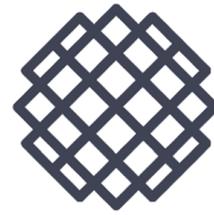




Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

**AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF
THE MINISTRY OF AGRICULTURE, FORESTRY AND RURAL
DEVELOPMENT**

FOR THE YEAR 2019

Prishtinë, July 2020

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

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 *Ministry of Agriculture, Forestry and Rural Development*, 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 the Team Leader, *Arian Haxha*, and team members *Fatlinda Podvorica* and *Shqiponja Krasniqi*, under the management of Audit Department Director *Zukë Zuka*.

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Executive Summary

This report summarises the key issues arising from our audit of the Ministry of Agriculture, Forestry and Rural Development (MAFRD) 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 are prepared in accordance with legal requirements with the exception of a technical error in the disclosure of accounts receivable (ref issue A6).

Financial Management and Control - continues to be the most challenging area of overall management of the Ministry of Agriculture, Forestry and Rural Development (MAFRD) and, as such, requires many improvements, especially in the area of subsidies, payment of liabilities to farmers and asset management.

MAFRD has not paid due attention to the implementation of recommendations and, as a result, most of the prior year recommendations have remained unimplemented.

Opinion of the Auditor General¹

Unmodified Opinion

In our opinion, the Annual Financial Statements of MAFRD for the year ended on 31st December 2019 present a true and fair view in all material aspects.

For more details, refer to Section 1 of this report.

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

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 related substantive tests, as well as related governance arrangements to the extent considered necessary to effectively 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 a detailed description of the audit findings and recommendations in each audited area. Management response on audit outcomes is presented in Annex II.

1 Audit Opinion on the Annual Financial Statements

We have audited the AFS of the Ministry of Agriculture, Forestry and Rural Development (MAFRD) 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 of MAFRD 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 (IPSAS) according to cash basis of 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 auditees. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for AFS

The Secretary General of Ministry of European Integration is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Cash Basis of Accounting. In addition, the Management is responsible for establishing internal controls, which the management determines as necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. This includes the fulfilment of requirements set forth in 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 selected procedures 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.

We would like to extend our gratitude to the staff of the Ministry for the correct cooperation and assistance provided during the audit process.

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, assets, liabilities as well as the Internal Audit Function.

Financial Management and Control Conclusion

In the context of financial systems, revenue controls are generally appropriate and are being implemented effectively, but controls over a range of spending areas require further improvement to prevent eventual irregularities. The main areas where more improvements are needed are budget execution in capital investments, payment processing and management of subsidies/grants. Asset management and disclosure of accounts receivable need to be improved as well.

2.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2019 Outturn	2018 Outturn	2017 Outturn
Source funds:	58,977,962	58,413,199	54,938,293	52,675,811	50,811,220
Government Grant – Budget	52,478,474	51,913,711	51,029,046	50,545,984	49,742,305
Financing from borrowing	3,633,000	3,633,000	3,404,476	2,006,038	516,714
Investment clause	2,183,333	2,183,333	12,000	0	0
Carried forward from previous year	0	0	0	0	93,724
Own source revenues	183,155	183,155	110,151	123,789	56,042
PAK revenues	500,000	500,000	382,620	0	0
External donations	0	0	0	0	402,435

The final budget compared to the initial budget was decreased by €564,763. This is the result of budget cuts by Government decisions. In 2019, MAFRD spent 94% of the final budget.

Explanations for the current position of expenditures by categories:

² Final budget – the budget approved by the assembly, which was subsequently adjusted for by the Ministry of Finance.

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

Description	Initial Budget	Final Budget	2019 Outturn	2018 Outturn	2017 Outturn
Spending of funds by economic categories	58,977,962	58,413,199	54,938,293	52,675,811	50,811,220
Wages and Salaries	2,601,599	2,619,825	2,619,825	2,547,323	2,330,329
Goods and Services	3,363,681	4,277,681	3,938,577	3,648,813	2,416,802
Utilities	135,660	102,671	70,328	78,921	100,826
Subsidies and Transfers	46,877,022	45,963,022	45,768,940	43,667,249	43,868,507
Capital Investments	6,000,000	5,450,000	2,540,622	2,733,505	2,094,756

Explanations for changes in budget categories are given below:

- The budget for Wages and Salaries compared to the initial budget was increased by €18,226 according to Government decision. No. 02/113 dated, 11.05.2019;
- The budget for Goods and Services compared to the initial budget was increased by €914,000, as a result of transfers and budget reallocations between categories;
- The budget for Subsidies and Transfers was decreased by €914,000 according to decisions as a result of transfers and budget reallocations between categories; and
- The budget for Capital Investments compared to the initial budget was decreased by €550,000, according to Government decisions on budget savings.

