



Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

**Document No: 22.19.1-2017-08**

**AUDIT REPORT**  
**ON THE ANNUAL FINANCIAL STATEMENTS OF THE**  
**MUNICIPALITY OF KACANIK FOR**  
**THE YEAR ENDED 31 DECEMBER 2017**

**Prishtina, June 2018**

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control which, according to the Constitution and domestic laws, enjoys functional, financial and operational independence. The National Audit Office undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

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

We perform audits in line with internationally recognized public sector auditing standards and good European practices.

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.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Municipality of Kacanik in consultation with the Assistant Auditor General, Valbon Bytyqi, who supervised the audit.

The report issued is a result of the audit carried out by Enver Ramadani (Team Leader), Fetah Osmani and Hysen Restelica (team members), under the management of the Head of Audit Department Mujë Gashi.

## TABLE OF CONTENTS

Executive Summary .....	4
1 Audit Scope and Methodology .....	6
2 Annual Financial Statements and other External Reporting Obligations .....	7
3 Financial Management and Control .....	11
4 Progress in implementing recommendations.....	20
5 Good Governance .....	21
Annex I: Explanation of the different types of opinion applied by NAO .....	24
Annex II: Progress in implementing Prior and Earlier Year Recommendations .....	27
Annex III: Letter of confirmation.....	35

---

## Executive Summary

### Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Statements of the Municipality of Kacanik, which determines the Opinion given by the Auditor General. The examination of the 2017 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions. Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in our External Audit Plan dated 06/11/2017.

Our audit focus has been on:



The level of work undertaken by the National Audit Office to complete the 2017 audit is determined depending of the quality of internal controls implemented by the Management of the Municipality.

The National Audit Office acknowledges the Municipality's Senior Management and Staff for cooperation during the audit process.

### Opinion of the Auditor General

#### Unmodified Opinion and Emphasis of Matter

The Annual Financial Statements for 2017 *present a true and fair view* in all material aspects.

#### **Emphasis of Matter**

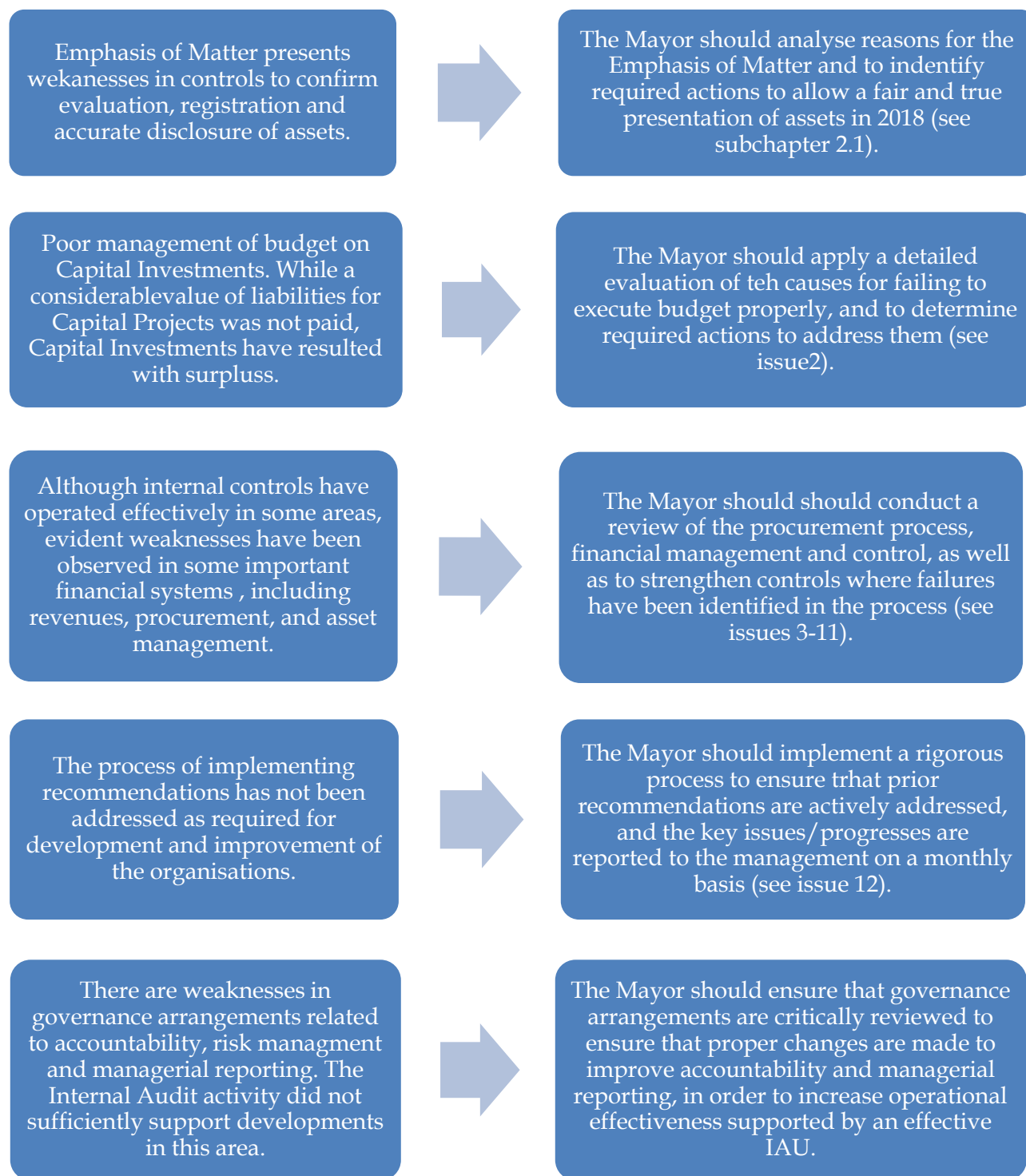
We draw your attention to the fact that the capital assets in value of €350,000 were not disclosed in the Annual Financial Statements.

