who did not attend the regular working hours are considered irregular expenditures of the budget. The reason for these payments is that the Government of Kosovo according to the Brussels Agreement for extinguishing the so-called "civil protection" has been obliged to integrate this community into state institutions. Despite the efforts of the Government to create working conditions for this community, the goal of their integration has not been achieved after an attack on the facilities where the work should have started and due to other ongoing threats. Therefore, due to security reasons for these employees, and partly due to facilities where renovations have not yet been completed, the Ministry was not able to engage the contracted staff.

Our audit is 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. NAO is independent of the Ministry in accordance with the ethical requirements that are relevant to our audit of the annual financial statements of Budget Organisations in Kosovo and we have fulfilled other ethical responsibilities in accordance with these requirements. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the qualified opinion.

Emphasis of Matter

- We want to draw your attention to the fact
1. Capital investments were overstated by €305,087 as a result of.
 - MTI had not followed the Memorandum of Understanding with the Municipality of Drenas where according to paragraph 15 of this memorandum, 70% of the revenues generated from the Business Park in Drenas should belong to the Municipality of Drenas. Since the MTI had not returned carried out the transfer of these revenues on time, the Municipality of Drenas through court decisions obtained the right of use of these revenues in the amount of €291,072. MTI had paid these liabilities from the category of Capital Investments. A payment in the value of €9,000 has been paid for feasibility study for the economic zones in Malisheva and €5,015 is for the revision of the project for the industrial park in Lumadh in the Municipality of Vushtrri. The last two payments should be classified in the category of Goods and Services, while were carried out of the capital investments; and
 2. Contingent Liabilities are overstated by €119,107, as in the general register, their total value is €2,024,423 while in the financial statements they are presented in the amount of €2,143,530. This overestimation was done as a result of incorrect inclusion of accounts receivable in the contingent liability register, which the Ministry has processed to the State Advocacy.

Responsibility of the Management for AFS

The Secretary General of the Ministry of Trade and Industry 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).

The Minister is responsible to ensure oversight of 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.

2.2 Compliance with AFS and other reporting requirements

The Ministry 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, (as amended and supplemented);
- Compliance with Financial Rule no. 01/2013 on Public Funds Expenditure, rule no. 02/2013 on Management of Non-Financial assets and rule no. 02/2013 reporting of arrears;
- Action Plan on implementation of recommendations; and
- Requirements of Financial Management and Control (FMC) procedures;

In the context of the AFS, we have no issues to raise.

Some financial adjustments were needed in the AFS, we have given some suggestions to improve their quality, as follows:

Findings above show that the preparation of AFS is poorly managed.

DECLARATION MADE BY THE MANAGEMENT OF THE MINISTRY OF TRADE AND INDUSTRY

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 incorrect given the material errors and other issues identified during the audit.

In the context of other external reporting requirements, we have no issues to raise.

2.3 Recommendations related to Annual Financial Statements

Given the issues above the following recommendations are given:

Recommendation A1 The Minister should consider the reasons for not attending work by these employees, resolve the problem of their regular job engagement, or otherwise stop irregular payment of their salaries. Due to the complexity of the problem, the Minister is recommended to address the issue of these payments to the Government.

Recommendation A2 The Minister should reconsider co-ordination with the Treasury to regulate the issue of recording and reporting rental revenues in KFMIS, to consider the possibility from the technical aspect of system so revenues belonging to the Municipality of Drenas are registered in its organisational code.

Recommendation A3 The Minister should ensure that the drafters of the statements in co-operation with the Legal Department are more cautious when disclosing contingent liabilities by presenting their full situation in the financial statements.

3 Financial Management and Control

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

Financial Management and Control Conclusion

Although, a range of internal controls are applied by Management partially to ensure that systems operate as intended, we have noticed that the measures applied are weak and ineffective and therefore do not provide an effective and timely response to the identified operational problems.

