



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 DEFENCE FOR THE YEAR 2019

Prishtina, April 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 Defence* 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 Kreshnike Haziri, Team Leader, and Valbona Tolaj and Lumturije Sopi, team members, under the management of the Head of Audit Department Zukë Zuka.

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Executive Summary

This report summarises the key issues arising from our audit of Ministry of Defence 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 preparation process has been properly managed and they are free from material mistakes. The 2019 AFS preparation process has been subject to a final review by the respective management and the declaration of the AFS has not been signed unless all necessary actions regarding their preparation have been taken.

Following the amendment of the Law on Ministry of Defence and Law on Kosovo Security Force, the internal organisation structure has also been changed as stipulated in the internal regulation 07/2019. Rotation of job positions within the ministry has also affected the accountability chain, thus creating challenges for the internal control. Controls over a number of areas of expenditures need to be improved in order to prevent expenditure irregularities, which are presented in details further in this report.

Due to lack of formal monitoring on the way audit recommendations are implemented, only three out of six recommendations were implemented. Regardless the prepared action plan, the ministry did neither undertake actions nor urged for their complete implementation.

Opinion of the Auditor General¹

Unmodified Opinion

The Annual Financial Statements for 2019 present *a true and fair view* in all material respects.

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

Management's Response on 2019 audit

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

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

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. Management's responses to audit outcomes can be found in Annex II.

1. Audit Opinion on Annual Financial Statements

We have audited the Annual Financial Statements (AFS) of the Ministry of Defence 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.

Other Matter

Due to PRB elongated procedures as a result of operators' complaints, Ministry of Defence had to develop emergency procurements from July 2018 without publishing the contract and carry on with receiving supplies from Beni Dona Company, which had already entered into a permanent procurement contract for supply with food and beverages to KSF barracks.

In July 2018, the Ministry had completed the procurement procedures for the new contract on Supplies to KSF by publishing the contract award notice for the winning companies MCE Global Parajsa, Ciano Trading & Service having offered the price of € 7,211,000, which is by €1,206,800 cheaper than the previous company Beni Dona Plast and MCE Florenti & LLC SoriAl & LLC KPL & Ushqimi having offered the price of €8,417,800. In this regard, the EO Beni Dona and MCE Florenti, which were announced ineligible, submitted a complaint to PRB, which decided to remit the case for revaluation.

Following the revaluation process, MD reaffirmed the recommendation to award the consortium MCE Global Parajsa, Ciano Trading & Service with the contract, based on the lowest price criteria. As a result, the EO Beni Dona Plast and MCE Florenti resubmitted a complaint to PRB. The procurement process has not been completed ever since and the case is still pending before PRB. Due to prolongation of these procedures, it is uncertain whether the Ministry is paying real prices for these supplies.

Responsibility of Management for AFS

The Secretary General of the Ministry of Defence 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

Ministry of Defence has put in place internal controls related to its statutory obligations. Despite this, in 2019, we have identified matters in the context of financial systems and improper controls which had not been subject to management reviews due to the Ministry's structuring process.

The main areas where most improvements are required are in the economic categories of Capital Investments, Goods and Services, Wages and Salaries, Internal Audit, and Assets Management.

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 ²	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Sources of Funds	58,688,060	56,531,759	49,704,069	88%	47,061,129	34,621,895
Government Grant - Budget	58,688,060	56,031,759	49,704,069	88%	47,061,129	34,621,681
External Donations	-	500,000	-	-	-	214

The final budget was lower than the initial budget by € 6,827,690. This decrease is a result of budget cuts based on Government Decision no. 03/115 dated 17.12.2019 on the grounds of failure to spend the initial budget of 2019. On the other hand, the Ministry was budgeted a donation of €500,000 by the German Government of which allocating €290,000 for Goods and Services and €21,000 for Capital Investments, but the Ministry yet did not spend.

In 2019, the Ministry spent €49,704,069, or 88% of the final budget, whilst the budget outturn for 2018 was 95%.

² Final budget - the budget approved by the Assembly subsequently adjusted by the Ministry of Finance.