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

Annex I explains the different types of Opinions applied by the National Audit Office.

---

## Key Conclusions and Recommendations



### Management response to audit 2017

The Mayor has considered and agreed on the audit findings and conclusions and has committed to address all given recommendations.

# 1 Audit Scope and Methodology

## Introduction

The National Audit (NAO) is responsible for carrying out a Regularity Audit which involves the examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

Audit work undertaken reflected our audit risk assessment for the Municipality of Kacanik. We have analysed the Municipality's business to the extent to which management controls can be relied upon when determining the overall testing required providing the necessary level of evidence to support the Auditor General's (AG) opinion.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review. Management's responses to our findings can be found in Annex III.

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

---

## 2 Annual Financial Statements and other External Reporting Obligations

### Introduction

Our audit of the Annual Financial Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information recorded in the AFS. We also consider the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance (MoF).

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

### 2.1 Audit Opinion

#### **Unmodified Opinion with Emphasis of Matter**

We have audited the AFS of the Municipality of Kacanik for the year ended on 31<sup>st</sup> of December 2017 which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement, Disclosure and other accompanying reports.

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

#### **Basis for the 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 'Auditor's responsibilities for the audit of the AFS' section of our report. According to the ethical requirements that are relevant to our audit of the annual financial statements of Budget Organizations in Kosovo, the NAO is independent of the Municipality and other ethical responsibilities are fulfilled in accordance with these requirements. We believe that the audit evidence we have received is sufficient and appropriate to provide a basis for the opinion.

**Emphasis of Matter**

We draw your attention to the fact that the disclosures of capital assets in the Annual Financial Statements were not fully accurate, due to the non-inclusion of capital investments in the amount of €350,000, for the construction of the MFMC facility co-financed with Caritas Luxembourg and the Ministry of Health. This was due to the fact that the Municipality had not received supporting documentation from the co-financiers for the portion they had funded. This reflects inaccuracies in asset registers and their inaccurate disclosure in the 2017 AFSs.

Our opinion has not been modified for this issue.

**Responsibility of Management and Persons Charged with Governance for AFS**

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

The Mayor of the Municipality is responsible to ensure the oversight of the Municipal's financial reporting process.

**Auditor General's Responsibility for the audit of the AFS**

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will detect 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.

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

---



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

## 2.2 Compliance with AFS and other reporting requirements

The Municipality is required to comply with a specified reporting framework and other reporting requirements. We considered:

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
- Requirements of LPFMA no. 03/ L-048, (as amended and supplemented);
- Compliance with Financial Rule no.01/2013 and 02/2013;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control procedures;
- AFSs are prepared within timeframe and submitted to the MoF;
- Draft Plan and Final Procurement Plan are submitted on time;
- Reconciliation of Quarterly Expenditures and Revenues with the Treasury;
- Report on signed procurement contracts; and
- If the Municipality has prepared and submitted regular quarterly reports to the Municipal Assembly and a copy to the MoF.

AFSs have been prepared in accordance with the reporting format, they have been signed and submitted within legal deadline in the MoF.

Kacanik Municipality had adjusted the AFSs by improving their report, but even after the adjustment, the disclosure of the Asset value was incomplete and inaccurate (emphasised in the Audit Opinion).