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 ¹	2018 Outturn	2017 Outturn	2016 Outturn
Sources of Funds	9,076,489	7,999,954	7,095,224	4,925,977	4,557,724
Government Grant -Budget	8,685,165	7,608,630	7,046,220	4,925,977	4,557,199
Financing from Borrowing	391,324	391,324	49,004	-	-
External Donations	-	-	-	-	525

In 2018, the Ministry of Trade and Industry spent 89% of the final budget or €7,095,224, an improvement of 6% compared to 2017. However, the budget execution of the Capital Investments has not been achieved an acceptable level.

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

Description	Initial Budget	Final Budget	2018 Outturn	2017 Outturn	2016 Outturn
Spending of funds by economic categories	9,076,489	7,999,954	7,095,224	4,925,977	4,557,724
Wages and Salaries	1,681,955	1,591,815	1,591,815	1,399,399	1,402,343
Goods and Services	2,185,254	2,228,134	1,684,470	935,457	1,198,814
Utilities	109,280	65,040	49,493	65,166	55,794
Subsidies and Transfers	2,050,000	1,971,435	1,943,046	1,475,695	1,274,893
Capital Investments	3,050,000	2,143,530	1,826,400	1,050,260	625,880

Explanations for changes in budget categories are given below:

- Budget decrease for Wages and Salaries by €90,140 out of which €674 was made according to decision no. 07/80 dated 18.12.2018 and €89.466 according to decision no. 02/70 dated 19.10.2018 on savings, transfers and budget allocations. The decrease occurred as a result of the Ministry's budget surplus while the budget execution for this category is 100%.
- Goods and services increased by €42,880 as a result of transfers from the category of municipal expenditures in the amount of €16,380 and from the category of subsidies and

¹ Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

transfers in the amount of €26,500. The transfer took place as a result of available funds in the category of subsidies and utilities, while the budget execution for this category is 76%.

- The utilities budget was decreased by €44,240 out of which €27,860 with Government decision no. 07/80 dated 18.12.2018 on savings, transfers and budget allocations and €16,380 through transfers in goods and services at the request of the Ministry. The decrease occurred as a result of budget surpluses and the need for funds in the category of goods. Execution for this category is 76%.
- Subsidies and transfers were decreased by €78,565, out of which €52,065 through Government decision no. 07/80 dated 18.12.2018 and €26,500 through transfers between economic categories at the request of the Ministry. This occurred as a result of surplus funds and the need for funds in the category of goods. Execution for this economic category is 99%.
- The budget for capital expenditures was decreased by €906,470 out of which €27,249 with Government Decision no. 07/80 dated 18.12.2018, €707,221 with decision no. 11/79 dated 11.12.2018 and €172,000 were withdrawn by decision no. 04/70 dated 19.10.2018 on savings, transfers and budget allocations. Budget cuts occurred as a result of budget surpluses, while the execution for this category is 85%.

Issue B1 – Low budget execution in the category of Capital Investments

Finding Although the final budget was executed at 89%, MTI did not achieve good budget performance in the category of Capital Investment. Budget execution in capital investments is 85%, if we are based on the initial budget, the percentage of execution is only 60%. This occurred as a result of expropriation problems in the Municipalities related to business centres where the Ministry has planned to invest.

Risk The poor budget execution and the failure to carry out the foreseen projects results in ineffective utilization of the available funds and risks the non-fulfilment of the organisation's objectives.

Recommendation B1 The Minister should ensure that there is cooperation with Municipalities and eliminate all expropriation problems in a timely manner so that there is no stagnation in initiating and implementing projects related to business centres.

3.1.1 Revenues

The Ministry has planned revenues in total amount of €1,523,405 while €2,250,946 has been executed. The biggest portion of 29% in this execution is comprised by revenues from registration of lien, industrial ownership, fuel import licenses and tobacco import licenses and other revenues including rental income and various taxes. The Ministry of Trade and Industry has not used the revenues executed from 18 types for their activity, therefore they are deposited in the consolidated state budget and therefore are not planned by budget law.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2018 Receipts	2017 Receipts	2016 Receipts
Non tax revenues	1,523,405	1,523,405	2,250,946	1,854,733	2,287,813
Total	1,523,405	1,523,405	2,250,946	1,854,733	2,287,813

Issue B2 – Poor revenue planning

Finding Revenue planning is done through internal planning and is foreseen in the Mid-Term Expenditure Framework (MTEF), there is poor overall revenue planning and this is confirmed by the difference between planning and execution by €727,541 exceeding planning. Reasonableness of such planning is lacking as well when it is known that execution in the previous year was higher. The Ministry makes the planning according to departments, generating revenues rather than according to the type of revenues.

