



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF THE MINISTRY
OF LABOUR AND SOCIAL WELFARE FOR
THE YEAR 2019

Prishtina, june 2020

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.

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

This audit is carried out in line with the International Standards of Supreme Audit Institutions, and good European practices.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Ministry of Labour and Social Welfare in consultation with the Assistant Auditor General, Emine Fazliu, who supervised the audit.

The report issued is a result of the audit carried out by Blerina Krasniqi, Team Leader, Laureta Matoshi and Veton Misiri, team members, under the management of the Head of Audit Department Faruk Rrahmani.

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Executive Summary

This report summarises the key issues arising from our audit of the Ministry of Labour and Social Welfare for 2019, which includes the Opinion of the Auditor General on Annual Financial Statements. Examination of 2019 financial statements was undertaken in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

Our audit focus has been on:



Conclusions

The Annual Financial Statements were well prepared and managed, with the exception of a few minor issues regarding the disclosures of assets and liabilities that we have highlighted below in the relevant categories.

In general, the Ministry has put in place effective revenue management controls, whilst additional financial actions are still needed for financial management and proper expenditure control. This is because deviations have been observed in almost all areas of expenditure, including some items of disclosures.

Implementation of recommendations remains a challenge for MLSW. Although out of 12 recommendations from 2018, seven were implemented, one was closed, however four of the unimplemented recommendations are among the most important ones and are being repeated over the years. As a result of the repetition of recommendations, many shortcomings in the significant systems of the ministry remain unhandled.

Opinion of the Auditor General¹

Unmodified Opinion

For more details, see Chapter 1 of this report.

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

Management's Response on 2019 audit

The Minister of Finance and Transfers has agreed with the findings and conclusions of the audit, for the part covered by this ministry according to regulation no. 05/2020² and has committed to address all given recommendations.

While the management of MEPTINIS for the part treated in this report (case A1) that is covered by the above regulation has not given any comment nor has it sent a confirmation letter despite the provision of additional deadlines and continuous communications. In this case we take the compatibility with the report as their own.

The National Audit Office appreciates the cooperation of the management and personnel of the Ministry during the audit process.

² Regulation (GRK) -No 05/2020 on the areas of administrative responsibility of the office of the Prime Minister and ministries.

Audit Scope and Methodology

The Audit involves examination and evaluation of Financial Statements and other financial records in regard to as the following:

- Whether the financial statements give a true and fair view of the accounts and financial matters for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- Whether the internal controls and internal audit functions are appropriate and efficient; and
- Whether appropriate actions for implementation of audit recommendations have been undertaken.

The audit was based on risk assessment. We have analysed the Ministry's operations, the extent the management controls could be relied to in order to determine the level of in-depth testing required to obtain evidence supporting the Auditor General's opinion.

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

The following chapters provide in detail our audit findings and recommendations in each audited area.

1 Audit Opinion on Annual Financial Statements

We have audited the AFS of the Ministry of Labour and Social Welfare for the year ended on 31 December 2019 in accordance with the Law on NAO and the International Standards of Supreme Audit Institutions (ISSAIs). Audit examinations were carried out in order to allow expressing opinions on AFS which comprise the Statement of Cash Receipts and Payments, and Budget Execution Statement, provided further in detail.

Unmodified Opinion

In our opinion, the Annual Financial Statements for the year ended on 31 December 2019 give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards according to cash based accounting.

Basis for the Opinion

The audit is carried out in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the section 'Auditor's responsibilities for the audit of the Annual Financial Statements' of our report. In compliance with ISSAI 10 and 30, and other relevant requirements for audit of budget organisations' AFSs, the NAO is independent from the Ministry. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for AFS

The Secretary General of the Ministry is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Cash based Accounting. and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law No. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented) and Regulation No. 01/2017 on Annual Financial Statements of Budget Organisations.

The Minister is responsible to ensure the oversight of the Ministry's financial reporting process.