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	58,688,060	56,531,759	49,704,069	87.92%	47,061,129	34,621,895
Wages and Salaries	23,459,849	21,977,808	21,973,358	99.97%	21,669,738	20,886,612
Goods and Services	12,081,245	11,671,245	9,450,827	80.97%	10,061,933	8,941,674
Utilities	938,000	718,000	651,461	90.73%	671,355	814,849
Capital Investments	22,208,966	22,164,706	17,628,423	79.53%	14,658,103	3,978,760

Explanations for changes in budget categories are given below:

- The budget for Wages and Salaries was reduced by € 1,482,041 upon Government's Decision no.03/115 dated 17.12.2019 on budget savings due to failure to spend the budget;
- The budget for Goods and Services was reduced by €410,000 upon Government's Decision on budget savings due to failure to spend the budget;
- It was the same case regarding Utilities, the budget was reduced by €220,000 upon Government's Decision on budget savings due to failure to spend the budget; and
- The final budget for Capital Investments was reduced by €44,260 compared to the initial one, which was withdrawn as unspent budget and declared as budget saving according to the Ministry of Finance's request.

2.1.1 Wages and Salaries

The final budget allocated for wages and salaries was € 21,977,808, whilst € 21,973,358 was spent. The status of civil and military staff is regulated by the Law on Ministry of Defence, Law on Labour, Law on Civil Servants, applicable sub-normative acts and legal provisions.

The number of employees by budget was 3,480, whereas by the end of the year the number of employees was 3,253. During 2019 there weren't employed new staff. We have tested 85 samples of € 61,370 as part of substantive testing, and 26 samples as part of compliance testing. In regard to attachés, the Ministry was not able to provide us with the required documentation. Wages and salaries are paid through the centralised payroll managed by the Ministry of Finance.

Issue A1 – Absence at work

Finding According to the Law no.03/L-149 on Civil Servants, Article 36, and Government's Regulation no.05/2010 on Working hours, civil servants working time shall not exceed forty (40) hours per week. We found three cases of absence at work up to 30 days and one case of up to 46 days, excluding annual and sick leaves and holidays. This reflects lack of controls and monitoring by respective directors of departments and employees' irresponsibility to report at work.

Impact Lack of evidence confirming that officers, paid by the Ministry, are attending work and remunerated for the job done only leads to the risk that payments are made to those officers not working at all. This is in conflict with the applicable laws and regulations and harms the budget.

Recommendation A1 The Minister should find out the reasons behind the officers' absence at work or otherwise withhold salary payment for the unjustified absence. On the other hand, in the event such case reoccur, the Minister should undertake measures by terminating their employment contracts according to the Law on Civil Servants and abovementioned regulation.

Issue A2 – Missing files on the recruitment of military attachés

Finding Regulation no.21/2017 on Defence Attaché Service, Section III – Planning, Terms and Procedures of Selection - outlines the recruitment procedures and selection of attachés in diplomatic missions. We asked for one of the three recruitment procedures developed in 2019, but we did not obtain it.

According to the Ministry, this occurred because the person in charge for the recruitment had retired and the files was not submitted to the responsible staff at all.

Impact Missing documentation on processes implemented within the institution leads to obscurities regarding legitimacy of their engagement in official duties and responsibilities.

Recommendation A2 The Minister should ensure that processes implemented within the institution are documented and archived according to the deadlines set forth in the MD Regulation no.06/2019 on official documents management and use of documents archived in the Archive of the Ministry of Defence.

2.1.2 Goods and Services

The final budget for Goods and Services and Utilities in 2019 was €12,389,245, out of which €10,102,288 were spent. Those relate to supply with spare parts for vehicles of KSF, supply with food, supply with sports clothes for KSF, supply with equipment for KSF police service, supply with stationery, utilities etc.

We have tested 39 samples of € 4,232,776 as part of substantive testing, and 6 samples as part of compliance testing, which related to supply with different containers, specialised rescue equipment, medical devices and similar.

Issue A3 – Failure to apply simplified recruitment procedures

Finding According to the Law no.03/L-149 on Civil Servants, Article 12, para.4, and Law no.03/L-212 on Labour, Article 10, budget organisations may recruit employees on fixed-term appointments of less than six months by contracts called Special Service Agreements. We found that no recruitment procedures were conducted for employees recruited on Special Service Agreements.

The ministry engaged 56 officials with special service agreements to carry out the work on time. They were initially engaged for six months, and their contracts were constantly renewed. In none of the cases has the Ministry implemented the simplified recruitment procedure. In regard to the current year's employees, there was no evidence to confirm that the requesting units had submitted their requests to engage these officer. They were not engaged to provide any specific expertise, rather to perform in regular job positions.