MAFRD has shown good performance in terms of final budget execution by 94%, with the exception of the category of capital investments, where only 47% of the final budget was spent. This was as a result of the non-implementation of the project foreseen by the investment clause.

According to the ministry, this happened due to the compliance with the World Bank's procurement procedures. As a result, the signing of the contract and the implementation of the works for the project "Rehabilitation and Modernisation in the Irrigation System in the Regional Irrigation Company Radoniqi and Dukagjini" have caused delays and the execution of payments has not been achieved according to the foreseen planning ".

2.1.1 Revenues

Revenues generated by the ministry for 2019 were in the amount of €2,324,319. Revenues are generated from the issuance of licenses, revenues from the lease of land allocated for use, wood taxes, etc. The amount of €2,005,162 or about 86% of the total revenues was generated by the Kosovo Forestry Agency (KFA), while the rest was generated by other departments.

Table 3. Own source revenues (€)

Description	2019 Receipts	2018 Receipts	2017 Receipts
Own source revenues	2,324,319	2,326,477	2,265,297
Total	2,324,319	2,326,477	2,265,297

Compared to last year, the value of generated revenues is approximately the same with a small decrease of €2,159.

2.1.2 Wages and Salaries

The final budget for Wages and Salaries in 2019 was €2,619,825, which was fully executed. The number of employees by budget was 402, while at the end of the year, the number was 398. We tested 27 samples for substantial tests in the amount of €14,636, as well as 10 samples for compliance tests.

Our audit identified the following issues:

Issue B1 – Weaknesses in staff engagement with Special Service Agreements

Finding

According to Article 12 para, 4 of Law No. 03/L-149 on the Civil Service, fixed term appointments for a period shorter than six months shall be made based on contracts called "Special Service Agreements" which are subject to the Law on Obligations and for which a simplified recruitment procedure is applied.

MAFRD hired 88 officials through special services agreements (SSA), of which 48 in the ministry, 31 in the Agency for Agricultural Development (AAD) and 9 in the KFA. In this regard, we have identified the following weaknesses:

- In 25 cases (17 in the Ministry, and 8 in AAD), the ministry has not implemented any recruitment procedure according to legal requirements; and
- 51 officials engaged under SSA (26 in the ministry and 25 in the AAD) have continued from previous years, where the period of engagement of these officials is longer than the deadline set by legal rules, over six months.

According to MAFRD officials, this was due to the need for staff and the non-approval of the budget for additional staff.

Risk Shortcomings identified can result in a lack of competition and poor quality of services provided. In the absence of controls, the ministry risks an increase in unplanned expenditures that could influence stagnation of the implementation of other set objectives.

Recommendation B1 The minister should ensure that measures have been 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 case there is a need for additional employment in the ministry (regular positions), the minister should ensure the salaries of all necessary employee are included in the budget of the following years in the category of Wages and Salaries, by processing them through the payroll system.

2.1.3 Goods and Services

The final budget for Goods and Services (including Utilities) in 2019 was €4,380,352, while €4,008,905 or 92% was spent.

Expenditures for goods and services are related to supplies of consumables, maintenance, IT equipment, fuel, rental costs, contracting services, utilities, supply of laboratory preparations at the Agricultural Institute in Peja, etc.

We tested 35 samples of €2,090,678 as part of substantive testing and five (5) samples as part of compliance testing.

Our audit identified the following issues:

Issue A1 – Concluding a contract with an EO for services that can be performed by the ministry itself, namely by the Kosovo Agriculture Institute (KAI)

Finding Law on Public Procurement No. 04/L-042 with supplements and amendments, Article 9 defining the needs to be met, para. 1 specifies that, before initiating any procurement activity, the contracting authority's CAO shall ensure that a formal needs assessment is conducted with respect thereto and that the results of such assessment are formally recorded in writing and maintained in the contracting authority's records. Before starting to exercise any procurement activity, the CAO of the contracting authority shall ensure that a formal needs assessment is done and the results of this assessment are formally recorded in writing and stored in the documentation of the contracting authority. Paragraph 4 of this Article requires that if the contracting authority is a public authority, such public authority shall take reasonable measures to ensure that objects meeting such needs are not available from another public authority.

However, the contract "Support to Farmers for land analyses, training, counselling and recommendations for the result of land analyses" was signed on 22.06.2018 in the amount of €176,199 with an economic operator, despite the fact that such analyses can be carried out by Kosovo Agricultural Institute operating within the ministry.