Auditor General's Responsibility for the audit of the AFS

Our responsibility is to express an opinion on the AFS based on our audit conducted in accordance with ISSAIs. These standards require that we obtain reasonable assurance about whether the financial statements are free from material misstatements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will detect every material misstatement that might exist. Misstatements

may arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

The audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the entity's circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

We communicate with the management of the audited entity regarding the audit scope, planned time and significant findings including any significant shortcoming in internal control that we have identified during the audit.

The audit report is published on the NAO's website, except for information classified (as sensitive) or other legal or administrative prohibitions in accordance with applicable legislation.

2 Financial Management and Control

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

Financial Management and Control Conclusion

The ministry has spent 99% of the final budget for 2019, which means a satisfactory execution on the overall level. In the context of financial systems, revenue controls are generally appropriate and are being effectively implemented, whilst controls over expenditures require further improvement and additional actions.

The area with the most significant problems is that of subsidies, due to delays in eliminating regulatory uncertainties and non-implementation of legal requirements in the case of payments for persons benefiting more than one pension. Additional controls are needed in this category, in the pension payments after the death of the beneficiaries as well as in the pension payments for employed persons.

Furthermore, the Ministry should take measures to improve the management of staff recruitment processes, procurement, and full reporting of assets and liabilities, issues which have been raised in the prior year's report. The low level of execution of capital projects remains a challenge.

2.1 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 tables below:

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ³	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Sources of Funds	466,661,828	503,205,273	499,323,508	99%	441,839,080	400,156,325
Government Grant -Budget	465,961,828	501,937,365	498,235,042	99%	441,479,041	399,879,722
Revenues from PAK ⁴ -	700,000	700,000	699,674	100%	-	-
External Donations	-	567,908	388,792	68%	360,039	276,603

The final budget compared to the initial budget was increased by €36,543,445. This increase is a result of external donations in the amount of €567,908, and Government decisions in the amount of €35,975,537, which were mainly related to the allocation of funds to cover liabilities in pension and social schemes.

In 2019, the ministry spent 99% of the final budget, a similar spending to the previous year.

³ Final budget – the budget approved by the Assembly subsequently adjusted by the Ministry of Finance.

⁴ Revenues from Kosovo Privatisation Agency, allocated by the Law on Budget.

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

Description	Initial Budget	Final Budget	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Spending of funds by economic categories	466,661,828	503,205,273	499,323,508	99%	441,839,080	400,156,325
Wages and Salaries	5,319,419	5,159,505	5,158,822	100%	5,085,867	4,872,972
Goods and Services	1,844,251	2,061,592	1,946,664	94%	1,780,499	1,926,237
Utilities	377,085	392,085	315,803	81%	289,864	316,560
Subsidies and Transfers	453,236,073	491,600,550	489,340,111	100%	433,997,243	392,236,724
Capital Investments	5,885,000	3,991,541	2,562,108	64%	685,607	803,832

Explanations for changes in budget categories are given below:

MLSW, with Government decisions, had budget adjustments in almost all economic categories of expenditures. In the category of wages and salaries as well as capital investments, there were budget cuts, while in other categories there was an increase.

The highest increase was in the category of subsidies and transfers where the final budget was increased by €38,364,477 compared to the initial budget. This increase was influenced by the Government decision no. 03/90 dated 19.02.2019 on the increase of pension schemes. According to this decision, there was an increase in basic-social pensions by 20%, family pensions by 20%, disability pensions by 20%, early pensions "Trepça" by 20% and contribution pensions by 15%.

The payment of pensions of teachers of the '90s based on Law no. 06 / L-073 influenced the increase of the final budget of this category. These payments are included in the basic contribution- pension scheme, which was foreseen to start as of April 2019, but in the absence of the budget, these payments were made in December 2019 retroactively.

2.1.1 Revenues

Revenues generated by the Ministry in 2019 totalled to €523,690. These relate to fines from Labour Inspectorate Authority (LIA) and taxes from the Labour and Employment Department (LED).

Table 3. Own Source Revenues (in €)

Description	2019 Receipts	2018 Receipts	2017 Receipts
Revenues	523,960	608,429	329,374

Compared to last year, revenues decreased by 14%. These revenues are deposited in the Budget of Kosovo and are not used by the Ministry.

