



Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

**AUDIT REPORT ON THE MINISTRY OF FOREIGN AFFAIRS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**Prishtina, June 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 International Standards of Supreme Audit Institutions and good European practices.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Ministry of Foreign Affairs in consultation with the Assistant Auditor General, Qerkin Morina who supervised the audit.

The report issued is a result of the audit carried out by Pleurat Isufi, Team Leader and Fjolla Bakalli Sadiku and Albana Kadriu Zogjani, Team Member, under the management of the Head of Audit Department, Bujar Bajraktari.

## 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 .....	10
4    Good Governance .....	21
5    Progress in implementing recommendations.....	23
Annex I: Explanation of the different types of opinion applied by NAO .....	28
Annex II: Confirmation letter .....	30

## Executive Summary

This report summarises the key issues arising from our audit of the Ministry of Foreign Affairs for 2018, which includes the Opinion of the Auditor General on the 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 29.11.2018.

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 Foreign Affairs.

### 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, except for the amount of €343,527, spent on goods and services, for which no reconciliations were made at the end of the year with the accounting register.

#### Emphasis of Matter

We would like to mention the fact that at the end of 2018 the MFA had not registered €99,413 of assets purchased during the year under the value €1,000, as well as intangible assets (software) in the amount of €128,532 received as donations in 2013. In addition, there is a discrepancy in advances in the amount of €36,430 presented in the AFS and the accounting condition in KFMIS.

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

## Key Conclusions and Recommendations



## Management response to audit 2018

Management has considered and agreed on the 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 appropriate actions for implementation of audit recommendations have been taken.

Audit work undertaken is based on risk assessment. We have analysed Ministry of FOREIGN Affair's (MFA) 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 FOREIGN 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 response to our findings can be found in Annex II.

## 2 Annual Financial Statements 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 Foreign Affairs for the year ended on 31<sup>st</sup> of December 2018 which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement, as well as explanatory notes of financial statements.

In our opinion, except for the effects of the issue described in the paragraph Basis for the Qualified Opinion, Annual Financial Statements for the year ended on 31<sup>st</sup> of December 2018 present a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (according to cash based accounting), Law no. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented) and Regulation MoF no. 01/2017 on Annual Financial Reporting by Budget Organisations.

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

At the end of 2018, the MFA had a balance of unclosed expenditures on the Diplomatic and Consular Missions (DCMs) in the amount of €343,527. These expenditures relate to goods and services. According to the Ministry's records, the balance of these expenditures for previous years was €200,058, while for the current year this amount increased by €143,469. However, this amount may be even higher by taking into account the cut-offs between unrecorded inflows and outflows in DCM, including unregistered expenditures, unrecorded revenues and reimbursements, exchange rate differences, record errors, etc.

The reason for this is that the amounts of €200,058 have been collected for years, and in the absence of documentation, the MFA has failed to clarify these amounts spent by the Diplomatic and Consular Missions (DCMs) operating abroad. Therefore, the reason is the lack of reporting and evidence of expenditure justification. For the same reasons, this amount at the end of 2018 was increased by €143,469

This problem has also been reported in previous years, but the MFA has failed to resolve and put the DCMs expenditures and timely reporting under control. After receiving the draft-audit report, the Ministry had taken immediate measures and until the finalisation of this report has managed justify with evidence and close expenses of embassies in the amount of €185,642.

The audit is carried out in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the '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.

### **Emphasis of Matter**

We draw your attention to the following issues:

- The MFA did not register €99,413 of assets in records, assets under €1,000 acquired during the year, and intangible assets (software) in the amount of €128,532, which was received as a donation in 2013. Consequently, the value of assets presented in the AFS was understated; and
- The value of unjustified advances, disclosed in the AFS, was lower than that in the KFMIS notes. In the AFS were presented €193,868, while according to KFMIS records, the value of open advances was €230,298. Out of this, the amount paid with credit cards and unjustified is €67,959, while the rest relates to advances for embassies, and advances for official travel. Regarding advances, for more information, see section 3.3 of this report.