This was due to the wrong decision by MAFRD management to contract for the performance of these services.

Risk Failure to utilise human and technological resources at the possession of the Agricultural Institute and the conclusion of contracts with private economic operator affects the unreasonable spending of budget funds.

Recommendation A1 The Minister should consider the reasons and the need for procurement of services that KAI can perform itself and ensure that before initiating any procurement activity, Article 9.4 of the LPP is taken into account so as not to contract the services outside, those which may be performed by the bodies/institutes operating within the ministry itself.

Issue A2 – Shortcomings in setting out criteria in the procurement activity

Finding In the procurement activity "Translation services for the needs of MAFRD" in the contract notice dated 10.03.2017, in Article III.2.4, technical and professional capacity, one of the requirements was that the EO should have 4 translators, two of their translators from Albanian into English and vice versa, as well as two translators from Albanian into Serbian. However, no adequate evidence was required under the required evidence such as, work contracts or pre-contracts to document that the EO has or will employ the required staff. Instead, CVs, job references and staff diplomas were required as evidence.

As a result, the contract was signed with the Economic Operator (EO) who did not provide adequate evidence to document that it has sufficient staff as required in the tender dossier, therefore, the EO provided references for employees, issued in 2016. This was due to inadequate negligence when setting the criteria.

Risk Non-specification of adequate documents to prove that the economic operator has sufficient staff to provide services may make that an OE who does not have sufficient staff will be rewarded with a contract and, as a result, will have difficulty in performing services.

Recommendation A2 The Minister should ensure that the criteria set by the procurement department are clear when developing procurement activities, and the evidence required should be in accordance with the established criteria.

2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €45,963,022. Of this, €45,768,940 was spent in 2019. The subsidy by the ministry is based on the 2014-2020 Agriculture and Rural Development Programme ARDP. The implementation of this programme is done on an annual basis according to the Programme for Rural Development and the Programme for Direct Payments. These policies are drafted by the Department for the Development of Agricultural and Market Policies as well as by the Department of Rural Development Policies. Their implementation is done by AAD, while payment is made by the ministry's finance department.

In this area, we tested 100 samples of €3,102,059 as part of substantive testing and 13 samples as part of compliance testing.

The identified shortcomings are as follows:

Issue A3 - Failure to specify deadlines in programmes and AI 16/2019 for Grants and AI 17/2019 for Direct Payments as well as delays in approval

Finding Programme for direct payments 2019 and the Administrative Instruction 17/2019 as well as the Administrative Instruction for grants 16/2019 must have the deadlines for approval and execution of payments clearly defined.

Administrative Instruction 16/2019 on grants, Article 28, paragraphs 3 and 4 stipulate that administrative proceeding end within the period of 45 days from the receipt of the application to the information letter on the application evaluation. While according to the same Instruction, no deadline is determined from the information letter of the application evaluation to the approval of the project.

We have noticed that MAFRD has not set a deadline for approving the Direct Payment Programme. This programme was approved on 27.05.2019. This fact has caused delays in the subsidy process, from the call for applications, field controls to the finalisation of payment.

In four cases, we have identified that the application was made in March 2018 while payments in the amount of €110,247 were made after one year, in March 2019.

This was due to negligence in designing the programme and administrative instructions for subsidies and grants.

Risk The implementation of delayed programmes may result in delays in the implementation of the Projects by the farmers and the transfer of contractual/financial obligations for the following years. The lack of deadlines for direct payments and the lack of deadlines after the administrative proceeding with grants may affect that the ministry's annual objectives are not achieved.

Recommendation A3 The Minister should ensure that the management authority designs the programme in time to implement the measures in a timely manner. The minister should also ensure that deadlines are set for direct payments in accordance with budget allocations, and depending on the availability of budget funds, set deadlines for the approval of grant projects.

Issue B2 – Misclassification of advances for grants

Finding According to the Financial Rule 01/2013- Public Funds Expenditure, Article 18-Initiation of Expenditures, para. 3. Expenditures must have adequate codes defined by the Administrative Instruction for the chart of accounts.

In four cases, we noticed that grant advances were recorded as expenses in various codes, of which three payments in the amount of €202,152 were recorded in economic code 23210 (restructuring of physical potential), while a payment of €79,999 was recorded in code 23220 (management of irrigation source in agriculture). These payments had to be recorded as advances.

This happened because there was no special code in the chart of accounts and the ministry has not made a request to the Ministry of Finance to open a special code regulating the nature of these payments.

Risk Execution of expenses from inadequate code causes ambiguity in the report of expenses incurred, and increases the risk of unfair presentation of expenses in the AFS.