Given the above, the Declaration made by the Chief Administrative and Chief Financial Officer when submitting the AFS to the Ministry of Finance can be considered correct in all material respects.

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

## 2.3 Recommendations related to Annual Financial Statements

We have no recommendations related to the AFS.

**Recommendation 1** The Mayor should ensure that an analysis is undertaken to determine the causes for Emphasis of Matter. Actions should be taken to address the underlying causes in a systematic and pragmatic manner and to confirm full registration of capital assets. All equity, including owned properties, purchased/built non-capital assets should be registered in asset registers.

Further on, the Mayor should ensure that effective processes are in place to confirm that the 2018 AFS production plan formally addresses all compliance issues related to the AFS and includes Management review of the draft AFS with specific focus on high risk areas and/or areas where errors have been identified in previous years. The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be signed unless all necessary checks have been applied to the draft AFS.

## 3 Financial Management and Control

### Introduction

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Budget Organisations. Specifically, the focus of the audit was Budget management, Procurement issues, Human Resources as well as Assets and Liabilities.

### Financial Management and Control Conclusion

Management of Capital Investments/projects is still the most concerning area, resulting in poor value for money as well as with delays in project executions. In the context of financial systems, controls over revenues in general are not being implanted effectively, specifically in management of their regularity. Further on, controls over a range of expenditure areas require further improvement to ensure regularity in management of expenditures.

Main areas that require further improvements are in execution of budget for Capital Investments, procurement process for management of contracts, assets and accounts receivable.

#### 3.1 Budget Planning and Execution

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

**Table 1. Sources of budgetary Funds (in €)**

Description	Initial Budget	Final Budget <sup>1</sup>	2017 Outturn	2016 Outturn	2015 Outturn
<b>Sources of Funds</b>	<b>7,039,281</b>	<b>7,197,552</b>	<b>6,713,314</b>	<b>6,651,210</b>	<b>6,942,159</b>
Government Grant -Budget	6,178,267	6,139,799	6,119,686	6,004,938	6,363,848
Carried forward from previous year <sup>2</sup> -	0	141,463	111,877	139,523	143,851
Own Source Revenues <sup>3</sup>	861,014	861,014	429,036	494,561	421,703
Domestic Donations	0	161	0	6,788	9,040
External Donations	0	55,115	52,715	5,400	3,717

<sup>1</sup> Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

<sup>2</sup> Own Source Revenues unspent in previous year carried forward into the current year.

<sup>3</sup> Receipts used by the entity for financing its own budget.

The final budget is higher than the initial budget by €158,271. Initially the budget was increased by €196,739 from internal and external donations, as well as from revenues carried forward from previous year, while it was decreased by a Government's Decisions by €38,468.

The Municipality used 93% of the final budget in 2017, 4% compared to 2016. However, the budget execution remains at an unsatisfactory level and explanations for the current position are detailed below.

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

Description	Initial Budget	Final Budget	2017 Outturn	2016 Outturn	2015 Outturn
<b>Spending of funds by economic categories</b>	<b>7,039,281</b>	<b>7,197,552</b>	<b>6,713,314</b>	<b>6,651,210</b>	<b>6,942,159</b>
Wages and Salaries	4,831,215	4,792,747	4,764,649	4,811,836	4,711,887
Goods and Services	539,350	562,968	491,378	504,543	453,387
Utilities	139,000	141,517	117,200	116,053	123,890
Subsidies and Transfers	204,690	205,710	161,228	204,270	266,721
Capital Investments	1,325,026	1,494,610	1,178,859	1,014,508	1,386,274

Explanations for changes in budget categories are given below:

- Despite an increase in capital expenditure budget during the year, in value of €169,584, or 79% of the budget was spent. Budget increase incurred from carried own source revenues in value of €117,846, and by donations in value of €51,738;
- Budget decrease on Wages and Salaries by €38,468 has resulted from return of unused funds, because the budget has allowed 798 employees, and the current number is 779 employees;
- Budget increase for Goods and Services has resulted from carried forward revenues in value of €20,238, and from donations in value of €3,380;
- Budget increase on Utility expenditures has resulted from carried forward revenues from previous year in value of €2,517; and
- Budget increase on Subsidies and Transfers has resulted from carried forward revenues from previous year in value of €1,020.

## Issue 2 – Low Budget Execution in Capital Investments

**Finding** The Municipality had not managed to execute budget for Capital Investments according to the plan and aimed projects. Implementation of 17 projects in value of €97,000, planned by the Program for Public Investments had not started yet. This has resulted with low execution of expenditures in general. Low execution resulted also from delays in execution of contracts, which is related to the dynamics of project execution by economic operators.