### **Responsibility of Management for AFS**

The Secretary General of the MFA 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 FOREIGN 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 the oversight of the Ministry' 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 ISSAIs, 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 FOREIGN 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 of Foreign Affairs 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 and 02/2013; with public money spending and Financial Rule no. 02/2013 on Management of Non-Financial Assets;
- Action Plan on implementation of recommendations; and
- Requirements of Financial Management and Control (FMC) procedures.

Regarding the AFS, apart from issues highlighted at the opinion and emphasis of matter, we have noticed that were not given details and comments on notes to statements, as required under the provisions of Rule 01/2017 on Annual Financial Reporting by Budget Organizations, and

Given the above, the statement made by the Chief Administrative Officer and the Financial Officer, upon the submission of AFS to the Ministry of Finance, can be considered accurate and complete.

---

## 2.3 Recommendations related to Annual Financial Statements

For issue identified above is given the following recommendation:

**Recommendation C1** The Minister should ensure that adequate actions are taken to address the problems regarding unregistered expenditures being repeated year after year. The Minister should also ensure that all purchased assets are recorded in the registers, and accurate information regarding assets should be disclosed in the AFS. In addition, the Minister should ensure that explanatory notes are made for all notes presented in the AFS, so that they are understandable to their users. Unjustified advances should be presented with exact values and necessary explanations should be provided.

## 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

In the context of financial systems, controls over a range of spending areas require further improvement to prevent expenditure irregularities. The main areas where more improvements are needed are expenditure management in DCM, budget execution and procurement. Asset management also needs to be improved. Revenue collection controls are generally appropriate but there are still significant delays in recording which should be avoided.

Yet, the most challenging issue remains the treatment and identification of unclosed expenditures from previous years. A small amount of expenditures belonging to the past periods were closed this year.

### 3.1 Budget Planning and Execution

We have considered the sources of budget funds, spending of funds 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>	2018 Outturn	2017 Outturn	2016 Outturn
<b>Sources of Funds</b>	<b>30,201,939</b>	<b>26,113,776</b>	<b>24,604,204</b>	<b>20,430,293</b>	<b>19,213,681</b>
Government Grant - Budget	30,201,939	25,911,457	24,592,479	20,410,343	19,183,401
Domestic Donations	0	13,225	11,725	0	0
Foreign Donations	0	189,094	0	19,950	30,280

The final budget was lower than the initial budget by €4,088,163 or 15.6%. Budget decrease in this percentage was a result of poor initial budget planning with Government decisions the aim of which was reallocation of unused budget.

In 2018, the MFA spent 94% of the final budget or €24,604,204, with an improvement of 4% compared to 2017.

**Table2. Spending of funds by economic categories - (in €)**

Description	Initial Budget	Final Budget	2018 Outturn	2017 Outturn	2016 Outturn
<b>Spending of funds by economic categories</b>	<b>30,201,939</b>	<b>26,113,776</b>	<b>24,604,204</b>	<b>20,430,293</b>	<b>19,213,681</b>
Wages and Salaries	6,755,341	7,044,411	7,044,411	6,432,342	5,759,871
Goods and Services	16,203,547	17,673,107	16,560,737	13,268,981	12,088,464
Utilities	588,051	572,408	459,380	521,719	380,578
Subsidies and Transfers	100,000	12,877	12,877	33,450	364,470
Capital investments	6,555,000	810,973	526,798	173,801	620,298

Explanations about changes in budget categories, including the reasons and impact are given below:

- The final budget for salaries was increased by €289,070 compared to the initial budget. This increase was made with a Government decision. Budget execution for this category was 100%.

<sup>1</sup> Final budget – the budget approved by the Assembly, which was subsequently adjusted for by the Ministry of Finance.

- The final budget for Goods and Services was increased by €1,457,575 with Government decision and €13,225 from domestic donations.
- The final budget for Capital Investments compared to the initial budget was decreased by €5,744,027. This decrease was as a result of Government decisions on behalf of decrease as the same could not be spent by the MFA.

### Issue B1<sup>2</sup> – Budget planning and execution for capital investments

#### Finding

According to the Budget Law, a separate budget is allocated for each of the capital projects and as such, the budget should be spent. MFA for 2018 planned 11 capital projects in the amount of €6,555,000, while it spent €526,798 or 8%. Only 4 out of the 11 planned projects were implemented. As a result, at the end of the year, the MFA was obliged to declare these funds as unspent funds and the same were taken by Government decision.