Recommendation B2 The Minister should ensure that all expenditures are recorded in the appropriate economic code according to the financial rules and administrative instructions in force, in case none of the codes in the chart of accounts match, then the Treasury should be required to add a new code for subsidy/grant advances.

2.1.5 Capital Investments

The final budget for Capital Investments in 2019 was €5,450,000, while €2,540,621 or 47% was spent. They are related to the construction and rehabilitation of irrigation systems, rehabilitation of the road network in viniculture areas, integrated agricultural information system, increase of laboratory capacity, etc.

From 24 samples selected for substantial tests in the amount of €1,904,554, and five (5) samples for compliance tests, we have identified the following issues:

Issue B3 - Delays in project implementation and additional costs as a result of poor design of projections and technical specifications by requesting units

Finding

Public Procurement Law, Article 28, para 10, stipulates, "The CA is responsible for drafting the Executive Project, which must be mandatorily attached to the Technical Specifications, which are part of the tender dossier. No Contracting Authority is allowed to issue tender documentation without attaching a detailed description of the project." In the contracts signed between MAFRD and Economic Operators (EO) for the implementation of capital projects, the deadline for the implementation of works according to the dynamic plan is determined and, also, the application of penalties is foreseen in case of unreasonable delays.

We have identified two cases where the works were not carried out according to the dynamic plan as provided for by the contract. MAFRD has concluded annex contracts for additional work, which have resulted in a cost of €246,750, which occurred because of improper technical design and inadequate technical specifications, which were encountered in the field during the implementation of projects:

- Irrigation expansion project in the villages of Pantinë and Samadraxhë-Vushtrri. The contract was signed on 31.07.2017 with the EO in the financial value of €538,299. The deadline for completion of works was 128 working days. On 17.12.2018, an additional contract annex was made in the amount of €49,015. The technical acceptance was made on 18.07.2019; and
- Expansion of the irrigation system in the villages of Piranë, Landovica, Tupec and Krajk (Municipality of Prizren). The contract was signed on 25.10.2017 with the EO. The contract was signed in the amount of €633,089, the deadline for completion of works was 123 working days;

A contract in the amount of €135,220 was signed on 25.07.2018 to continue to expand the irrigation system for the above mentioned project. The deadline for the completion of works was 28 working days. On 11.12.2018, an additional annex contract was concluded in the amount of €62,515 where the works for this annex contract were completed on 25.03.2019. The technical acceptance was made on 21.10.2019.

Delays in the performance of works were the result of improper technical projections and incomplete technical specifications, where during the implementation of the project in the field, additional works came up and changes of destinations for the installation of irrigation pipes, which were not included in the initial contract. While the technical acceptance was delayed due to atmospheric conditions (water release) from the Ibër Lepenc Hydro system.

Risk Improper design of specifications increases the risk of project implementation according to technical construction standards as well as delays in their implementation. This also affects the increase of the final costs of the projects and the failure to achieve the ministry's annual objectives set.

Recommendation B3 The Minister should ensure that before compiling the tender dossier, the defined projects have full and clear specifications of all positions of construction works by the requesting units so that the implementation of projects is carried out in a timely and qualitative manner.

Issue A4- Delays in the contract award notice

Finding According to Article 41/A of the LPP, Contract award notice stipulates "If a contracting authority has awarded any public contract using open, restricted, or negotiated procedures, or price quotation procedures, such contracting authority shall, within two (2) days after the award of such contract, prepare a contract award notice in the languages required by Article 13 of this Law."

On 13.09.2019, MAFRD developed the procurement activity for the capital project Establishment of Laboratory Capacities in the Kosovo Agricultural Institute-Peja (KAI). The contract was signed on 12.11.2019, while the announcement for signing the contract was made on 16.12.2019, namely after 32 calendar days delay.

In this respect, MAFRD management did not provide explanations regarding the reason for the delays of this notice.

Risk Delays in contract award notice may affect the Economic Operator failing to deliver supplies or services within the time limits specified in the contract, which will then be reflected in the achievement of the ministry's objectives.

Recommendation A4 The Minister should ensure an adequate level of responsibility in the implementation of the deadlines set for the contract award notice as required by Public Procurement Law.

2.2 Capital and Non-capital Assets

The net value presented in the AFS of capital assets (over €1,000) is €43,350,976, the value of non-capital assets is €346,375, and of the stocks €60,487.

Our audit has identified the following shortcomings:

Issue A5 - Shortcomings in asset management

Finding

Regulation no. 02/2013 - on the Management of Non-financial Assets by Budget Organizations, Article 12 paragraphs 2 and 3 stipulate: "By the time of acceptance of non-financial assets, the budget financing organizations will recorded transactions in category of following investments . At the moment when the non-financial assets have passed all the rules and procedures of receiving by budget organization , which has the right of ownership over the relevant asset, then the category of following investments should be closed in records of receiving budget organization and co-financing budget organization."