Risk Poor revenue planning that is not done based on proper analysis, by not taking into consideration the historic trend, leads to occurrence of differences between planning and implementation, also having an effect in the final expenditure process.

Recommendation B2 The Minister should ensure that the budget department upon planning of revenues takes into account all relevant information, including collection of revenues of previous years.

3.1.2 Wages and Salaries

The initial budget for 2018 is €1,681,954 while the final budget is €1,591,815. The final budget for wages and salaries was spent entirely. Wages and salaries are paid through a centralised payment system managed by the Ministry of Finance and MPA. The number of staff approved with budget is 248. The number of staff approved by the budget law is 248, including the Cabinet of Minister consisting of 13 positions, while civil servants positions are 235.

The Ministry had covered 210 regular positions, including the political staff, while it had not completed 38 approved positions. In the Metrology Agency under the budget law there are 22 positions approved, while the current number at the end of the year is 6 covered positions, the Market Inspectorate under the Budget Law had 32 approved positions while the actual number of employees was 27 positions, and the Department of finance and services under the budget law had 48 approved positions, while the actual number of employees was 42. While ten other vacancies are in various departments at MTI.

Regarding the regularity of personnel files, after our suggestions during the audit process, the ministry has completed the personnel files with the decision on the calculation of work experience and certificates under investigation.

Issue B3 – Irregular payment of Wages and Salaries

Finding The Ministry is obliged to pay the salaries of the employees according to the coefficient specified in the contract or the Appointment Acts. It should also pay allowances to specific categories of deficit professions defined by Government Decision no. 02/39 dated 08.10.2018.

We have identified 15 cases (employees) where the paid value does not match the value specified in the Appointment act where payment is lower. Out of a total of 15 cases, seven positions are administrative assistants which have the coefficient 6 while are paid with the coefficient 5, two positions, one a registrar of lien and the other an archive officer hold the coefficient 6 while are paid with the coefficient 5.5 and six positions are inspectors who have coefficient 8 while are paid with coefficient 7.

In one case it has been identified that the position, head of division for IT and logistic services in the department for finance and general services at MTI does not benefit allowances as a deficit staff. This situation occurred as a result of the rejection to change the coefficients by the Ministry of Public Administration and the Ministry of Finance, with the justification that the salaries law is in the process and job positions need to level.

Risk Failure to pay according to the appointment act is a risk for the Ministry to be indicted by the damaged persons and this would damage the Ministry's image and budget on the part of the administrative expenses and would reduce motivation of the employees for work.

Recommendation B3 The Minister should ensure that it reviews such cases and to ensure that are compensated employees according to the coefficient determined by the appointment act.

3.1.3 Goods and Services and Utilities

The final budget for 2018 for goods and services is €2,228,134 whereas the Ministry executed €1,684,470 or 76% of the budget. Expenditures for this category relate to other contracting services, expenses for membership in international organisations, office supplies, state reserve purchases and official luncheons.

The final budget for 2018 for utilities is €65,040 while the Ministry executed €49,493 or 76% of the budget.

Issue B4 – Covering permanent positions with special service agreements longer than six months

Finding According to the Law on Civil Service no. 03/L-149, Article 12 Budget Organisations may hire fixed-term employees under "Special Service Agreements" for less than six months.

The Ministry has continued with special service agreements. Last year (2017) there were 20 employees, while in 2018 this number reached 45 employees with this type of agreement, while under the Budget Law there are 248 approved positions, while only 210 positions are covered with regular officials.