2.1.2 Wages and Salaries

The final budget for Wages and Salaries was €5,159,505, which was 100% realized. The number of employees at the end of the year was 808 and according to the final budget it was 875. During 2019, eight new workers were employed. We tested seven samples for substantial tests worth € 3,411, as well as 10 samples for compliance tests.

In this regard, we have identified the following issues:

Issue B1 – Weaknesses in the public competition and the recruitment process

Finding According to Article 5 - paragraph 1.6 of the Administrative Instruction (MLSW) No. 07/2017 on the regulation of competition procedures in the public sector, the competition requires to determine the duration of the appointment if the position is with a definite or indefinite term.

In the recruitment competition dated 04.04.2019 for four positions⁵ in the 'Elderly Care Home' in Prishtina, the duration of the appointment and the description of whether the position is for a definite or indefinite term was not mentioned.

We reviewed the recruitment process for the position of "Nurse" where we noticed that the candidate who was selected did not meet one of the three criteria set by competition, which had to do with training in the field of nursing. Given the sensitivity of such a position, training was a necessary criterion to be considered.

This was due to the fact that the personnel office did not take into account the relevant rules when determining the content of the competition and the non-compliance with the criteria set by the evaluation commission.

Impact Non-compliance with the competition criteria affects the selection of non-meritorious candidates and makes the relevant objectives of the institution impossible to achieve. Shortcomings in the content when announcing the competition damage the transparency of the competition process.

Recommendation B1 The Minister should strengthen the internal controls and take the necessary actions to ensure that relevant criteria and legislation are adhered to in the case of staff recruitment and the publication of competitions.

2.1.3 Goods and Services and Utilities

The final budget for Goods and Services including utilities in 2019 was €2,453,677, out of which €2,262,467 were spent. Those mainly relate to supply with consumables, maintenance, IT equipment, fuels, outsourcing services, utilities etc. We have tested five samples of €85,444 as part of substantial testing and five samples as part of compliance testing.

In this regard, we identified the following issues.

⁵ Nurse, medical assistant, food server, and driver

Issue A1 – Beneficiaries from sectors who were not foreseen in contracts**Finding**

In the contract "Insurance against accidents at work for interns who will be engaged for internships in Private Companies" signed between the ministry and the insurance company were defined the categories and professions that should be the beneficiaries of health insurance.

In the payment with the amount of €36,900, for the insurance of 1,350 interns engaged in private and public companies, we have identified that 100 of them do not belong to the professions that were classified according to the categories defined by the contract. The internship employment project was an agreement between the ministry and GIZ as a co-financier of these activities.

Impact

According to ministry's officials, the fact that the agreement was with GIZ and did not contain restrictions and in the absence of applicants for contracted professions, the ministry decided to give the opportunity of benefit to the applicants of other professions. Including in the beneficiary's list of professions - categories that are not provided by the contract jeopardizes the possibility of compensation of health insurance in case of any disaster and all this results in the failure to achieve the objectives of the project. Fortunately, there were no needs for benefiting the health insurance as a result of injuries at work

Recommendation A1 The Minister should, through the relevant managers, ensure that the list of professions paid for health benefits is in accordance with the contract. When initiating the request, a proper analysis of the professions - jobseekers who will be supported should also be done, in order to prevent deviations from the contract terms.

2.1.4 Subsidies and Transfers

The final budget in 2019 for Subsidies and Transfers was €491,600,550, out of which €489,340,111 were spent or almost 100%. The category of subsidies and transfers comprises 98% of the total expenditures of the ministry. These are mainly related to pension and social schemes.

Thanks to the co-operation with the Civil Registration Agency (CRA), the Tax Administration of Kosovo (TAK) and the Islamic Community of Kosovo (BIK), the ministry has constantly been making efforts to reduce irregular payments, which have been identified by prior year audits in some of the pension and social schemes. However, the management of these schemes remains a challenge, with particular emphasis on dual beneficiaries as well as pension payments for employed persons.