We have noticed that the capital project for "Irrigation system for settlements: Piranë, Landovica, Tupec and Kraj-MA Prizren" has been completed and the technical acceptance was made on 21.10.2019, while, in the asset registers of MAFRD, this continues to be registered as ongoing investments in the amount of €830,435.

On the other hand, the value of capital assets presented in the AFS was understated by €54,827, which were not recorded in the asset registers, while the value of assets under €1,000 presented in the AFS was not accurate, so it was overstated by €5,000 because some assets over €1000 were registered in the KFMIS and in the e-asset system.

Land properties of the Kosovo Agricultural Institute (KAI) in the amount of €8,378,511 are still not controlled and used by KAI, but they are used by private individuals. This assessment is based on the data from the Kosovo Cadastral Agency (KCA) where the owner of properties is KAI. This finding was also presented in the reports of previous years.

The shortcomings noticed are due to the lack of control over the identification of errors in the asset registers, erroneous registrations in the system, and in special cases for lack of co-ordination between the asset official and other units to be informed about the completed project and non-communicating with the municipality to transfer the assets to their accounts.

Risk Lack of complete and accurate information regarding the available assets of MAFRD affects poor asset management and unfair presentation in the AFS, in this case, keeping the asset as an ongoing investment makes it impossible to depreciate it and this affects the asset overestimation.

Recommendation A5 The Minister should ensure that the responsible officials possess accurate information regarding the asset register. The minister should also finalise the process of transferring ownership to the municipality for the completed projects and remove the same from the registers.

Issue C1 - Non-recording of non-financial assets and non-harmonisation of the inventory register with the assets register

Finding Regulation no. 02-2013 on Management of Non-Financial Assets, Article 6, para. 3, “requires that capital assets must be registered in the KFMIS while the non-capital assets and stocks must be registered in the “e-assets system”. Furthermore, Article 19 of the above-mentioned regulation stipulates that the commission for inventory of assets must draft a general report on the inventory of assets and compare the inventory situation with the situation in the records of non-financial assets.

Our audit has identified the following shortcomings:

- Capital assets (over €1000) were understated as payments in the amount of €52,892 (ongoing investments) were not recorded in the KFMIS; and
- Non-capital assets (under €1000) were overstated as 5 devices: two Climate devices for drying samples, purchase value for each €1,000 and three technical scales 2200g/0.01 mg, purchase value for each €1,000, (a total of €5,000), these assets were registered in the KFMIS and were also erroneously registered in the e-asset system.

The commission has carried out the 2019 inventory in a timely manner, but has not harmonised the inventory situation with the records of non-financial assets.

This was due to the poor functioning of internal controls and the negligence of officials to harmonise the inventory situation with the assets register.

Risk Non-registration of assets and non-harmonisation of inventory with non-financial assets registers affects the incorrect presentation of assets in the AFS and, at the same time, increases the risk that assets will be lost or misused.

Recommendation C1 The Minister should take action to ensure complete and accurate registration of assets as provided for by Regulation no. 02/2013 on Management of Non-financial Assets. At the same time, the minister should ensure that the inventory commission compares the assets situation according to the inventory report with the situation of the assets registers and reflects the possible changes in the AFS.

2.3 Receivables

The value of accounts receivable presented in 2019 AFS was €3,447,906, but this value is overstated by €114,100.

Accounts receivable mainly relate to rents. Most of them belong to the KFA and are related to the obligation of the EO to the KFA for the re-cultivation of lands after their exploitation. In most cases, the KFA filed a lawsuit against the EO who did not fulfil their obligations against the KFA in time.

Our audit has identified the following shortcomings:

Issue A6 – Overstatement of accounts receivable in AFS

Finding According to the rule. 01/2017 for annual reporting by the Budget Organization, Article 16, Budget organizations that collect revenues are obliged to keep records of collected revenues and of invoiced, but uncollected amounts. The receivables are disclosed in the annual financial report in the relevant table by revenue type.

We noted that the disclosure of accounts receivable was not directly reflected in the AFS. The value of accounts receivable presented in AFS was overstated as the revenues generated in the amount of €114,101 were presented as accounts receivable.

This happened because MAFRD did not implement the internal control procedures by not verifying exactly which cases were paid and which were not.

Risk Overstatement of accounts receivable leads to unfair presentation of accounts in the AFS.