Their engagement for specific services is on permanent work programmes which are treated as regular employees (attendance, annual leave) while being paid from goods and services, where 32 of them have exceeded the period of six months (from 7 to 33 months). Due to the carelessness to cover vacant positions approved under budget, has led to extension of these contracts.

Risk Engagement with special service agreements in permanent positions and for more than six months, with no competitiveness in the recruitment process results in poor performance and monitoring of the staff, increases uncertainty if staff engaged in such positions is adequate and the quality of the services provided cannot be of the required level.

Recommendation B4 The Minister should ensure that all vacancies approved with the budget are staffed and should have the will to comply with legal requirements.

Issue B5 – Advances not closed according to legal deadlines

Finding According to Regulation no. 01/2018 on the closure of the fiscal year, Article 7, closure of advances for official travel and petty cash should be made by 15 January of the following fiscal year. We have identified six advances (two for petty cash in the amount of €2,000 and €1,500², two advances for official travels in the amount of €550 and €169 and two credit cards in the amount of €1,925 and €308) are not closed and are not justified. This situation is a result of the negligence of their users and no attempt made by the Ministry to stop their funds.

Risk Delays in the closure of advances risk that the money used will not be justified and not be used for the objectives/goals of the Ministry.

Recommendation B5 The Minister should ensure good management and adequate controls over advances, respect legal deadlines on their closure, while unjustified funds should be returned to the Ministry's budget according to legal requirements.

Issue A4 – Failure to prepare the contract management plan according to rules

Finding According to Article 81 of the Law on Public Procurement no. 04/L-042, Contracting Authorities are obliged to prepare a contract management plan, specifically including issues of organisational, economic, technical and legal aspects. From the four samples tested for supplies and services, the contract management plan has not been filled in by the contract managers with the information required under the legal requirements. The PPRC standard form contains only the information "According to the tender dossier". This occurred due to the negligence of contract managers on the accepted task and the lack of oversight by the Management.

Risk Failure to prepare a contract management plan enables that potential deviations are not identified and undertaking of actions is not timely taken to improve the situation.

Recommendation A4 The Ministry should ensure that all contract managers prepare and update the contract management plan, according to the terms of the contract and its implementation, in accordance with the applicable law.

² This advance money belongs to the 2016 period and for some of these funds MTI has asked the State Advocacy to initiate court proceedings against former MTI officer (former Deputy Minister's driver) for the return of funds.

3.1.4 Subsidised and transfers

The final budget for subsidies and transfers was €1,971,435, out of which €1,943,046 or 99% of the budget was spent in 2018. Those relate to subsidies for non-public entities including the award of grants to small and medium-size enterprises, payments for participation and allocation of spaces for international export promotion fairs.

We have no recommendations in this area.

3.1.5 Capital Investments

The final budget for capital investments in 2018 is €2,143,530 with an execution of €1,826,400 or 85% of the budget. Expenditures related to capital investments include construction of Business Park in Drenas, fourth phase, construction of Business Park in economic zones in Vushtrri, construction of other economic zones in Kosovo, purchase of software for unification of fiscal, customs and business numbers, and development of new fields of metrology.

Regarding the findings in this category, refer to Section 2.1 of the Audit Opinion, namely the Emphasis of Matter.

3.2 Capital and non-capital assets

Capital assets presented in the financial statements is €13.7 million, capital assets are comprised of the following investments, buildings, fixed intangible assets and IT equipment. Non-capital assets are in the amount of €111,000 and stocks in the amount of €5,440. Capital assets are managed through the Treasury system, while the non-capital assets and stocks by the e-asset system.

Issue A5 – Weaknesses in the inventory process

Finding According to the Regulation on the Management of Non-financial Assets 02/2013, Article 19, namely paragraph 4.3 it is the responsibility of the inventory commission to compare the situation of inventory with the condition in the non-financial registers. The inventory commission did not compare the situation of inventory with the situation of the asset registers. This is due to the lack of understanding the requirements of the regulation and the lack of internal inventory guidelines.