The low budget execution of Capital Investments was mainly as a result of unrealistic budget planning in this category, and this has been following the MFA for years.

#### Risk

Poor budget execution for capital investments results in inefficient use of available resources, and reduces the number of implemented projects.

**Recommendation B1** The Minister should undertake a systematic assessment of the reasons for non-implementation of capital projects and the low level of budget execution in this category. Budget planning should be harmonised with projects ready-to-implement, while procurement procedures should be initiated on time and in line with budget allocations.

## 3.1.1 Revenues

Revenues generated by MFA in 2018 were €4,498,318. They relate to: travel document taxes, tax document verification, ID card taxes, citizenship tax, apostil stamp tax etc.

**Table 3. Own Source Revenues (in €)**

Description	Initial Budget	Final Budget	2018 Receipts	2017 Receipts	2016 Receipts
Own source revenues	1,464,270	1,464,270	4,498,318	3,153,732	2,546,086

The total of collected revenues reflects an increasing trend compared to previous years. Compared to the year 2017, there was an increase in revenue collection by €1,344,586, or 42.6% in percentage.

<sup>2</sup> Issue A and Recommendation A – means issues and new recommendations,  
Issue B and Recommendation B – means issues and recommendations repeated,  
Issue C and Recommendation C – means issues and recommendations partially repeated.

This increase is mainly due to tax on travel documents where the increase in collection compared to the previous year was by €1,047,837, from the tax on ID €138,781 and other revenues where the increasing trend was lower.

## Recommendation

### Issue B2 – Delays in recording of revenues

**Finding** According to Financial Rule 03/2010 on Own Source Revenues, the recording of revenues in KFMIS should be done on a daily basis, while reconciliation with Treasury is on a monthly basis.

We have noticed that there were delays this year in the recording of revenues in KFMIS. This occurred due to the delays in reporting revenues from DCMs.

**Risk** Delays in revenue recording affect the quality of reporting and impede performing monthly reconciliations with the Treasury. This increases the risk of not including part of the revenues in the AFS at the end of the year.

**Recommendation B2** The Minister should increase the level of accountability with the Heads of DCMs and other responsible staff to ensure regular and timely reporting in relation to the revenues executed so that they are timely recorded in KFMIS and are reported correctly in periodic reports and in the AFS.

### 3.1.2 Wages and Salaries

The final budget for Wages and Salaries for 2018 was €7,044,411, and it was spent completely. Wages and salaries are paid through the centralised payment system managed by the Ministry of Finance. However, there are a number of controls within the MFA that relate to changes in payroll lists, calculation and approval of allowances, etc. We have selected 100 samples for substantive testing and eight (8) samples for compliance testing. Auditing tests have not highlighted any irregularity regarding wages and salaries.

While regarding personnel management, we have identified the following issue:

---

## Issue C2 - Holding the ambassador's position after the four-year mandate without a decision on extension of the mandate

**Finding** Based on the Law on Foreign Service of the Republic of Kosovo, namely Article 22, Diplomats shall remain in the service at the same diplomatic mission for a period of four (4) years, or otherwise as required to meet the needs of the Ministry and at the discretion of the Minister of Foreign Affairs. According to the same law, the possible extension of the mandate is at the discretion of the Minister. There were such cases in the past year, in which case we recommended that Minister's discretion be formalised with an act, decision or letter that would authorise further extension of the mandate.

We have noted that an Ambassador who was appointed with the President's Decree on 28.06.2013 continues to exercise the duty of the Ambassador and receives salary on the same mission, although there is no act that would extend the duration of the stay on that mission. The salary received by the Ambassador in 2018 is €53,021.

Ministry officials did not provide any valid reasoning why this has happened.

**Risk** Holding the position of an Ambassador in an unauthorised manner may affect the state to be represented by officials who have no valid decisions (decrees) and get paid without any clear legal grounds.

**Recommendation C2** The Minister should consider such cases and ensure that diplomatic staff, including ambassadors, possess the right legal basis for action in exercising their duties and responsibilities in diplomatic missions, in accordance with the Law on Foreign Service.