This was as a result of the new job positons announced with the restructuring of the Ministry and MPA's failure to approve these positions.

Impact Identified weaknesses may result in lack of proper competition and services provided of poor quality. Lack of controls as a result of reorganisation, may lead the Ministry to the risk of engaging incompetent persons for the relevant positions and may have an impact on the increase of unplanned expenditures.

Recommendation A3 The Minister should ensure that measure are taken to end the practice of entering into contracts without having developed recruitment procedures and that duration of such contracts comply with the applicable legislation.

Issue A4 - Contract for education of cadets expired**Finding**

LPP, Article 38, stipulates that no public framework contract shall have duration of more than 36 months. A public framework contract shall not be extendable or renewable and its terms may not otherwise be changed. Whilst, Financial Rule 01/2013, Article 26, stipulates that no liability shall apply if the document, agreement or an arrangement resulting in the rise of such a liability does not exist.

Ministry of Defence (MD) had entered into a three-year framework contract with American University of Kosovo for "Education of USC cadets for the needs of the KSF", signed on 26.09.2016. The contract was fully implemented according to the preliminary terms of the agreement. However, although the contract had terminated, the Ministry carried on by ordering same services to the EO from July to September 2019 such as: (a) testing of candidates for knowledge of English language – TOEFL, (b) enrolment of cadets in education programs, and (c) supply with textbooks. The EO delivered such services in good faith, in order to not interrupt cadets' education.

The Ministry signed a new three-year contract of €932,142 with the same economic operator on 20.12.2019. The services ordered and delivered during the July-September period were invoiced in the amount of €165,754 and paid according to the reference prices in the second contract, once the contract was concluded.

This occurred because MM had not undertaken any procedure to renew the contract, although the Contract Manager had informed the procurement office, in written, that the contract was about to expire in September 2019.

Impact

Due to poor communication between the Procurement Department and relevant management, the Ministry made orders without a contract in place. This increases the risk of conditioning the new contract with preferential prices and reduces the possibility to negotiate more favourable prices with the EO.

Recommendation A4 In order to prevent EO from dictating prices, the Minister should establish more effective controls over procurement process and improve the communication between officers involved in this process in order to ensure that procurement procedures comply with regulations and that services are not received unless contracts are entered into.

Issue A5 – lack of formal assessment on maintenance of KSF premises**Finding**

The Guideline no.07/126/2017 on Investments and basic maintenance of KSF premises, section 14, issued by the Directorate for Operations, dated 06.09.2017, requires analyses on the content of the program, implementation plans, investment plans and basic maintenance needs. This task should be performed by the experts team (Land Forces Command (LFC) engineers in cooperation with those in charge for infrastructure in KSF units). Plans for maintenance of premises and auxiliary infrastructure should be approved by the Operational Command of LFC – KOMFT 15 through the Logistics of Land Forces Command – G4. The plan for investments on maintenance of premises and auxiliary infrastructure for the following year should be prepared by 15th of February of the current year at the latest.

In regard to maintenance of premises, the Ministry had concluded a framework contract in the forecasted amount of €848,212 for January-December 2019 period. €597,167 was spent on these services. In testing two payments of €137,499, we found that MD did not conduct a formal needs assessment for maintenance of premises. MD had not prepared the plan for investments on basic maintenance needs either. According to the contract manager, the initial requirements of the KSF units did not match with the daily logbook and invoice, because in some cases, defects occurred in the premises were not exactly known initially.

Impact

Approval of maintenance services without a formal needs assessment and plan of investments in place may lead to delivery of unnecessary services to the Ministry.

Recommendation A5 The Minister should ensure that internal controls are strengthened so that the plan for investments on basic maintenance needs for KSF premises are prepared and approved in the future and that no service is delivered without being preliminarily approved in the plan produced by respective experts.

Issue A6 – Contract managers’ failure to report

Finding ROGPP, Article 61.20, stipulates that one of functions of the Project Manager is to submit reports on the progress or completion of a contract as required by the procurement Department or the Chief Administrative Officer (CAO).

The Ministry paid €65,000 for maintenance services for KSF premises and €245,000 for food and beverages for KSF barracks. CAO appointed the contracts managers for monitoring the progress on maintenance of premises and supply with food, but they did not submit any report on the progress on supplies.