Risk Lack of comparison of the inventory situation with the situation in the non-financial assets register does not confirm the real existence of the asset and does not enable full and accurate presentation of situation of the assets in the financial statements.

Recommendation A5 The Minister should clarify the regulatory requirements, issue internal guidelines regarding the inventory of non-financial assets and train the relevant staff in order that regulation requirements on assets are implemented consistently.

3.3 Receivables

The Ministry has presented receivables in the financial statements in the amount of €172,000, and the most of the receivables are comprised of receivables from the rent in Business Park in Drenas by 94%, while the rest are from metrology services.

Issue A6 – Overestimation of accounts receivable

Finding Accounts receivable are non-collected assets from invoices issued for services offered by the Ministry to its clients. The Ministry has overstated accounts receivable in a total amount of €8,000 which includes accounts from business registration in the amount of €6,000 and accounts from the registration of lien in the amount of €2,000. The Ministry has only issued invoices but did not perform any services to customers and therefore has no right of collection. This situation has resulted in incorrect competence on receivables.

Risk Overestimation of accounts receivable does not present a true situation and consequently affects the decisions of information users in the financial statements.

Recommendation A6 The Minister should ensure competence to officials responsible so that payment orders are not presented as accounts receivable.

Issue A7 – Poor efficiency in the collection of receivables from rent

Finding There are two types of contracts for leasing parcels in the Business Park in Drenas, contracts signed before 2013 and after this year.

- Based on Article 3 of the contract before 2013 "Terms of rent payment" The lessee is obliged to start paying the lease from the 1st up to 5th of the following month. In case of delay in the rent payment, the lessee will be penalised in accordance with the applicable bank interest rates.
- Based on Article 2 of the contract after 2013 "Terms of rent payment", the lessee is obliged to pay the rent to the lessor every 6 months, and no later than the 15th of the following month. In case of delay in the rent payment, the lessee will be penalised in paying the interest of 5% of the rent amount.

We have established that the level of rental receivables, presented in the AFS, is €162,000; out of which €39,243 belong to 2018. All cases are invoices exceeding the maximum deadline set by the contract. MTI has also taken measures for receivables belonging to the periods before 2017, by sending cases to the State Advocacy in the Ministry of Justice, but no timely actions for rental receivables belonging to 2018 in the amount of €39,243 have been taken. It is the result of poor efforts taken by MTI to continuously increase receivables from operators using the facilities in the Business Park in Drenas.

Risk Increase of accounts receivables consistently risks their timely collection, their aging and the possibility to collect them.

Recommendation A7 The Minister should ensure that will considered all legal mechanisms in collection of deferred revenues, by calculating the interest stipulated under the banking market and contract.

3.4 Outstanding liabilities and contingent liabilities

The statement of outstanding liabilities owed to suppliers at the end of 2018 is €122,215. These liabilities were carried over to be paid in 2019. Liabilities mainly relate to capital projects 27%, goods and services 60% (travel expenses abroad, wages, office supplies, publications, maintenance of information technology equipment etc.), wages and salaries 12% and utilities 1%. Contingent liabilities presented in the financial statements are in the amount of €2,143,530 which is expected to cause future outflow of funds from the ministry.

Issue A8 - Poor management of liabilities

Finding Based on Financial Rule 02/2013, Article 5, reporting of outstanding liabilities. According to the provisions of Article 39, paragraph 1 of the LPFMA, a delayed payment of liability by the budget organization is considered a receipt that was not paid within 30 days from its receipt. MTI liabilities compared to the previous year have tripled, from €42,000 presented in 2017 to €122,215 in 2018. All these liabilities have exceeded the 30-day deadline for payment.

What led to this situation is as a result of expenditures incurred without sufficient funds in 51 cases in the amount of €52,206, as a result of closing of the system at the end of the year to carry out payments in 76 cases in the amount of €46,233, for technical reasons in 6 cases in the amount of €20,240, and due to lack of contract manager's report €3,536.

Risk Continuous increase of liabilities may threaten the budget balance for the following years, as payment of these liabilities should be a priority, else EOs may collect other debts through other legal means.