Recommendation A6 The Minister should ensure that adequate internal control procedures are applied when preparing the AFS, verifying the accuracy and completeness of the data for the accounts receivable.

2.4 Liabilities

2.4.1 Outstanding liabilities

The statement of liabilities not paid to suppliers in AFS at the end of 2019 was €8,232,624. Of these, €8,100,870 or 98% are liabilities to farmers, which were carried forward to be paid in 2020. The reason for not paying these liabilities are the receipt of some invoices late, and the failure to complete the documentation.

The value of outstanding liabilities remains very high, and this issue has been repeating over the years.

Issue B4 - Delays in the execution of payments of liabilities

Finding The deadlines for making grant payments are determined under the guidelines issued by the ministry for the implementation of approved annual programmes. Based on these guidelines, payments must be made 20 days after the decision is made or 40 days from the date of application for payment, unless the deadline is exceeded for any objective reason.

From the 100 samples examined, in 35 cases in the total value of €1,653,384, we noticed that the payments have exceeded the deadlines set for payment. Delays in the cases examined were up to six months. According to the explanations of the ministry's management, this was because of the lack of proper allocations of the budget for expenditure by the Ministry of Finance.

Risk Such ministry's practices cause serious problems for farmers or beneficiaries of these funds as they can start activities and enter into liabilities based on the payments or compensations to be made by the ministry.

Recommendation B4 The Minister should ensure that no allocation of subsidies and grants by the relevant commissions is made before the funds are safe and ready for payment in accordance with the deadlines set by the regulation. Problems with the allocation of funds should be solved in co-operation with the Ministry of Finance.

2.4.2 Contingent liabilities

The value of contingent liabilities presented in the AFS was €912,349.

We have no recommendations in this area

2.4.3 Contractual liabilities

The value of contractual liabilities according to the MAFRD reports is €18,021,677.

Contractual liabilities relate mainly to the category of subsidies and transfers. The reason for not proceeding further with these contractual liabilities is the MAFRD Minister's delay signing the Programme for Agriculture and Rural Development and the deadlines set within the Administrative Instructions: AI No. 16/2019 on measures and support criteria for Rural Development for 2019 and AI No. 18/2019.

2.5 Internal Audit Function

The Internal Audit Unit (IAU) operates with three staff members - acting/Head of IAU and two auditors. Audits are conducted according to the strategic and annual plan and include areas with more sensitivity and risk.

In addition to the Strategic Plan, the IAU has drafted the Annual Work Plan outlining several areas for audit for 2019.

IAU for 2019 planned ten (10) audits, of which during 2019 it completed eight (8) audits according to the annual work plan 2019, while two (2) audits planned for the KFA have been conducted by the KFA IAU, as in the second half of 2019, this unit has become operational. Audit reports contain conclusions and recommendations, which identify some of the shortcomings in the MAFRD internal control system.

Within the MAFRD, there are two separate Internal Audit Units, one within the AAD (established in 2018), which consists of two (2) staff members - the Head of IAU and one auditor, while the other in KFA that operates only with one auditor and which was established in 2019 based on Regulation No .16/2014 on internal organization and systematization of workplaces in the Kosovo Forestry Agency, approved by the Government.

KFA, after the establishment of IAU on 04.12.2019, requested the CHU/IA-MoF that this unit becomes part of the database of CHU/IA-MoF, in order to implement the legislation in force for the fulfilment of liabilities to CHU/IA, implementing regular reporting and actively participating in all activities that this unit organises for the respective units of Internal Audit at the level of Public Institutions of the Republic of Kosovo, but KFA has not received a response from CHU/IA. However, the KFA should repeat the request to the CHU/IA and, in co-operation with the CHU/IA, should enable the IAU of KFA to become part of this database.

MAFRD established the Audit Committee in March 2019; the committee consists of three members (two external members and one internal member). During 2019, the Audit Committee held five meetings where minutes were also taken.

Our audit identified the following issues:

Issue A7- Shortcomings in the execution of the AAD annual work plan

Finding According to the annual work plan for 2019, IAU in AAD, which operates with two staff members - the Head of IAU and one auditor planned to conduct 13 audits for 2019.

However, during 2019 only two audits were completed (a report requesting “Advance return procedures from grant recipients of the Rural Development Programme 2015, Sub measure 103.3 - Fruit and Vegetable Processing”, as well as a memorandum on conducting the audit of samples for 2012 in the framework of the audit with a request for “RDP 2012-2018”).

According to the Head of IAU in the AAD, the stagnation in the implementation of the 2019 annual plan is a consequence of the lack of audit staff and wide scope audits on demand.