This was as a result of contract managers’ failure to discharge their tasks.

Impact Lack of reports by contracts managers may result in less assurance that works and services are delivered in line with the contract specifications.

Recommendation A6 The Minister should ensure that projects managers produce regular progress reports and final report on contracts implementation and service delivery respectively and that payments made by the Ministry are justified.

2.1.3 Capital Investments

The final budget for Capital Investments was €22,164,706, out of which €17,628,423, or 80%, were spent in 2019. Those relate to construction and rehabilitation of buildings of the Kosovo Security Forces, purchase of different vehicles and other equipment. We have tested 29 payments of €4,453,117 as part of substantive testing, and ten (10) procurement procedures as part of compliance testing. Those procedures mainly relate to construction of training centre in Prizren, construction of dormitory – KSF barrack in Pomozitin, construction of canteen - KSF barrack in Prishtina etc.

Six testing samples of €10,996,388 have not been subject to audit because they were classified by the Ministry of Defence. Those were replaced with other samples.

We have not found any matter to report.

2.1.4 Common Issues on Goods and Services and Capital Investments

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

Issue A7 – Goods acceptance commission not established

Finding Financial Rule no.01/2013 on Public Funds Expenditure, article 23, para.1, stipulates that acceptance of goods/services is conducted by the authorised officer/commission. In three cases³, we found that goods were received by the contract manager and assistant contract manager.

Impact Acceptance of goods by contract managers instead of goods acceptance commission is in contradiction to the legal requirements. Having the same persons managing the contracts and accepting goods increases the risk of conflict of interest.

Recommendation A7 The Minister should ensure that goods acceptance commission is established for each delivery and that goods are accepted by the same commission, in order to ensure that goods/equipment are received according to the contracted quantity and quality.

2.2 Capital and non-capital assets

Assets management is an important part of Financial Management and Control in the public sector. This requires control and management procedures to prove existence of assets and provide accurate and updated records on the organisation's assets.

The amount of capital assets presented in AFS is €154,046,839, that of non-capital assets is €2,733,396, and of stock is €2,926,633. We have tested 100 samples as part of substantive testing, and five samples as part of compliance testing.

³ Individual equipment, Rescue equipment, and Ski jet

Issue B1 – Shortcomings in assets management

Finding Regulation no.02/2013 on Management of non-financial assets by budget organizations, article 19, para.4.7 stipulates the preparation of report based on the individual reports of the Non-financial Assets Inventorying Commission in the convenient time before preparation of the annual financial statements. Inventory Report should include the physical condition of non-financial assets, preserving conditions as well as remarks on the identified differences and damages. Article 6, para.4.7 of the same Regulation stipulates that the Chief Administrative Officer shall introduce a non-financial assets accounting register where, in addition to information required under the Law on Public Financial Management and Accountability, will include the location. This has also been regulated through the 2015 internal guideline of MD.

MD had established the assets inventory commission on 25.10.2019, but the commission had not managed to prepared the general report based on the individual reports, as stipulated by Regulation 02/2013 and internal guideline.

Assets recorded in KFMIS in the amount of €6,538,610 from unspecified use of Gjakova Airport have been transferred into the assets register without complete supporting documentation. We have also found that MD did not present in the General Asset Register information on the assets location, which makes the identification of assets location difficult. This was as a result of poor internal controls over assets management.

Impact Failure to compare the balance in stocktaking reports with the balance in non-financial assets registers does not prove the existence of assets and does not allow for complete and accurate presentation of assets in financial reports. Recording of assets with no supporting documentation leads to the risk of assets overstatement. Failure to identify the location of capital assets leads to the risk that the Management may not receive clear reports on their location and existence.

Recommendation B1 The Minister should ensure that assets inventorying and recording commissions are competent; carry out appropriate recording and reconciliation; and prepare complete and accurate reports on assets inventorying and recording in order to ensure that requirements from assets regulations are consistently adhered to.

2.3 Liabilities

2.3.1 Outstanding liabilities

Based on MD financial statements, the statement of liabilities at the end of 2019 was €489,100. These liabilities are carried forward to be paid in 2020. Compared to previous year, liabilities have increased by €319,795 or 65%. This was as a result of delayed submission of invoices.