Recommendation A8 The Minister of Trade and Industry should ensure that will keep under control liabilities, by not entering into liabilities without budgeted funds, and to meet all liabilities within legal deadlines.

4 Good Governance

Good Governance implies basic principles of accountability, effectiveness of controls, risk management, independence of internal audit, 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.

The Ministry completed self-assessment checklists and list of risks 2018, constructed the level of risks by categories, on the other hand, our findings confirm that the actions of the Ministry were not sufficient to prevent errors.

- The Ministry of Trade has an enormous increase of contingent liabilities in the last two years from €11,230 in 2016, reaching to €1,932,830 in 2017 and €2,143,530 in 2018.

Overall Governance Conclusion

The MTI has made a number of improvements in governance, but there are still a number of areas where important developments are needed. Particular emphasis is on planning and implementation of capital projects, other issues related to salaries and wages as well as revenue related issues, management of accounts receivable and outstanding liabilities along with contingent liabilities.

The Ministry possesses a strategy for private sector development 2017-2021 but an overall comprehensive strategic plan is missing.

4.1 Internal Audit System

The Internal Audit Unit (IAU) operates with two members of staff - the Head of IAU and one auditor. An effective audit requires a comprehensive work programme that reflects financial and other risks to Auditee and provides sufficient assurance over the effectiveness of internal control. The impact of Internal Audit output should be judged by the importance that management places on addressing recommendations and the support provided by an effective Audit Committee.

The Internal Audit Unit (IAU) operates with two staff members: the Director of IAU and one auditor who are certified. IAU has drafted annual and strategic plan, five audits are planned and one at the request of management, which have been carried out.

The Audit Committee has held four meetings wherein were discussed various issues detected by the internal audit. IAU has reported to the minister on quarterly basis and to the Central Harmonization Unit of Internal Audit (CHUIA) on a six-month basis.

Recommendations

We have no recommendations in this area

4.2 Management Reporting, Accountability and Risk Management

In order to have a proper planning, supervise the activities on a regular basis and allow effective decision-making, the Management, besides regular and specific reports, also needs to record minutes, from where conclusions drawn from the discussions and future activities to be undertaken can be understood. All this with the purpose that, accountability as a process is the acceptance of responsibilities, holding persons accountable for their actions and disclosing results in a transparent way. Whereas, risk management is a process related to identification, analysis, evaluation and actions/measures taken by the Management to control and respond to risks threatening the Organization.

The internal reporting process at MTI is established, although reporting is more of a managerial rather than financial nature. Within the ministry function seven executive agencies which have their own managerial structure, through which is organized management of daily operational activities. They carry out operational activities of specific nature for which they report directly to the Minister, while financial statements are prepared in MTI for for agencies as well.

Also within the MTI there are 10 departments where the directors of these departments report to the Secretary General. These meetings are regular weekly meeting and all their activities are treated in a descriptive form.

Recommendations

We have no recommendations in this area.

5 Progress in implementing recommendations

Our Audit Report on the 2017 AFS of the Ministry of Trade and Industry resulted in 15 key recommendations. The Ministry prepared an Action Plan stating how all recommendations will be implemented.

At the end of our 2018 audit, six (6) have been implemented; one (1) were in process; and five (5) have not been addressed yet, three (3) were closed unimplemented. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or Table of recommendations