**Risk** Low budget execution diminishes the effectiveness of Organisation’s Annual Plan. Failure to accomplish program for Capital Investments will result in execution of lower number of projects, and this may affect the quality of services provided to citizens.

**Recommendation 2** The Mayor should ensure that a systematic evaluation of the underlying causes for the low execution of the budget on Capital Investments is undertaken, and to determine practical options to improve execution in this area in the following year.

## 3.2 Revenues

Revenues generated by the Municipality in 2017 totalled €608, 2015. The major part of these revenues in value of €233,125, or 38% is related to the revenues incurred from property tax. The Municipality collect other revenues too, such as from construction licences , revenues from sell-appropriation of the property, revenues from business activities, rent and administrative taxes, etc.

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

Description	Initial Budget	Final Budget	2017 Receipts	2016 Receipts	2015 Receipts
Own source revenues	861,014	861,014	608,215 <sup>4</sup>	557,285	556,372
<b>Total</b>	<b>861,014</b>	<b>861,014</b>	<b>608,215</b>	<b>557,285</b>	<b>556,372</b>

Regarding own source revenues, it is observed that budget execution is 71%, or 8% lower compared to 2016 (in 2016 it was 79%). Own source revenues used for Capital Investment are 67%, Goods and Services 11%, Subsidies and Transfers 21%, and Utilities with 1%.

<sup>4</sup> In this value are not included indirect revenues

---

**Issue 3 – Verification of registered properties**

**Finding** The Municipality has failed to conduct re-survey for verifications of 1/3 of the registered properties as according to the Law on Taxes on Immovable Property no.03/L-204 requirements, and applicable Administrative Instruction. The Municipality has not achieved to fulfil legal requirement (database with required information), due to the lack of field survey officers for data collection.

**Risk** Failure to register all properties increases the risk for the information registered in Property Tax Database may be inaccurate. This could also affect negatively on billing of Tax on Property.

**Recommendation 3** The Mayor should improve the process for verification of properties and to ensure that verification of 1/3 of the properties is done on regular annual basis, in order to present real status of taxed property. Increase in registration of properties will provide high municipal revenues and improved budget execution.

**Issue 4 – Low revenue collection from rented public properties**

**Finding** The municipality has given out for rent municipal properties (on temporary use), but revenue collection was low. Out of €30,000 of planned revenues from use of public property, only €16,159 or 54% were collected. We have tested five renters, and we found out that the municipality has extended contracts with the renters of the public property, even though they have not paid their previous obligations, and this amount totalled €24,899

Municipality maintains records of rented properties. However, these records are not completed to affirm that all values are calculated accurately and correctly. This evidence was lacking information on the amount of debt from previous year, and information on signing date of contract.

**Risk** Extending contracts to the renters prior to pay their previous obligations increase the risk for non-collection of revenues, and failure to monitor public property users, increase the risk for the Municipality to sustain financial loss. Further on, failure to record all information will prevent Management from getting any information on contract validity and renters' obligations.

**Recommendation 4** The Mayor should ensure that a review of renters 'files is carried out, mainly the those whose contracts are extended prior to pay their previous obligations, and put in place proper measures in order to collect all outstanding liabilities within a reasonable period of time. Further on, to create and maintain clear evidence and to complete it with all the necessary information, so that revenue management on rent is more efficient.

#### **Issue 5 - Revenues from Construction Licences**

**Finding** According article 21, point of the Law on Construction No.04/L-110 sets forth that the applicant will be issued with a Construction Licence if he/she provides an evidence for payment of the Construction Licence Tax. During the audit, we found that the applicant who was issued with Construction Licence with protocol no. 06-352-7875/17 was allowed making payment in two instalments, by a decision issued from Municipal Directorate of Urbanism. After payment of the first instalment he/she received the decision to get Construction Licence, although the second instalment in value of €3,904 was not paid yet.

**Risk** Issuing of Construction Licences prior to complete the entire fee produces the risk not to collect in time revenues based on issued Construction Licences.

**Recommendation 5** The Mayor should undertake actions to review the decision for the possibility of payment instalments, and to ensure that Construction Licenses are issued upon complete payment of taxes, in line with the Law on Construction.

### **3.3 Wages and Salaries**

Wages and Salaries are paid through a centralised system managed by MoF. Controls operating at municipal local level relate to: checking payments, signing payroll lists; verification of discrepancies between the forms; budget review for this category and reconciliation with Treasury.

According to KFMIS data, the budget for the category of Wages and Salaries was €4,831,215 while expenditures were € 4,792,747 or expressed in percentage above 99% of the budget.