### 3.1.3 Goods and Services, and Utilities

The final budget for Goods and Services (including municipal expenditures) in 2018 was €18,245,515, out of which €17,020,117 was spent. They relate to rental expenses for buildings, various intellectual and advisory services, other contracting services, official travel expenses abroad, office supplies, health insurance services, utilities, etc.

For examination purposes, we have selected 100 samples for substantive testing and five (5) for compliance testing. Our tests have resulted in the following findings:

---

## Recommendations

---

### Issue B3 – Delays in recording of expenditures

**Finding** Administrative Instruction no. 01/2018<sup>3</sup> obliges DCMs to submit expenditure report to the finance department at the MFA by the 15th of the following month to further record expenditures in KFMIS.

During the audit testing, we have noted that in 29 cases there were delays in recording expenditures. Delays were from one (1) to eight (8) months.

Some of the causes of this situation are related to the delays in reporting from DCMs, the need for additional information for justification of DCM expenditures, and so on.

**Risk** Delays in recording expenditures make quarterly reports inaccurate, as they do not show the exact state of expenditures incurred. This increases the risk that certain expenditures will not be included in the AFS.

**Recommendation B3** The Minister should ensure the full implementation of legal provisions regarding the recording of expenditures in order to eliminate delays in their registration by competent officials. Periodic reporting, including financial statements, should contain accurate information on all financial transactions.

---

<sup>3</sup> Administrative Instruction no. 01/2018 on amending and supplementing AI no. 03/2012 on Personal and Operational Expenditures in the Diplomatic and Consular Missions of the Republic of Kosovo.

---

---

**Issue A 1 – Inclusion of deviation from +/- 30% in the contract with weighted prices****Finding**

Rules and the Operational Guideline of the Public Procurement, Article 56.11 specifies that whenever the contracting authority does not know the indicative quantity, "unit price contracts", the CA must determine weighting based on the importance of each "category of service" or "article" so that the contracting authority can determine the bid with the lowest price. In these cases the plus/less thirty percent (30%) threshold applies.

The Ministry signed two contracts with EO for its own needs, which relate to: "Postal Diplomatic Services" in the amount of €400,000, and "Supply with spending material that is out of the Central Procurement Authority Contract", in the amount of €124,500. The selection of the winning bids was made by weighing the prices on the basis of importance, but in the signed contracts it was stated that the allowed deviation from the indicative value could be 30%. This is in contradiction with the rules set out in cases when indicative quantities of the services/items are not known.

This occurred due to changes in the procurement department staff, and lack of specific knowledge of the new staff regarding the requirements of the regulations at this point.

**Risk**

Inclusion of deviation +/- 30%, when the contract is signed based on the estimated value, and not based on indicative amounts, poses a risk for the entity to enter into unnecessary obligations as in this case the EO may require contract completion at a minimum of 70% of its signed value, despite the fact that the Ministry may not need contracted services or purchases to such an extent.

**Recommendation A1** The Minister should ensure that responsible procurement persons correctly understand the requirements of legalisation regarding procurement and contracts, so that contracts are drafted in accordance with applicable regulations and do not include elements that may in the future cause financial damage to the Ministry.



---

**Issue A 2 – Exceeding of the deadline foreseen for bid evaluation**

**Finding** According to “Operational Guidelines for Public Procurement”, namely Article 35 of this Guideline: procedure for examination, evaluation and comparison of tender will be carried out by the Contracting Authority within the shortest possible period and no later than 30 days from the opening of bids. Only in exceptional and justified cases, in particular with contracts of a complex nature, this period may be extended for an additional period of 10 days.

We found that in the procurement process for the tender dossier "Insurance of vehicles of MFA" there were delays in the completion of evaluation, about 30 days (the opening of bids was made on 30.08.2018, and the evaluation was completed on 30.10.2018). There was no particular reason for this delay.

MFA officials have been unable to provide any solid reason for the occurrence of this delay until we have noted that the evaluation commission started work 12 days after the appointment of members, and this may have been one of the reasons for delays in the evaluation.

**Risk** Delays in completing the bid evaluation process may raise doubts in the transparency of the process and cause delays in the receipt of services.