Table 4 Summary of prior year recommendations and of 2018

No	Audit area	Recommendations of 2017	Actions taken	Status
1	Recommendations related to Annual Financial Statements	The Minister should ensure that an analysis is undertaken to determine the causes for the qualification of opinion. The AFS preparation should be a subject of controls and proper review in order to not be repeated the errors in the presentation of borrowings.	Actions were taken by the Ministry	Implemented
2	Recommendations related to Annual Financial Statements	The Minister should analyse the causes of the Emphasis of Matter and ensure that contingent liabilities are handled and analysed carefully and in coordination with the State Advocacy Office to provide information/evidence for adequate presentation of these cases. Further on, sufficient information and disclosure needs to be made concerning contingent liabilities in the AFS.	Actions were taken by the Ministry	Implemented
3	Budget Planning and Execution	The Minister should ensure proper management of the annual budget and make systematic assessment of reasons regarding the low level of budget execution for projects that relate to Capital Investments, Goods and Services and Utilities in order to improve the performance.	Actions were not taken by the Ministry	Not Implemented open
4	Revenues	The Minister should ensure proper management of revenues, a clear unified/consolidated regulatory basis for the Ministry's revenues and to consider all aspects including proper types of revenues during planning.	Actions were not taken by the Ministry	Not Implemented open
5	Wages and Salaries	The Minister should ensure proper management and controls in the area of personnel, to undertake actions that for the positions covered by Acting find a sustainable solution with regular positions in accordance with the legal requirements and	Actions were not taken by the Ministry	Not Implemented open.

		the compensation of officials is done in accordance with the job descriptions.		
6	Goods and Services and Utilities	The Minister should ensure proper controls in the expenditures process and correct implementation of purchasing procedures (LPP), in order to increase transparency when it comes to spending of public money.	Actions were not taken by the Ministry	Not Implemented closed
7	Goods and Services and Utilities	The Minister should ensure controls when engaging staff with contracts for special services that those do not exceed the allowed period. The need for additional staff for carrier positions should be analysed and if the increase of the staff number is necessary, this should be incorporated in the budget planning.	Actions were not taken by the Ministry	Not Implemented open
8	Goods and Services and Utilities	The Minister should ensure good management and proper controls on advances, adhering to legal deadlines for their closure, while the unjustified funds should be returned to the Ministry's budget according to the legal requirements.	Actions were not taken by the Ministry	Not Implemented open
9	Subsidies and Transfers	The Minister should ensure proper controls in the area of subsidies by adhering to the agreements and legal requirements in order that the project's objectives are clear and the implementation of subsidies brings out the planned outcomes.	Actions were taken by the Ministry	Implemented
10	Common Issues on Goods and Services and Capital Investments	The Minister should ensure good management and proper controls in the procurement area, the requesting units are clear when determining needs and the procurement plan is prepared on a realistic basis as possible. He should also ensure that all legal requirements have been applied during the evaluation of bids and the implementation of contracts, in order to increase the value for public money.	Actions were taken by the Ministry	Under implementation

11	Common Issues on Goods and Services and Capital Investments	The Minister should ensure that the lack of the construction permit is handled, and in coordination and cooperation with the competent bodies to undertake actions for the issue of using permit and secure that all expenditures made are justified and have legal grounds.	Actions were not taken by the Ministry	Not Implemented closed
12	Receivables	The Minister should have a strategy for the management of rent and handling of accounts receivable as well as apply more effective mechanisms for reducing accounts receivable.	Actions were taken by the Ministry	Implemented
13	Progress in implementing recommendations	The Minister should ensure proper controls and monitoring of the plan on implementation of recommendations, identify the causes for non-implementation of recommendations and actions are undertaken to review the plan which should subject to regular monitoring by Management.	Actions were not taken by the Ministry	Not Implemented closed
14	Internal System Audit	The Minister should ensure proper functioning of IAU, plans for the implementation of given recommendations are prepared as well as ensure that the Audit Committee meets the requirements for supervision and reporting.	Actions were taken by the Ministry	Implemented
15	Management Reporting, Accountability and Risk Management	The Minister should ensure that direct responsibility for risk management is delegated. Further on, he should ensure that all businesses that operate in the territory of Kosovo have service license and analyse the reasons for the numerous cancellations by taking corrective actions.	Actions were taken by the Ministry	Implemented
No	Audit area	Recommendations of 2018		
1	Financial statements	The Minister should consider the reasons for not attending work by these employees, resolve the problem of their regular job engagement, or otherwise stop irregular payment of their salaries. Due to the complexity of the problem, the Minister is recommended to address the issue of these payments to the Government.		