#### **Recommendations**

We have no recommendations in this area.

---

### 3.4 Goods and Services and Utilities

The final budget of Goods and Services in 2017 was €704,485, out of which €608,578 or 86% were spent. Those mainly relate to the Utility expenditures in value of €117,200, or 19%, and operation activities related to expenditures such as: office supply in value of €39,907 (6.6%), supply with firewood €64,138 (11%), local motorway maintenance €74,245 (12%), etc.

---

#### **Issue 6 - Lack of a Contract Manager and authorised persons**

**Finding** The Municipality has failed to implement the procurement instructions due to the lack of effective management oversight. Contracting Authority in the base contract no.16-7045/2016, part III of the contract - the special conditions for the supply with fuel for vehicles, did not appoint a contract manager and authorized persons to receive the supplies.

**Risk** The lack of a contract manager and the list of authorized persons to receive fuel supplies may institute the risk related to the implementation of the terms of contract during the supply with fuel.

**Recommendation 6** The Mayor should ensure that a contract manager is assigned to each signed contract, who constantly monitors execution of contracts and to set the list of persons that will receive contracted Goods and Servicesx

#### **Issue 7 - Failure to withhold tax on source income and pension contributions**

**Finding** During 2017, the Municipality had contracted employees with Special Services Agreements. Based on the Law on Personal Income no. 05-L-028, the employer is required to withhold tax on income, also for employees with special service agreements. During the audit, the special services agreements and the payments we noticed that the municipality had not withhold tax on source income and pension contribution.

**Risk** Failure to withhold tax on source income and pension contributions is disregarding of legal requirements and increases the risk for the Municipality to be subject penalized by the relevant authorities.

**Recommendation 7** The Mayor should ensure withholding of tax on source income and for each payment to the employees with special services agreements, in accordance with the legal framework for personal income tax.



---

### 3.5 Subsidies and Transfers

The final budget of Subsidies and Transfers was €205,710, out of which €161,228 or 78% were spent in 2017. Awarded subsidies are related to the financial support provided by the municipality in different areas and activities.

#### Recommendations

We have no recommendations in this area.

### 3.6 Capital Investments

The final budget of Capital Investments was €1,494,610, out of which €1,178,859 or 79% were spent in 2017. Those relate to the funding of capital projects in infrastructure such as construction of education facilities in value of 97,149, local road construction in value of €675,549, other supplies in value of €85,480, etc.

#### Recommendations

We have no recommendations in this area.

### 3.7 Common Issues on Goods and Services and Capital Investments

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

---

#### Issue 8 – Lack of a contract management plan

<b>Finding</b>	In five audited tender dossiers we have observed that the Municipality have not prepared a contract management plan, a requirement of the Law on Public Procurement, set in Article 88 – Contract Management Activities.
<b>Risk</b>	The lack of a contract management plan may result in failure to monitor contracted activities and effective exercise of rights by the Contracting Authority.
<b>Recommendation 8</b>	The Mayor should ensure that a contract management plan for each contract/project is prepared prior to its signing, and actions are undertaken to ensure that there is a management plan in place for each signed contract.

---

**Issue 9 – Payment without evidence in contracts for physical security of facilities**

**Finding** According to the contract for physical security of municipal facilities, one of the agreed terms was the recruitment of 13 employees by the Economic Operator (EO) and their monthly net salary was €200. During the audit of payments for February 2017, we did not notice that the payment had enclosed evidence from EO regarding the number of recruited employees and the amount of monthly payment referred to in the terms of the contract.

**Risk** Lack of evidence provided for the terms of the contract increases the risk of not meeting contractual obligations by the EO.

**Recommendation 9** The Mayor should ensure additional controls to assure that payments are carried out in full compliance with the terms of contract, accompanied by necessary evidence.

### 3.8 Capital and Non-Capital Assets

During 2017, the Municipality has made significant progress in terms of assets registration compared to the previous year. Despite the progress, the asset accounting register has not yet been achieved to make it fully accurate. Non-registration of capital assets by category is addressed in the section on Emphasis of Matter in Opinion, while in this section we have disclosed weaknesses in the management and reporting of assets under €1,000.

---

**Issue 10 – Lack of evidence for assets under €1,000**

**Finding** According to the Regulation on non-financial<sup>5</sup> assets, the assets under €1,000 and stocks should be registered in e-Asset system. The Municipality has disclosed in the AFSs assets under €1,000 in value of €31,411. From audited purchases carried out during 2017, we have found that purchased non-capital assets in value of €6,581 were not registered.