We have developed comparative substantial analytical procedures for pension and social schemes, while for the other part of the subsidies and transfers for which this method is not applicable; we

have tested 30 samples for substantial tests in the amount of €7,069,981. Meanwhile, for compliance tests we tested 113 samples.

Unlike last year, when the error was €1,166,982, this year the error value for the same schemes is €1,258,829, with a slight increase of €91,847.

Issue B2 – Ineffective controls in subsidy management

Finding

Based on the comparison of the data of the ministry for pension schemes and social assistance with the data of TAK and CRA, we have ascertained the following:

- Benefiting pensions or social assistance by persons who work or generate personal income - The value of these payments for 2019 was €124,632. This was due to subsequent statements made to TAK and reflected in the relevant months, for which there was no information at the time the monthly comparisons were made by the ministry; and

Table 4. Benefiting pensions by employed persons (in euro)

Type of pension scheme	Number of payments	Financial error
Trepça pensions	335	28,091
DFDIL- Veteran	643	52,331
Social assistance	408	44,210
Total	1,386	124,632

- **Payment of pensions after the death of the beneficiaries** - The value of which was €142,345. This was due to the fact that the registration of deaths in the CRA was delayed and the ministry was not aware of these cases.

Table 5. Pensions paid after the death of beneficiaries

Type of pension (pension scheme)	Payments for beneficiaries who died before 2019		Payments for beneficiaries who died during 2019		Total of payments after the death of beneficiaries	
	No. of payments	Amount (€)	No. of payments	Amount (€)	No. of payments	Amount (€)
Compensation for the blind (CB)	13	3,250	69	17,625	82	20,875
Basic pensions (BP)	139	11,925	380	35,880	519	47,805
Contribution pensions (CP)	63	11,952	135	26,979	198	38,931
Pensions for the disabled persons (PDP)	39	3,975	40	3,075	79	7,050
Trepça pensions	3	315	3	378	6	693
Family DFDIL	8	1,706	23	6,516	31	8,222
Veteran DFDIL	21	3,570	14	2,329	35	5,899
KPC pensions	0	0	0	0	0	0
Pensions for paraplegics and quadriplegics (PPQ)	39	7,500	17	4,575	56	12,075
Family pensions	9	795	0	0	9	795
Total	334	44,988	681	97,357	1,015	142,345

Impact Keeping dead people on the lists of pension beneficiaries as well as employed persons benefiting pensions harms the ministry's budget.

Recommendation B2 The minister should ensure the strengthening of internal controls through real-time communication between registers with the civil registry, systematic comparisons of beneficiary lists with information obtained from TAK and should create a more effective communication between the databases of pension schemes

Issue B3 - Payments without a clear legal basis

Finding Based on the comparison of the data of the ministry for pension schemes and social assistance, we ascertained that the ministry made payments in the amount of €991,852 without a clear legal basis. The most common cases of benefiting more than one pension from pension schemes are the beneficiaries belonging to the category of KPC and KSF, who also benefit from other pensions

Table 6. Beneficiaries of more than one pension from pension schemes

Type of pension schemes	Number of payments	Financial error in Euro (€)
Pensions of Kosovo Security Force (KSF) and DFDIL_Family	944	227,454
Pensions of Kosovo Security Force (KSF) and DFDIL_Veteran	86	20,302
Pensions of Kosovo Protection Corps (KPC) and DFDIL_Family	3395	738,288
Pensions of Kosovo Protection Corps (KPC) and DFDIL_Veteran	13	1,598
Basic pensions (BP) and DFDIL_Family	17	1,500
Basic pensions (BP) and DFDIL_Veteran	7	630
Contribution pensions (CP) and DFDIL_Family	0	0
Contribution pensions (CP) and DFDIL_Veteran	5	850
Pensions for disabled persons (PDP) and DFDIL_Family	2	150
Pensions for disabled persons (PDP) and DFDIL_Veteran	0	0
DFDIL – Family and PIP	12	1,080
Trepça - DFDIL-Veteran	0	0
KV -DFDIL- Family	0	0
Total	4481	991,852

For the case above, the ministry has made such payments in the previous years until September 2018 when they were discontinued, to start to be paid again by decision of the Government No. 12 /82 dated 28.12.2018.