**Recommendation A2** The Minister should ensure that evaluation commissions with the support of the procurement department perform bid evaluations within the established legal deadlines, so that the required services are timely received, as well as ensure as a transparent process as possible.

### 3.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €12,877. In 2018, this budget was spent in full. These payments mainly relate to: subsidising the football club, financial support for family members of late MFA officials and subsidies to a non-public entities.

#### Recommendations

We have no recommendations in this area.

### 3.1.5 Capital Investments

The final budget for Capital Investments was €810,973, out of which €526,798 or 65% were spent in 2018. They relate to the purchase of official vehicles, the purchase of information technology equipment, and so on.

---

**Issue A 3 - Misclassification of economic expenditures**

**Finding** Capital expenditures represent payments for the purchase of assets that have a term of life shall longer than one year and a financial value higher than €1,000. These expenditures are capitalized during use in the future periods.

During the audit, we have noted that in payment of furniture supply to MFA, payment was made from the category of Capital Investments, and in fact, these expenditures belong to the category of Goods and Services since they have a value less than €1,000. The total value of these payments made was €2,000.

This has happened as a result of the wrong planning of these expenses.

**Risk** Payments made from the wrong category may result with deterioration expenditure reflection, by understating one category and overstating the other category of expenditures, with final impact in the incorrect presentation of the AFS.

**Recommendation A3** The Minister, through responsible persons, should ensure that when planning the budget, the expenditures should be planned in the appropriate economic category according to the chart of accounts so that the expenditure execution and reporting in the AFS are accurate and correct.

## 3.2 Capital and non-capital assets

In the 2018 AFS, €2,856,369 of capital assets (in the amount of over €1,000) and €1,284,268 of non-capital assets (in the amount of under €1,000) were disclosed. Assets under €1,000 is recorded in the Ministry's internal registers, as the assets of DCM cannot be recorded in the e-assets system, due to the fact that this system is not fully functional. We tested the purchases of the year, including capital investments, and purchases of equipment and furniture with the amount of under €1,000, as well as the regularity of records and inventory of assets. Our tests have highlighted the following issues:

---

**Issue B4 – Deficiencies in the management of assets registers****Finding**

The management of government assets and related registers should be done in accordance with Regulation 02/2013 on Management of Non-financial Assets in Budget Organisations. While for internal purposes, the Ministry issued an Administrative Instruction 06/2012 On Asset Recording in Diplomatic and Consular Missions of the Republic of Kosovo, on the basis of which DCMs are obliged to report the purchased assets to the assets officer in the MFA so that assets are recorded in the accounting records.

Seven DCMs<sup>4</sup> have not reported at all the assets under €1,000 for 2018. As a result, the information presented on assets under €1,000 do not present the real situation.

There is no justification why DCMs have not reported, with the exception of the Consulate in Albania and the Liaison Office in Greece, which are opened at the end of 2018, and this may have affected the non-reporting of assets.

**Risk**

Weaknesses in management and reporting with particular emphasis on DCMs disclose the lack of complete control over assets, impede effective management, and increase the risk of loss or disposal of assets.

**Recommendation B4** The Minister, through responsible persons, should ensure the functioning of control mechanisms in the area of asset management in order to be managed in accordance with the rules and records of assets, and provide accurate and complete information on available assets.

### 3.3 Handling of cash and its equivalents

The open advance statement presented in the 2018 AFS was €193,868, and no additional explanations were provided in this regard. However, according to KFMIS records, the value of open advances was €230,298 in economic code 71200. They relate to advance payments for embassies, advances for official travel, and unclosed/unjustified expenses incurred through credit cards.

---

<sup>4</sup> Embassy in Hungary; Embassy in Japan; Embassy in Albania; Consulate in Munich; Consulate in Zurich, Consulate in Albania and the Liaison Office in Greece

---

---

**Issue B4 – Deficiencies in management of advances**

**Finding** According to Administrative Instruction no. MPS 2004/07 on Official Travel Expenses, expenditures of advanced funds received should be justified within 15 days after returning from travel. The same rule applies to expenses incurred through credit cards.

We have noticed that expenditures incurred during 2018 through credit cards in the amount of €67,959 have not been justified according to the requirements. This has increased the value of unjustified advances in the AFS. In addition, we have identified a case where an advance for an official travel in the amount of €6,000, withdrawn at the end of 2017, was not justified at all. This advance was not presented in the 2018 AFS.