Further on, the Committee on Annual Inventory of capital and non-capital assets did not perform reconciliation of inventory records with accounting records maintained by asset officers.

**Risk** Weaknesses identified in the registration of non-capital assets lead to inefficient management of these assets, their underestimation, and improper presentation in financial reporting. Failure to harmonize inventory register with asset registers institutes weaknesses in asset management and reporting, while at the same time it may result with misuse or loss of assets.

---

<sup>5</sup> Article 6, Regulation no. 02/2013 on Management of Non-financial Assets by Budget Organisations.

---

**Recommendation 10** The Mayor should strengthen controls to ensure asset identification, management and reporting in accordance with the requirements of the Regulation on Management of Non-Financial Assets. Further on, to ensure that after the process of inventory a comparison of inventory assets with general assets register is carried out, to identify potential differences and to incorporate them into the asset registers.

### 3.9 Receivables

Municipal accounts receivable are made of the amount of funds that citizens and organizations owe to the municipality. According to the data presented in the AFS, the total value of these accounts at the end of 2017 was €1,280,710, with the following contribution: property tax in value of €1,001,260; taxes from business activities in value of €203,590 and collected rents for use of municipal property €75,860.

---

#### Issue 11 - Handling of Accounts Receivable

**Finding** Despite the recommendation given in the previous year and the commitment to its implementation, the Municipality has not undertaken necessary actions to establish mechanisms for increase of the collection of billed revenues. Consequently, receivables are still very high, or at the same level as in the previous year. 78 % of the total receivables are subject to property tax.

**Risk** The lack of specific measures to collect receivables continues to result with high levels and consequently in reduced funds collected for the municipal budget. This also diminishes municipal flexibility in planning of expenditures that are financed from own source revenues.

**Recommendation 11** The Mayor should ensure strengthening of mechanisms in collection of revenues, including the outstanding receivables from the previous years, initially exploiting all necessary actions within the municipality, then other legal measures to ensure their collection.

### 3.10 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2017 was €53,345. These liabilities are carried forward to be paid in 2018. However this only reflects part of the faced budgetary challenges. The Municipality has also disclosed contingent liabilities from court disputes in the amount of €293,500, with an increase by €14,050 compared to the previous year.

The Municipality implements a relatively regular reporting process of obligations. In General, the Directorates are aware of the requirements of the regulation on reporting unpaid bills and the

---

responsible officer reports timely to the Treasury about it. However, the value of liabilities in relation to the previous year is increased by €28,645 or 46%.

From our tests we found that the most of the outstanding liabilities were paid in 2018.

### Recommendations

We have no recommendations in this area.

## 4 Progress in implementing recommendations

Our Audit Report on the 2016 AFS of the Municipality of Kacanik resulted in 24 recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented. Further on, the Audit report was also discussed in the Municipal Assembly.

At the end of our 2017 audit, nine recommendations have been implemented; five were in process; and ten have not been addressed yet. Also, 3 recommendations from 2015 were also carried forward, and within 2017, two of them have been implemented, seven other were in process and four recommendations have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex II.

---

### Issue 12 - Implementing Prior and Earlier Year Recommendations

**Finding** Due to the poor management of the process and the lack of a formal monitoring of how AG's recommendations have been implemented, only a portion prior year's recommendations and those previously carried forward have been implemented. We have not noticed that the Municipality applies responsibility measures for non-implementation of the recommendations.

**Risk** Non-improvement and continued weaknesses of management and other controls in key financial systems has resulted in:

- Incomplete capital and non-capital asset registers; and
- on-going weaknesses related to expenditures executed through procurement and poor value for money.

**Recommendation 12** The Mayor should ensure that the implementation of the action plan is monitored on a continuous basis and reported on a regular monthly or quarterly basis in relation to the achieved progress. Recommendations that are not implemented by deadlines should be revised by the Mayor in the shortest time possible, and to take pro-active actions against the barriers that arise during the implementation.

## 5 Good Governance

### Introduction

Good Governance implies basic principles of accountability, effectiveness of controls, risk management, independence of internal audit, and coordination of NAO with internal audit and good governance with public assets.

A key tool supporting effective governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. The level of compliance with FMC requirements by Budget Organizations is monitored by the self-assessment checklists completed by all BOs, which are submitted at the end of the year to the Ministry of Finance.

Specific areas of our governance-related reviews have been the accountability and risk management process, while the other components are handled within the chapters or subchapters above.