Risk Failure to implement the IAU's annual work plan affects non-identification of shortcomings in the AAD's internal control system and will consequently fail to take the necessary measures by real-time management to eliminate the shortcomings that cause obstacles in achieving the objectives of AAD.

Recommendation A7 The Minister/Chief Executive Officer of the AAD should ensure that the IAU of the AAD is functional with sufficient capacity in order to complete the audits planned with the annual work plan and that the IAU scope is focused on the current year.

3 Progress in implementing recommendations

Our Audit Report on the 2018 AFS resulted in 14 recommendations. MAFRD prepared an Action Plan stating how all recommendations will be implemented.

At the end of our 2019 audit, five (5) recommendations have been addressed; one (1) recommendation was in the process, seven (7) recommendations were not addressed and one (1) is considered closed, unaddressed. For a more thorough description of the recommendations and how they are addressed, see Table 4.

MAFRD has not submitted the Progress Report on the implementation of the recommendations (30 September and 15 March) according to the requirements of the Labour Regulation on the implementation of the audit and action plans.

Table 4 Summary of recommendations of the previous year and of 2019

No.	Audit area	Recommendations of 2018	Actions taken	Status
1	AFS	The Minister should ensure the accurate disclosure of all information in the AFS, including information regarding assets, contingent assets and contingent liabilities. This should be preceded by identification and registration in the Ministry's records. In addition, the Minister and the General Director of KAI should ensure that appropriate legal actions have been taken that the assets used by private individuals are returned under the control of KAI.	No action has been taken to implement this recommendation.	Unimplemented
2	AFS	The Minister should ensure systematic monitoring of budget spending. In order not to exceed eventual identified barriers, concrete and practical measures should be set so that budget execution is done in accordance with the expenditure plan. Annual agricultural programmes should be approved in time, in order to avoid the constant carrying forward of obligations for the following year.	No action has been taken to implement this recommendation.	Unimplemented
3	AFS	The Minister should consider the reasons why such cases have occurred, and to terminate the practice of temporary engagement of staff for regular positions. In case of special service needs, they should be provided subject to legal requirements and procedures	No action has been taken to implement this recommendation.	Unimplemented
4	Subsidies and Transfers	The Minister should ask from responsible persons to strengthen the mechanisms for managing and monitoring the expenditures in question in order to obtain reasonable assurance that the money allocated is used correctly and in accordance with the objectives of subsidies.	We have not encountered such cases during 2019.	Implemented

5	Subsidies and Transfers	The Minister should strengthen the controls on payment approval to support LAGs and in cases when their reporting does not comply with the criteria set out and with the approved project, the return of funds as provided for in the instruction and other regulations should be requested.	We have not encountered such cases during 2019.	Implemented
6	Capital Investments	The Minister should ensure strict application of the legal requirements for compiling technical specifications by the requesting units before the preparation of the tender dossier, in order to implement the projects in time and without additional costs	No action has been taken to implement this recommendation.	Unimplemented
7	Capital Investments	The Minister should ensure that the expenditure officer makes the appropriate classification of expenditures in the respective accounts according to the chart of accounts and hence on the financial statements too. If none of the chart of accounts match, then Treasury should be required to add a new code for the irrigation system	No action has been taken to implement this recommendation.	Unimplemented
8	Common Issues on G&S and CI	The Minister should establish the financial discipline and ask from financial officials to implement strictly the expenditure procedures, and all invoices should be paid within the established legal deadlines	No action has been taken to implement this recommendation.	Unimplemented
9	Assets management	The Minister should initiate the drafting of internal procedures for asset management and ensure more effective management and in line with the rules. The Minister should also ensure that the inventory commission reconciles the asset inventory report with the organisation's records before the preparation of the AFS in 2019. In addition, all equipment should be recorded in the asset registers	No action has been taken to implement this recommendation.	Unimplemented

10	Assets management	The Minister should ensure that when purchasing goods commissions are assigned for their acceptance in accordance with the provisions of the applicable regulation. The Minister should also ensure that equipment are put into operation immediately after purchase, so that they do not depreciate while not being used	We have not encountered such cases during 2019.	Implemented
11	Receivables	The Minister should ensure monitoring of the implementation of contracts for the lease of agricultural land in order to ensure that contractors meet their obligations according to the agreement or else the contracts should be terminated	In most cases, lawsuits have been filed against those who have not fulfilled their obligations under the contract.	Partly implemented
12	Outstanding liabilities	The Minister should ensure that no allocation of subsidies and grants by the respective commissions will be made before the funds are secure and ready for payment in accordance with the deadlines set out in the regulation. Problems with the allocation of funds should be solved in co-operation with the Ministry of Finance.	We have not encountered such cases during 2019.	Implemented
13	Internal Audit System	The Minister should ensure the functioning of the Audit Committee, which should review the results of the internal audit and the actions taken by Management in relation to the internal and external audit recommendations	The Audit Committee is functional	Implemented
14	Management Reporting, Accountability and Risk Management	The Minister should ensure that necessary measures are undertaken to process regulation to the Government for approval as a prerequisite for full functionalization of all departments within the AAD.	No action has been taken to implement this recommendation, however, due to the change in the format of the audit report it will not be repeated.	Closed unimplemented