Issue A8 – Received invoiced not archived

Finding Financial Rule 01/2013 on Public Funds Expenditures, Article 24, para.1.3 stipulates that the invoice should be archived and registered in the invoices logbook according to the internal control procedures on circulation of documentation.

We found that invoices for the tested payments were neither archived nor registered in invoice logbook, thus overlooking internal control procedures on spending of public funds.

All invoices were received by one officer and contained the date of submission which is the date when calculation of the legal deadline for the payment initiates, but not the archive number. This was due to failure to use the archive logbook by the officers in charge.

Impact Failure to archive received invoices increases the risk that invoices may not be archived in time and liabilities not be reported according to the invoices, thus leading to delayed payments or even loss of invoices.

Recommendation A8 The Minister should ensure that all internal control procedures for circulation of documentation are applied. He should also appoint the respective officer in order to enable archiving of invoices according to the MoF Financial Rule no.01/2013.

2.3.2 Contingent liabilities

The statement of contingent liabilities at the end of 2019 was €203,744. These liabilities relate to lawsuits, of which €79,379 relate to Ministry of Defence and €124,395 are carried forward from the former KPC. Although the Ministry is not legally entitled to such liabilities, lawsuits are addressed to the Ministry.

These liabilities relate to lawsuits filed against the Ministry by potentially damaged natural and legal persons, including jubilee salaries, work damage, debt compensation for construction work, debt compensation for supply with fuel and similar.

2.3.3 Contractual liabilities

The contractual liabilities carried forward for 2020 were €32,890,704. They all relate to uncompleted contracts and contracts signed in the last period of 2019, which are expected to be paid in the following years.

2.4 Internal audit function

The Internal Audit Unit (IAU) is established and currently operates with two staff members - the IAU Director and one auditor, as well as one assistant auditor engaged on specific service agreement. According to the IAU Director, this structure is considered insufficient to meet set objectives and implement audit plan for the following year.

The Ministry established the Audit Committee within the internal audit function, which held six (six) meetings throughout the year.

Implementation of an effective audit requires an inclusive work plan addressing financial and other risks of the auditee and providing reasonable assurance on the effectiveness of internal control.

IAU prepared the annual work plan, which was fully implemented, with eight (8) audit carried out.

IAU's audit reports of 2019 resulted in 36 recommendations, of which 17 were implemented, 14 were in process of implementation and 5 were not addressed at all.

The audit covered high risk areas including management of warehouses, assets management, department for policies and plans, department for logistics, finance and procurement.

We found the following:

Issue A9 – Engagement of internal audit on special service agreement

Finding Law on internal audit, Article 10, para.5 stipulates that all internal auditors within the internal audit unit shall have the status of a civil servant. The officer was engaged in the audit department on a special services agreement as assistant since 13.10.2017. She is an audit team member performing regular audit assignments. This occurred because of Ministry of Public Administration’s failure to approve the position. She completed the internal audit certification program while working there.

Impact Audits conducted by officers not having the auditor status may lead to unsatisfactory performance and undermine the quality of services provided, taking into consideration the relevance of this institution’s activities.

Recommendation A9 The Minister should ensure that permanent positions are staffed through vacant positions approved in Law on Budget and that audit work is carried out by competent staff with a regular status, according to legal requirements on internal audit.

3 Progress in Implementing Recommendations

Our Audit Report on the 2018 AFS of Ministry of Defence resulted in six (6) key recommendations. The Ministry prepared Action Plan stating how all recommendations will be implemented. Of these recommendations, three (3) were implemented, one (1) was partly implemented, and two (2) were not addressed at all.

For a more thorough description of the recommendations and the way they have been addressed, see Table 4.

(Note the end of the audit refers to the end of the audit process - up until we send this year's audit report)

Table 4 Summary of prior year recommendations and of 2018

No	Audit area	Recommendations of 2018	Actions undertaken	Status
1	Financial Management and Control	The Minister should ensure that internal controls in the field of personnel management are strengthened, so that personnel files are updated on time and include complete information for all the employees of the institution.	The person in charge of personnel files had updated the files according to the legal requirements.	Implemented
2	Goods and Services and Utilities	The Minister should ensure that the Departments that are responsible for execution of the contracts implement all provisions in relation to the obligations of parties involved in the agreement and immediately execute all the guarantees for performance security by the EO, including lawsuits.	The Ministry has established controls over contracts implementation.	Implemented
3	Goods and Services and Utilities	The Minister should ensure that rigorous controls are carried out in monitoring of the contracts, and in case of delays in delivery of the goods to apply penalties laid down under the terms of the contract.	The Ministry has not established rigorous controls over monitoring of delays in goods delivery	Not implemented
4	Capital and investments	The Minister should ensure that respective departments make all necessary analyses in advance when drafting technical specifications for projects and supplies, including market research, so that the projects are carried out within the optimal and	The Ministry has established controls over drafting of technical specifications.	Implemented