### Overall Governance Conclusion

There are a number of governance weaknesses within the Municipality, particularly related to accountability, risk management and the quality of management reporting. Internal Audit had provided a clear picture of the level of security of internal controls and gave recommendations for their improvement, but their implementation was low. The Audit Committee was not operational because on non-appointment of the Chairman of the Committee. One of the key elements of effective municipal governance is the implementation of recommendations given by external auditors. This year's audit has revealed that the level of recommendations implemented from the previous year was low, with only nine recommendations implemented out of 24 recommendations given.

The self-assessment checklist, completed by the municipality, only partially reflects this situation, responding to most of the questions with an average grade of 2.10. According to the self-assessment questionnaire, the Municipality had responded negatively to 25 questions from a total of 106. This means that the Management should take into consideration issues that have not met the expected level.

The municipality has a development plan in place since 2011, but this plan does not include the calculation of the expenditures for assessment the achieved results towards its objectives. The municipal development plan presents many statistics rather than the development trend of the municipality itself. Further on, apart from an emergency plan, the municipality did not prepare a list of risks as required by the Financial Management and Control procedures.

---

## 5.1 Internal Audit System

The Internal Audit Unit (IAU) operates with only one auditor, who is at the same time the Director of the Unit. The impact of Internal Audit products should be judged by relevance which is given by the Management to the addressing of recommendations as well as by the systematic support of an effective Audit Committee. During 2017, IAU conducted five audits, four with high risk and one with medium risk, as set in Annual Plan. Carried out audits resulted in 20 recommendations, one of which was implemented, eight were in process and 11 recommendations were not implemented.

---

### Issue 13 – Poor implementation of IAU and Audit Committee Recommendations

**Finding** Management did not give due consideration to internal audit, they did not prepare action plans for implementation of recommendations and did not implement recommendations given by IAU. The Audit Committee (AC) during 2017 did not have any meetings since the chairman of the committee resigned at the end of May 2017 and this position was not covered till December 2017.

These results reflect the lack of Management's attention in recognizing and optimizing the benefit of internal audit or seeking assurance of the effective functioning of internal controls.

**Risk** The low level of implementation of the recommendations indicates that management has not given due importance in addressing them. This will result with not addressing weaknesses in controls and improving the organization's objectives, resulting in operational inefficiencies.

**Recommendation 13** The Mayor should ensure full functioning of AC and pay due regard to the internal audit activities. Each audit carried out by the IAU, should be followed by action plans and monitored all the way through full implementation of the recommendations. Further on, the CA should review the internal audit results and actions undertaken by the Management in relation to the implementation of the recommendations so that potential deviations are addressed on time.

---

## 5.2 Management Reporting, Accountability and Risk Management

In order to have a proper planning, supervise the activities on a regular basis and allow effective decision-making, the Management needs to have regular reports. Accountability as a process is the acceptance of responsibilities, holding persons into account for their actions and disclosing results in a transparent way. Whereas, risk management is a process related to identification, analysis, evaluation and actions/measures taken by the Management to control and respond to risks threatening the Organization.

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

---

### Issue 14 - Poor Management Controls and Risk Management

#### Finding

As a result of poor management controls, substantial amounts from the capital investment budget have not been spent. Accounts receivable were not properly addressed by management. The Management does not carry out regular analysis of budget performance, does not review the procurement plan and has no regular reports on operational activities.

The Municipality also has no written policies and procedures for managing risks in place, in particular the risk of fraud and irregularities. There is no risk register drafted according to FMC requirements, there is no risk management strategy, nor any report on their management has been prepared.

#### Risk

Poor accountability requirements and poor quality financial reporting reduce the effectiveness of financial management. This results in weaknesses within the budget process and reduces Management's ability to respond to financial challenges in time. It also reduces the effect of budget controls and increases the risk of improper spending. Consequently, this may also result in providing poor quality services.

**Recommendation 14** The Mayor should ensure that a review has been carried through to determine the form of financial and operational reporting to senior management. Budgetary performance, including revenues and expenditures, and procurement plan should be subject to regular reporting and review by the Management. Further on, in order to reduce the impact of risks to acceptable levels, the Organization should draft a risk register with all appropriate measures/actions to put the exposed threats under control.