This decision approved the continuation of the payment of double pensions for the KSF and KPC until the final interpretation of the laws on pension schemes is taken by the institution in charge of this competence.

This practice of these payments continued also in 2019, as by the end of the audit for 2019, the ministry had failed to provide interpretation of the legal basis for the pension schemes in question or to update the current legal framework, as provided for by the Sectoral Strategy 2018-2022 approved by the Government.

Impact

Payment of pensions for persons who are beneficiaries of more than one pension scheme may cause damage to pension beneficiaries or may damage the ministry's budget.

Recommendation B3 The Minister should immediately initiate the procedures for harmonization of the legislation on pension schemes by using the legal mechanisms of the relevant bodies, which are responsible for making interpretations and assessments of the compliance with legal provisions.

2.1.5 Capital Investments

The final budget for capital investments was €3,991,542, of which €2,562,108 was spent. They relate to the construction of houses for social cases, the renovation of Vocational Training Centres, the construction of local roads, etc. We tested five samples for substantial tests in the amount of €262,017, as well as five samples for compliance tests.

Regarding our tests, we have identified the following issues.

Issue A2 – Low execution of capital projects

Finding According to the Budget Law for 2019, the ministry in the capital project tables has had foreseen funds to execute 21 projects in the amount of €5,885,000. Of the 21 planned projects, seven (7) of them had no expenditure during the year. Because of poor performance, the budget was reduced by €1,893,458 with government decisions. Despite the reduction of the projects budget, the ministry failed to spend more than 64% of it.

This low level was influenced by the lack of requirements for initiating procedures for these projects, difficulties in the implementation of some projects due to their complexity and co-financing with municipalities

Impact Non-implementation of some of the planned projects results in inefficient use of resources available and all this affects the failure to achieve the intended objectives and consequently affects the quality of services to citizens

Recommendation A2 The minister should add internal controls which will influence the increase of the budget execution level in this category. In addition, the implementation of capital projects should be monitored systematically on a monthly basis by addressing the barriers for the implementation of projects on time and at the planned level.

2.2 Capital and non-capital assets

The value of capital assets presented in AFS was €20,664,235, that of non-capital assets was €143,535, and of stock was €25,923. We tested 15 samples of €352,846 as part of substantive testing, and the stocktaking process as part of compliance testing.

In this regard, we have identified the following issues:

Issue B4 - Weaknesses in asset management**Finding**

According to Regulation No. 02/2013, Article 19, para. 4.7 for Asset Management, the inventory report must be performed in the convenient time before the preparation of the annual financial statements so that the inventorying commission has the opportunity to compare the inventory status with the status of non-financial assets. Respectively, according to Article 3, Capital assets - means all material and non- material non-financial assets that are purchased, constructed, developed or acquired in any other way, and which: a) have a lifespan longer than one year and are intended to be continuously used; (b) have a financial value of €1,000 or more; and (c) the ownership and control of benefits remains with the budget organization.

Regarding the asset management, we have observed the following:

- The ministry has established the inventory commission, but it had not been able to complete this process before the preparation and submission of the AFS. By the time we were auditing (March 2020), the same did not manage to complete the work and provide us with a report on its work;
- The assets register under €1,000 had problems with the transfer of records (confirmed by the ministry) which were reflected in the update of this register by the MPA and we could not obtain assurance that the same is correct, despite the fact that the samples we used to test them did not result in any issues; and
- From the samples tested in the assets register over €1,000, we identified a software with an original value of €27,500 and a residual value of €3,928 that appeared as assets. This value had to do only with half of the software payment, which was not finalised and never put into operation by the ministry. Costs related to this software were budgeted in the capital code (software development project for APRK⁶). However, the real work accepted for this piece of software had to do with the costs of the period, which should have not been capitalized.

The identified weaknesses were reflected by inadequate internal controls related to asset management.