After receiving the draft audit report, credit card expenses in the amount of €39,087 were closed/justified. In addition, the amount of €5,600, were returned as cash by the credit card user, due to lack of justification of expenses. Also, funds from the advance of 2017 in the amount of €6,000 have been returned, and the same are in the procedure of registration in the Treasury.

**Risk** Failure to justify travel expenses and non-closure of advances increases the risk that public money is used in violation of the intended purpose and the applicable rules.

**Recommendation A4** The Minister should ensure that in all cases when officials have not justified travel expenses in accordance with the rules, unjustified amounts should be deducted from their salaries. This will have an impact on increasing staff responsibility in performing legal obligations to justify spending and closing of advances, in accordance with the applicable rules.

### 3.4 Outstanding liabilities

The statement of liabilities not paid to suppliers at the end of 2018 was €18,309. Compared to 2017, there is a considerable decrease of liabilities. These liabilities are carried forward to be paid in 2019.

**Recommendation**

We have no recommendations in this area.

## 4 Good Governance

Good Governance implies basic principles of accountability, effectiveness of controls, risk management, independence of FOREIGN audit, co-ordination of NAO with FOREIGN 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 Organisations 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. We have also conducted a three-day audit visit to the Embassy of the Republic of Kosovo in Vienna, Austria. The auditing work undertaken during these three days has not highlighted the shortcomings that are worth mentioning in this report. Some minor issues (regarding asset handling, vehicle servicing, and procurement deadlines) are raised and discussed with the Ambassador and his staff.

### Overall Governance Conclusion

Although the MFA has made a number of improvements in governance, there are still a number of areas where important developments are needed. Despite the initiative to create a working group, the MFA has not yet managed to draft a comprehensive institutional strategic plan that would define key objectives and would enable monitoring of progress towards achieving expected results. In the absence of a strategic document, no proper process for managing the risks associated with the fulfilment of the strategic objectives has been possible to be put in function. This situation was reflected in the self-assessment questionnaire submitted the Ministry of Finance.

In particular, the MFA has problems in handling the advances. The situation of the advances remains unclear. Advances are presented as unclosed accounts from one year to the other, and despite ongoing recommendations, the situation has not improved.

The area that requires further development remains the effective response to audit recommendations and budget management. The financial reconciliation process with DCMs requires improvement in order to ensure accurate records and avoid current deficiencies.

## 4.1 Internal Audit System

The Internal Audit Unit (IAU) operates with three members of staff – Head of IAU and two auditors. IAU planned six audits for 2018, which were completed. Audits covered areas, such as: (a) recruitment and promotion process (for 2017); (b) travel expenses abroad (for 2017 and January – April 2018); (c) Capital Investments and Subsidies; (d) audit of two embassies and (e) audit of procurement procedures in MFA.

Out of a total 28 recommendations given, 12 were implemented completely, eight (8) were in process and eight (8) were not addressed.

Audit Committee has held four meetings during 2018 reviewing IAU findings and recommendations.

### **Recommendations**

We have no recommendations in this area.

## 4.2 Management Reporting, Accountability and Risk Management

MFA has established a relatively functional internal control system that includes segregation and delegation of responsibilities, regular reporting to management, to enable timely information and an opportunity to respond to reported challenges and problems. Although, a range of internal controls are applied by Management to ensure that systems operate as intended, enhanced measures and new control mechanisms are still needed in relation to the addressing of issues identified regarding Diplomatic and Consular Missions.

Our Audit Report on the 2017 AFS of MFA resulted in 16 key recommendations. MFA prepared an Action Plan stating how all recommendations will be implemented.

At the end of our 2018 audit, six (6) recommendations have been implemented; six (6) were in process; and four (4) have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Table 4.

## 5 Progress in implementing recommendations

Our Audit Report on the 2018 AFS of MFA resulted in 16 recommendations. MFA had prepared an Action Plan stating how all recommendations will be implemented.

At the end of our 2018 audit, six (6) recommendations have been implemented; six (6) are in process; and four (4) have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Table 4.