2	Financial statements	The Minister should reconsider co-ordination with the Treasury to regulate the issue of recording and reporting rental revenues in KFMIS, to consider the possibility from the technical aspect of system so revenues belonging to the Municipality of Drenas are registered in its organisational code.
3	Financial statements	The Minister should ensure that the drafters of the statements in co-operation with the Legal Department are more cautious when disclosing contingent liabilities by presenting their full situation in the financial statements.
4	Budget analysis	The Minister should ensure that there is co-operation with Municipalities and eliminate all expropriation problems in a timely manner so that there is no stagnation in initiating and implementing projects related to business centres.
5	Revenues	The Minister should ensure that the budget department upon planning of revenues takes into account all relevant information, including collection of revenues of previous years.
6	Wages and salaries	The Minister should ensure that it reviews such cases and to ensure that are compensated employees according to the coefficient determined by the appointment act.
7	Goods and services	The Minister should ensure that all vacancies approved with the budget are staffed and should have the will to comply with legal requirements.
8	Goods and services	The Minister should ensure good management and adequate controls over advances, respect legal deadlines on their closure, while unjustified funds should be returned to the Ministry's budget according to legal requirements.
9	Goods and services	The Ministry should ensure that all contract managers prepare and update the contract management plan, according to the terms of the contract and its implementation, in accordance with the applicable law.
10	Non-financial assets	The Minister should clarify the regulatory requirements, issue internal guidelines regarding the inventory of non-financial assets and train the relevant staff in order that regulation requirements on assets are implemented consistently.
11	Accounts receivable	The Minister should ensure competence among responsible officials in order not to present payment orders as accounts receivable.
12	Accounts receivable	The Minister should ensure that will considered all legal mechanisms in collection of deferred revenues, by calculating the interest stipulated under the banking market and contract.
13	Outstanding liabilities	The Minister of Trade and Industry should ensure that will keep under control liabilities, by not entering into liabilities without budgeted funds, and to meet all liabilities within legal deadlines.

Annex I: Explanation of the different types of opinion applied by NAO

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex II: Confirmation Letter.

REPUBLIKA E KOSOVËS REPUBLIKA KOSOVA REPUBLIC OF KOSOVO			
ZYRA KOMBËTARE E AUDITIMIT			
NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE			
DATE/PAJUESHMERINË		18.06.2019	
DATE/RECEIPT/CONFIRMATION			
Numëri Org.	Klasif. Kod	Dr. Post.	Dr. Post.
Org. Unit	Class. Code	Post. No.	Post. No.
03	47	1104	2



QEVERIA E KOSOVËS - VLADA KOSOVA - GOVERNMENT OF KOSOVO	
Numëri Org.	Dr. Post.
Org. Unit	Post. No.
02	5338
Numëri Org.	Dr. Post.
Org. Unit	Post. No.
2	18.06.19
Prishinë / a	

Republika e Kosovës

Republika Kosova-Republic of Kosovo

Qeveria -Vlada-Government

Ministria e Tregtisë dhe Industrisë-Ministarstvo Trgovine i Industrije-

Ministry of Trade and Industry

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2018 dhe për zbatimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Të nderuar/a,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Ministrisë së Tregtisë dhe Industrisë për vitin e përfunduar më 31 dhjetor 2018 me vërejtjen e më poshtme (në tekstin e mëtejme "Raporti");
- nuk pajtohem me rekomandimin A1. si dhe me Opinionin e Kualifikuar të dhënë, me arsyetimin se janë kryer shpenzime në emër të 26 punonjësve serb. Baza për mos pranim të Rekomandimit A1. dhe opinionit të kualifikuar është se përgjegjës për këtë është Qeveria e Republikës së Kosovës ku edhe ka lëshuar Vendimin Nr. 06/39 datë 22.07.2015, si rrjedhojë e kësaj Ministria e Tregtisë dhe Industrisë ka qenë e detyruar ta implementoj si dhe

- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve (përveç rekomandimit A1), i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tij.

Z. Burim Rreci

Sekretar i Përgjithshëm i Ministrisë së Tregtisë dhe Industrisë

Data: 18.06.2019, Prishtinë,