⁶ Employment Agency in the Republic of Kosovo

Impact Keeping them in the assets register that have never been functionalized and are not used by the ministry affects the assets overstatement. On the other hand, the lack of inventory makes it impossible to harmonize the inventory balance with the balance in the accounting register, and increases the risk that the assets are misused, lost or alienated, reflecting the incorrect presentation of the value of the assets in the AFS

Recommendation B4 The Minister should ensure effective controls in the recording, management and reporting of assets, so that it is done in accordance with legal requirements. Furthermore, the minister should ensure that the commission has completed the inventory report prior to the preparation of the AFS

2.3 Receivables

The BO disclosed in the 2019 AFS receivables in amount €490,400. They relate to fines imposed by the labour inspectorate. Compared to last year, the accounts receivable have increased by €207,772 (2018 - €282,628), this increase was as a result of failure to collect a number of fines imposed by the labour inspectorate.

2.4 Liabilities

2.5.1 Outstanding liabilities

The statement of unpaid liabilities to suppliers at the end of 2019 was €2,035,444. These liabilities were carried forward to be paid in 2020. Most of these liabilities are from the category of subsidies and transfers, respectively obligations for bank provisions and obligations for beneficiaries of some pension schemes, which have remained unpaid in December due to the lack of budget.

Issue A3 – Payments through court decisions and enforcement

Finding Article 39 of LPFMA stipulates that the CFO of a budget organization shall be responsible for ensuring that every valid invoice and application for payment for goods, services and/or works supplied to the budget organization is paid within thirty (30) calendar days after the budget organization receives such an invoice or demand for payment.

From the review of payments through court decisions of the ministry, we have identified that because of non-payment of timely obligations to the EO and pension beneficiaries, the same through court proceedings have exercised their legal rights. The value of court decisions executed by the Treasury was €57,995. Of these, the main debt was €48,304 and the court's procedural costs (enforcement) were €9,691. The reasons for not paying the obligations on time were the late receipt of the invoices, the dispute of the beneficiary's right by the ministry and in some cases the lack of budget.

Payments were mainly related to the pensions that the beneficiaries won through the lawsuit, for which the ministry disputes their right and late payments to economic operators as a result of late receipt of invoices in finance office due to lack of co-ordination within the ministry

Impact Payments through court decisions lead to the unreasonable increase of the ministry's expenses, as the ministry will not receive any goods/services in exchange of the part of the expenses exceeding the main debt.

Recommendation A3 The Minister should ensure that measures are taken to make timely payments and add controls to the proper management of obligations in order to avoid unreasonable additional expenses

2.5.2 Contingent liabilities

In regard to our tests, we have identified the following issues:

Issue B5 - Inaccurate disclosure of contingent liabilities in AFS

Finding Article 18 of the AFS requires the disclosure of the full and accurate value of the contingent liabilities of budgetary organizations. The Ministry, in its AFS, disclosed contingent liabilities in the amount of €3,658, while the value that should have been disclosed was €8,767.

The register was overstated for an invoice in the amount of €1,974, which was presented though it had been paid during 2019, which had to do with supplies that were delayed to be paid by the ministry. Whereas, it was understated for an invoice in the amount of €7,083, which was not presented although it was accepted during 2019, which had to do with non-payment of obligations for a suspension of an employee while he/she was under court proceedings, on which occasion he/she has been found not guilty in which case the ministry was obliged to return the suspended payments.

This has happened due to negligence when preparing AFS.

Impact Incomplete and inaccurate disclosures of contingent liabilities affect their unfair presentation in the AFS

Recommendation B5 The minister should ensure that effective processes are in place to confirm that the 2020 AFS drafting plan addresses all issues related to the accurate disclosure of contingent liabilities

2.5.3 Contractual obligations

The value of MLSW's contractual obligations at the end of 2019 was €2,039,664. These are ongoing contracts, which have been budgeted and entered into with a term longer than one year in the total amount of €3,330,458. During 2019, the amount of €1,290,794 was paid, whilst the rest are for works to be executed and paid in 2020.