		timely. deadlines.		
5	Capital and non-capital assets	The Minister should ensure that the inventory process is carried out in accordance with the requirements set out in the internal asset management guidelines, and should ensure reconciliation of the inventory report with the assets registers of the organization prior to the preparation of the financial statements.	Not steps were undertaken to address this recommendation.	Not implemented
6	Internal Audit System	The Minister should increase the responsibility at all levels of the Ministry's management so that audit recommendations are dealt with highest attention. Further on, the committee should be required to hold the minimum of meetings to address the issues raised by the audit.	The audit committee held 6 meetings. Important measures were undertaken to address the recommendations.	Implemented
No	Audit area	Recommendations of 2019		
1	Wages and Salaries	The Minister should find out the reasons behind the officers' absence at work or otherwise withhold salary payment for the unjustified absence. On the other hand, in the event such case reoccur, the Minister should undertake measures by terminating their employment contracts according to the Law on Civil Servants and abovementioned regulation.		
2	Wages and Salaries	The Minister should ensure that processes implemented within the institution are documented and archived according to the deadlines set forth in the MD Regulation no.06/2019 on official documents management and use of documents archived in the Archive of the Ministry of Defence.		
3	Goods and Services	The Minister should ensure that measure are taken to end the practice of entering into contracts without having developed recruitment procedures and that duration of such contracts comply with the applicable legislation.		
4	Goods and Services	In order to prevent EO from dictating prices, the Minister should establish more effective controls over procurement process and improve the communication between officers involved in this process in order to ensure that procurement procedures comply with regulations and that services are not received unless contracts are entered into.		
5	Goods and Services	The Minister should ensure that internal controls are strengthened so that the plan for investments on basic maintenance needs for KSF premises are prepared and approved in the future and that no service is delivered without being preliminarily approved in the plan produced by respective experts.		
6	Goods and Services	The Minister should ensure that projects managers produce regular progress reports and final report on contracts implementation and service		

		delivery respectively and that payments made by the Ministry are justified.
7	Common Issues on Goods and Services and Capital Investments	The Minister should ensure that goods acceptance commission is established for each delivery and that goods are accepted by the same commission, in order to ensure that goods/equipment are received according to the contracted quantity and quality.
8	Capital and non-capital assets	The Minister should ensure that assets inventorying and recording commissions are competent; carry out appropriate recording and reconciliation; and prepare complete and accurate reports on assets inventorying and recording in order to ensure that requirements from assets regulations are consistently adhered to.
9	Liabilities	The Minister should ensure that all internal control procedures for circulation of documentation are applied. He should also appoint the respective officer in order to enable archiving of invoices according to the MoF Financial Rule no.01/2013.
10	Internal audit function	The Minister should ensure that permanent positions are staffed through vacant positions approved in Law on Budget and that audit work is carried out by competent staff with a regular status, according to legal requirements on internal audit.

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			
MINISTRIA E MBROJTJES - MINISTARSTVO ODRANE - MINISTRY OF DEFENSE			
Nr. Prot:	907	Nr. i Faqëve:	01
Et. Prot:		Et. Stranica:	
No. Prot:		No. of pages:	
Data:	16/03/2020	Date:	16/03/2020
Prishtinë / a			

Republika e Kosovës
Republika Kosova-Republic of Kosovo
Qeveria - Vlada - Government
Ministria e Mbrojtjes
Ministarstvo Odbrane - Ministry of Defense

Nr. 61 / 1 2020
Datë: 16 / 04 2020

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 Raportit/Pasqyrave Financiare të Ministrisë së Mbrojtjes, për vitin e përfunduar më 31 dhjetor 2019 (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 rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.


Ministër i Ministrisë së Mbrojtjes
Prishtinë

Adresa: Objekti i MM-së Kazerma "Adem Jashari"-10.000 Prishtinë