**Table 4 Summary of prior year recommendations and of 2018**

No	Audit area	Recommendations of 2017	Actions taken	Status
1	AFS	The Minister should ensure that is carried out a thorough analysis to determine the causes behind the Emphasis of Matter. In this context, specific actions should be taken to address problems related to unrecorded expenses that are repeated year after year, and to ensure accurate presentation of unjustified advances.	Unjustified advances are presented separately, while the condition of unrecorded expenditures is the same.	Partially implemented
2	AFS	The Minister should ensure accurate presentation of donor grants, and ensure that the report of non-financial assets is consistent with disclosures. In addition, Minister should ensure that the 2018 AFS draft plan addresses all issues identified by the audit. This should include review of the AFS by the management, with particular focus on high-risk areas and areas where errors have been identified.	Donor grants are correctly presented in the AFS, while capital assets are not presented at the correct value.	Partially implemented
3	Budget process	Minister should carry out a systematic assessment of reasons behind low execution of capital projects and other areas of expenditure for 2017 and earlier, and determine practical alternatives for improvement of its execution.	The situation is the same.	Unimplemented
4	Revenues	The Minister should ensure that responsible persons make revenue planning/forecasting, and increases the level of accountability of the heads of diplomatic missions, in order to avoid delays and ensure that all revenues are recorded on time in the KFMIS.	Revenue planning is done, but there are delays in registration.	Partially implemented



5	Personnel management	The Minister should ensure that is undertaken a comprehensive review of personnel files to ensure that they are maintained and updated in accordance with legal requirements.	We have not encountered such cases in 2018.	Implemented
6	Personnel management	The Minister should ensure that all leading positions are exercised with regular employment contracts. This has to be preceded by a public competition developed in accordance with the applicable rules.	The situation is the same.	Unimplemented
7	Goods and services	The Minister and the Secretary General of the MFA should ensure that rent payments are made in accordance with applicable Guidelines so that are not exceeded allowed expenses.	Although expenditures were exceeded, they are in accordance with the AI and with the approval of the CAO.	Implemented
8	Goods and services	The Minister should ensure full implementation of legal provisions related to recording of expenses, in order to eliminate delays in their recording by the competent officials. Periodic reporting, including financial statements, should contain accurate information on financial transactions.	The same situation.	Unimplemented
9	Goods and services	The Minister should ensure that responsible officials apply requirements of applicable rules in procurement activities, in order to avoid the possibility of conflict of interest.	The finding is not repeated.	Implemented
10	Subsidies and transfers	The Minister should ensure that each subsidy beneficiary reports on expenditures incurred as foreseen under the Cooperation Agreements, in order to ensure that funds are being spent in accordance with the intended purpose.	There were no subsidies of such nature.	Implemented
11	Capital investments	The Minister should ensure the full implementation of the legislation in force in procurement processes and compliance with the requirements set out in the tender dossier, so that only the operators who have met all the conditions will be rewarded with the contract.	There were no such findings.	Implemented
12	Assets	The Minister through responsible persons should ensure functioning of control	Was done registration of	Partially



		mechanisms in the area of assets management, to ensure that assets are managed in accordance with rules and assets registers that contain accurate and complete information on available assets of the Ministry. The same information should also be presented to the AFS, in order to avoid the possibility of modifying the audit opinion or emphasis of matter.	assets that did not include VAT, while the rest have the same condition.	implemented
13	Liabilities	The Minister should ensure improvement of controls throughout the process of receipt and processing of invoices, in order to avoid delays in meeting liabilities. The remaining liabilities at the end of the year should be accurately reported in the AFS, in order to meet legal requirements and avoid potential modification of opinion or emphasis of matter related to the AFS.	Liabilities have been presented, but there are still delays in paying invoices	Partially implemented
14	Progress in implementing recommendations	The Minister should ensure that the action plan for implementation of recommendations given by the AG is monitored continuously and progress reported on a quarterly basis by the responsible staff.	Some of recommendations remained unimplemented.	Closed partially implemented
15	Management Reporting	The Minister should initiate revision of the secondary legislation related to foreign service, in order to clarify the procedure of ending of the mandate of diplomatic representatives, including necessary time periods and relevant issues for the withdrawal/re-systematisation of diplomatic staff. In cases when the need arises for extension of the mandate of particular diplomatic representative, this should be done by a decision or a letter from the Minister, in accordance with the Law on Foreign Service.	This year there was only one case where the chief of mission continued to hold the position without a decision.	Partially implemented
16	Management Reporting	The Minister should ensure establishment of formal procedures for the management of risks, in accordance with FMC requirements. The risk register should be monitored and updated on regular basis.	A risks register has been compiled.	Implemented
No	Audit area	Recommendations of 2018		