2.6 Internal audit function

MLSW has established the Internal Audit Unit (IAU), which operates with four auditors and is led by the Head of the IAU. For 2019, this unit has drafted the annual work plan based on the strategic plan, where it planned 34 regular audits and one upon request. The IAU during 2019 managed to implement fully the annual audit plan.

As part of the audits performed, most of the organizational units of MLSW were included, with priority given to higher risk systems, such as pension scheme units, finance and procurement. The period covered mainly in the IAU reports included last year until the time of completion of the respective audit. The number of recommendations made by IAU for 2019 was 140 recommendations.

Within the MLSW, the Audit Committee has been established and is functioning, which for 2019 has held four meetings.

3 Progress in Implementing Recommendations

Our Audit Report on the 2019 AFS of MLSW resulted in 12 recommendations. MLSW prepared an Action Plan stating how all recommendations will be implemented.

The Ministry submitted the Progress report on implementation of recommendations (30th of September) under requests deriving from the Rules of Procedure on implementation of audit and action plans.

At the end of our 2019 audit, seven recommendations have been implemented; four have not been addressed, one recommendation is closed unimplemented. For a more thorough description of the recommendations and the way they have been addressed, see Table 7 (or Table of recommendations).

Table 7 Summary of prior year recommendations and of 2019

N o	Audit area	Recommendations of 2018	Actions undertaken	Status
1	AFS	The Minister should ensure that an analysis has been carried out to determine the Causes for the Emphasis of Matter. The Minister should also ensure the strengthening of internal controls through real-time communication between registers with civil registry, systematic comparison of beneficiary lists with information received from TAK and establish a more effective communication between the databases of pension schemes.	Although the errors are similar and have resulted this year with differences from the comparison of these databases, we have not placed the emphasis of matter in this shortcoming, but we did so in the category of Subsidies. See recommendation B3.	Recommendation closed unimplemented.
2		The Minister should undertake all actions to ensure the working conditions and regular work attendance of these employees by carrying out continuous monitoring as foreseen by legal acts. On the contrary, this issue should also be discussed with the Government, as the issue as such is very pervasive in other Ministries as well.	For 2019, the ministry terminated such payments following this recommendation and started to pay them again after obtaining evidence of arrival and departure from relevant employees.	Recommendation implemented.
3		The Minister should ensure that effective processes have been established to confirm that the production plan of 2019 AFS addresses all matters pertaining to the accurate disclosure of assets and contingent liabilities. The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be signed unless all the necessary checks have been applied to the AFS.	Inaccurate disclosures of contingent assets and liabilities have also resulted in AFS of 2019. See Recommendation B4 and B5.	Recommendation unimplemented.
4				

		The Minister should ensure that the recording of expenditures is done in adequate codes as foreseen by the chart of accounts of KFMIS for the purpose of fair presentation and disclosure of information to the AFS users.	From our tests in 2019, we have not encountered such errors.	Recommendation implemented.
5	Wages and Salaries	The Minister should strengthen internal controls and take the necessary actions to ensure that, when recruiting staff, the criteria are determined according to the relevant legislation while fully respecting recruitment procedures in the civil service	From the review of the competitions for 2019, we have encountered non-compliance with the criteria when recruiting staff and other shortcomings in recruitment procedures (publication of the competition). See recommendation B2.	Recommendation unimplemented.
6	Wages and Salaries	The Minister should ensure that measures are taken to terminate the practice of concluding contracts without recruitment procedures and the duration of these agreements should be made in accordance with the relevant legislation.	In 2019, the contracts were concluded with procedures and we have not encountered any agreement that has exceeded the deadline set by law.	Recommendation implemented.
7	Goods and services	The Minister should ensure that there will be no additional compensation for staff engaged within regular working hours	From the review of samples from this code for 2019 and the confirmation from the CFO, such payments have been prohibited	Recommendation implemented.
8	Subsidies and Transfers	The Minister should immediately initiate the procedures for harmonizing the legislation on pension schemes by using the legal mechanisms of the relevant bodies	No necessary actions have been taken to implement this recommendation.	Recommendation unimplemented.