No	Audit area	Recommendations of 2019
1	Wages and Salaries	The Minister should ensure that measures have been 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 case there is a need for additional employment in the ministry (regular positions), the minister should ensure the salaries of all necessary employee are included in the budget of the following years in the category of Wages and Salaries, by processing them through the payroll system
2	Goods and Services	The Minister should consider the reasons and the need for procurement of services that KAI can perform itself and ensure that before initiating any procurement activity, Article 9.4 of the LPP is taken into account so as not to contract the services outside, those which may be performed by the bodies/institutes operating within the ministry itself.
3	Goods and Services	The Minister should ensure that the criteria set by the procurement department are clear when developing procurement activities, and the evidence required should be in accordance with the established criteria
4	Subsidies and Transfers	The Minister should ensure that the management authority designs the programme in time to implement the measures in a timely manner. The minister should also ensure that deadlines are set for direct payments in accordance with budget allocations, and depending on the availability of budget funds, set deadlines for the approval of grant projects
5	Subsidies and Transfers	The Minister should ensure that all expenditures are recorded in the appropriate economic code according to the financial rules and administrative instructions in force, in case none of the codes in the chart of accounts match, then the Treasury should be required to add a new code for subsidy/grant advances
6	Capital Investments	The Minister should ensure that before compiling the tender dossier, the defined projects have full and clear specifications of all positions of construction works by the requesting units so that the implementation of projects is carried out in a timely and qualitative manner

7	Capital Investments	The Minister should ensure an adequate level of responsibility in the implementation of the deadlines set for the contract award notice as required by Public Procurement Law
8	Capital and Non-capital Assets	The Minister should ensure that the responsible officials possess accurate information regarding the asset register. The minister should also finalise the process of transferring ownership to the municipality for the completed projects and remove the same from the registers
9	Capital and Non-capital Assets	The Minister should take action to ensure complete and accurate registration of assets as provided for by Regulation no. 02/2013 on Management of Non-financial Assets. At the same time, the minister should ensure that the inventory commission compares the assets situation according to the inventory report with the situation of the assets registers and reflects the possible changes in the AFS
10	Receivables	The Minister should ensure that adequate internal control procedures are applied when preparing the AFS, verifying the accuracy and completeness of the data for the accounts receivable
11	Outstanding liabilities	The Minister should ensure that no allocation of subsidies and grants by the relevant commissions is made before the funds are safe and ready for payment in accordance with the deadlines set by the regulation. Problems with the allocation of funds should be solved in co-operation with the Ministry of Finance
12	Internal Audit Function	The Minister/Chief Executive Officer of the AAD should ensure that the IAU of the AAD is functional with sufficient capacity in order to complete the audits planned with the annual work plan and that the IAU scope is focused on the current year.
		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

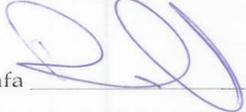
157. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not 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

	
<p>REPUBLIKA E KOSOVËS / REPUBLIKA KOSOVA / REPUBLIC OF KOSOVO QEVERIA E KOSOVËS / VLADA KOSOVA / GOVERNMENT OF KOSOVA</p> <p>MINISTRIA BUJQËSISË, PYLLTARISË DHE ZHVILLIMIT RURAL MINISTARSTVO POLJOPRIVREDE, SUMARSTVA I RURALNOG RAZVOJA MINISTRY OF AGRICULTURE, FORESTRY AND RURAL DEVELOPMENT</p> <p>LETËR E KONFIRMIMIT</p> <p>Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2019 dhe për zbatimin e rekomandimeve</p> <p>Për: Zyrën Kombëtare të Auditimit</p> <p>Të nderuar,</p> <p>Përmes kësaj shkrese, konfirmoj se:</p> <ul style="list-style-type: none">• kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit/Pasqyrave Financiare të Ministrisë së Bujqësisë, Pylltarisë dhe Zhvillimit Rural 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; 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. <p>z. Besian Mustafa </p> <p>Ministër i Bujqësisë, Pylltarisë dhe Zhvillimit Rural</p> <p>Data: 14. Korrik 2020, Prishtinë</p>	