1	AFS	The Minister should ensure that adequate actions are taken to address the problems regarding unregistered expenditures being repeated year after year. The Minister should also ensure that all purchased assets are recorded in the registers, and accurate information regarding assets should be disclosed in the AFS. In addition, the Minister should ensure that explanatory notes are made for all notes presented in the AFS, so that they are understandable to their users. Unjustified advances should be presented with exact values and necessary explanations should be provided.
2	Budget planning and execution	The Minister should undertake a systematic assessment of the reasons for non-implementation of capital projects and the low level of budget execution in this category. Budget planning should be harmonised with projects ready-to-implement, while procurement procedures should be initiated in a timely manner and in accordance with budget allocations.
3	Revenues	The Minister should increase the level of accountability with the Heads of DCMs and other responsible staff to ensure regular and timely reporting in relation to the revenues executed so that they are timely recorded in KFMIS and are reported correctly in periodic reports and in the AFS.
4	Wages and salaries	The Minister should consider such cases and ensure that diplomatic staff, including ambassadors, possess the right legal basis for action in exercising their duties and responsibilities in diplomatic missions, in accordance with the Law on Foreign Service.
5	Goods and services and utilities	The Minister should ensure the full implementation of legal provisions regarding the recording of expenditures in order to eliminate delays in their registration by competent officials. Periodic reporting, including financial statements, should contain accurate information on all financial transactions.
6	Goods and services and utilities	The Minister should ensure that responsible procurement persons correctly understand the requirements of legalisation regarding procurement and contracts, so that contracts are drafted in accordance with applicable regulations and do not include elements that may in the future cause financial damage to the Ministry.
7	Goods and services and utilities	The Minister should ensure that evaluation commissions with the support of the procurement department perform bid evaluations within the established legal deadlines, so that the required services are timely received, as well as ensure as a transparent process as possible.
8	Capital investments	The Minister, through responsible persons, should ensure that when planning the budget, the expenditures should be planned in the appropriate economic category according to the chart of accounts so that the expenditure execution and reporting in the AFS are accurate and correct.
9	Capital and non-capital assets	The Minister, through responsible persons, should ensure the functioning of control mechanisms in the area of asset management in order to be managed in accordance with the rules and records of assets, and provide accurate and complete information on available assets.

---

10	Handling of cash and its equivalents	The Minister should ensure that in all cases when officials have not justified travel expenses in accordance with the rules, unjustified amounts should be deducted from their salaries. This will have an impact on increasing staff responsibility in performing legal obligations to justify spending and closing of advances, in accordance with the applicable rules.
----	--------------------------------------	--

*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 Qualified 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 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: Confirmation letter

REPUBLIKA E KOSOVËS-REPUBLIKA KOSOVA-REPUBLIC OF KOSOVO			
ZYRA KOMBËTARE E AUDITIMIT			
NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE			
BETIMI/PROJEKTI/DEKRETI/...		24.06.2019	
Niveli Org.	Shifri Klasif.	Nr. Prot.	Nr.faqes
Org. Jedin.	Klasif. Kod	Br. Prot.	Br. faqes
Org. Unit	Class. Code	Prot. No.	No. Pages
03	47	1168	1



Republika e Kosovës

Republika Kosova-Republic of Kosovo

Qeveria - Vlada - Government

Ministria e Punëve të Jashtme - Ministarstvo Inostranih Poslova - Ministry of Foreign Affairs

## 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,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Ministrisë së Punëve të Jashtme, për vitin e përfunduar më 31 dhjetor 2018 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimit, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tij.

z. Fitim Sadiku.....

Sekretar i Përgjithshëm i Ministrisë së Punëve të Jashtme

Data: 24.qershor.2019, Prishtinë,