		responsible to perform interpretations and assessments of compliance with the legal provisions	See recommendation B3.	
9	Capital investments	The Minister should ensure that all equipment is received in conformity with the contract in order to achieve the objectives of the requesting unit	From our tests in 2019, we have not encountered such errors.	Recommendation implemented.
10	Capital and non-capital assets	The Minister should provide controls on asset management, registration and reporting in order to comply with legal requirements. The Minister should further ensure that the commission has completed the inventory report prior to the preparation of the AFS.	The same errors of assets have resulted from our tests in 2019. See recommendation B4.	Recommendation unimplemented.
11	Outstanding liabilities	The Minister should ensure that payment of invoices is made in accordance with the deadlines set by the regulation, as well as all obligations are presented fairly in the report of obligations. The Minister should also ensure that all receipts received are filed.	From our tests in 2019, we have not encountered such errors.	Recommendation implemented.
12	Management Reporting Accountability and Risk Management	The Minister should ensure the development of the risk register with all appropriate measures/actions to put potential threats against the objectives under control.	During 2019, the ministry has compiled a list of risks.	Recommendation implemented.
No	Audit area	Recommendations of 2019		
1	Wages and Salaries	The Minister should strengthen the internal controls and take the necessary actions to ensure that relevant criteria and legislation are adhered to in the case of staff recruitment and the publication of competitions		

2	Goods and Services	The Minister should, through the relevant managers, ensure that the list of professions paid for health benefits is in accordance with the contract. When initiating the request, a proper analysis of the professions - jobseekers who will be supported should also be done, in order to prevent deviations from the contract terms.
3	Subsidies and Transfers	The minister should ensure the strengthening of internal controls through real-time communication between registers with the civil registry, systematic comparisons of beneficiary lists with information obtained from TAK and should create a more effective communication between the databases of pension schemes.
4	Subsidies and Transfers	The Minister should immediately initiate the procedures for harmonization of the legislation on pension schemes by using the legal mechanisms of the relevant bodies, which are responsible for making interpretations and assessments of the compliance with legal provisions
5	Capital Investments	The minister should add internal controls which will influence the increase of the budget execution level in this category. In addition, the implementation of capital projects should be monitored systematically on a monthly basis by addressing the barriers for the implementation of projects on time and at the planned level.
6	Capital and non-capital assets	The Minister should provide for effective controls over the recording, management and reporting of assets, so that it is done in accordance with legal requirements. Furthermore, the minister should ensure that the commission has completed the inventory report prior to the preparation of the AFS.
7	Liabilities	The Minister should ensure that measures are taken to make timely payments and add controls to the proper management of obligations in order to avoid unreasonable additional expenses.
8	Liabilities	The minister should ensure that effective processes are in place to confirm that the 2020 AFS drafting plan addresses all issues related to the accurate disclosure of contingent liabilities.

**This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.*

Annex I: Explanation of the Different Types of Opinion Applied by NAO

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex II: Letter of Confirmation

REPUBLIKA E KOSOVËS / REPUBLIKA KOSOVA / REPUBLIC OF KOSOVO Qeveria e Kosovës / Vlada Kosova / Government of Kosovo Ministria e Financave / Ministarstvo za Finansije Ministry of Finance Arkiva - Arhiva - Archive	
Njësia Org. Org. Jedin. Org. Unit	01
Nr. i faqeve broj stranica No. pages	7
Dato Datum Date	12.05.2020
Dalise PRIŠTINE/A	



Republika e Kosovës
Republika Kosova - Republic of Kosovo
Qeveria - Vlada - Government
Ministria e Financave dhe Transfereve
Ministarstvo za Finansije i Transfere – Ministry of Finance and Transfers

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2019 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 Punës dhe Mirëqenies Sociale, për vitin e përfunduar më 31 dhjetor 2019 (në tekstin e mëtejme “Raporti”);
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit, për pjesën që tashmë mbulon Ministria e Financave dhe Transfereve sipas Rregullores Nr. 05/2020 ; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t’ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Me respekt!
 Besnik Bislimi
 Ministër i Financave dhe Transfereve



Prishtinë
 12.05.2020