## 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 1705<sup>19</sup> provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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

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

158. An Emphasis of Matter paragraph should:

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

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

## Annex II: Progress in implementing Prior and Earlier Year Recommendations

Audit Component	Recommendation carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
2.4 The self-assessment checklist of MF	The Mayor should ensure that the self-assessment checklist is completed with objectivity and documented in order to identify the weaknesses and mitigated appropriately as required by the Ministry of Finance of the Republic of Kosovo.		The self-assessment checklist was prepared, no risk list was drafted.	
2.5.1 Accountability arrangements	The Mayor should ensure that a review of the existing requirements of accountability and reporting of municipal departments and ensure improved arrangements to achieve specific targets within a year.		This recommendation was partially implemented, as reporting was not complete to establish that the objectives are met in proper time.	
2.5.2 Risk Management	The Mayor should ensure that procedure and systems of risk management are established and operational. Furthermore the responsibility for risk management is delegated directly to a relevant director and provides monthly reporting on the implementation of the requirements in this field and the risks are being managed.		This recommendation has been partially implemented but, the lack of approaching the risks is yet to be implemented.	
2.5.3 Management Reporting	The Mayor should review existing measures of general governance and the quality of internal reporting of the Municipality. Unimplemented requirements need to be addressed by the end of 2016. The quality of the reporting and budgetary surveillance must be reviewed critically and systematically to ensure the achievement of the Municipality's objectives.		This recommendation is partially implemented, but there is still room for improvement reporting from directorates.	

2.6 The Internal Audit System	The Mayor should ensure that Audit Committee has proper and enough human resources. Furthermore the Mayor must ensure that future activity of IA should be directed towards the development and implementation of audit strategy based on risk. Furthermore, in order the benefits to be visible; the Mayor should take measures to implement the IA finding within the Municipality.		IAU has managed to implements its plan, but the management has not drafted the Action Plan for implementing the recommendations, and the level of implementing recommendations was very low.	
3.5 Non Procurement Expenditure	The Mayor should ensure that the Municipality takes further steps to improve controls over expenses and payments and strictly comply with the laws and local regulatory requirements.	Yes		
3.5.2 Remunerations (Wages and Salaries)	The Mayor should ensure that the Municipality takes further steps to improve controls over personnel files in order that files are properly organized and completed and take measure regarding the signing of payroll lists.	Yes		
3.7 Assets and Liabilities	The Mayor should ensure the following timely and accurate recording of all assets in the relevant registers in accordance with the requirements of regulation 02/2013. It also should ensure that capital assets register contains complete information, including the date when the asset was put in use, so that the calculation of depreciation can be performed accurately. As well as determine the ownership status.			No measures taken.
3.7 Assets and Liabilities	The Mayor of the Municipality must ensure that the stocktaking of nonfinancial capital assets was conducted in accordance with the Regulation in force for non-financial assets of Budget Organizations and ensure that stocktaking is conducted on an annual basis.		Despite improvements, there is still no reconciliation between Inventory registers and Asset Registers.	

3.7 Assets and Liabilities	We recommend the Mayor of the Municipality to ensure that the Municipality is making maximum efforts for the obtainment of data from third parties, with particular emphasis on those parties known to have carried out significant investments in the municipality. The data obtained should be correctly presented in the asset register of the Municipality. Best practice would require that on an annual basis reconciliation of data is made between third parties and the Municipality for investments in the Municipality for the respective year			No measures taken.
3.7.2 Handling of Cash	We recommend the Mayor ensure that daily cash deposits and controls are performed as required by the legislation in force.			No measures taken.
3.7.3 Handling of Receivables	The Mayor should ensure that Municipality undertake and implement detailed action plan on collecting old debts.		The Municipality has made some written warning, but there are still delays in executing payments.	
3.7.4 Handling of Debts	The Mayor should ensure that the Municipality will take further steps and develop action plans to execute the payments within the required period.			No measures taken.
Audit Component	Recommendation given in 2016	Implemented	Under	Not implemented
1.3 Annual Financial Statement	The Mayor should ensure that an analysis is undertaken to determine the causes of Opinion with Emphasis of Matter, and to take adequate actions to eliminate errors in misclassification of expenditures and incorrect recording of assets. In addition, to ensure establishment of effective processes in order to confirm that the plan for drafting AFS for 2017 addresses all issues raised in the report, and the Declaration made by the Chief Administrative and Financial Officer should not be submitted unless all necessary checks have been applied to the draft AFS.			No measures taken.

2.1 Progress in the Implementation of Prior Year Recommendations	The Mayor should ensure application of a strengthened accountability process by the responsible staff on implementation of recommendations in line with timeframes and priorities set out under the action plan. Monitoring of implementation progress should be done in a systematic manner.			No measures taken.
2.2 Self-Assessment Checklist	The Mayor should ensure that the completion of the self-assessment checklist is reviewed and the areas of weaknesses have been proactively addressed. Furthermore, should be applied a mechanism that confirms accuracy of the checklist and to provide supporting documentation. We suggest that the self-assessment checklist is not be submitted to the MoF prior to being reviewed by the internal audit.			No measures taken.
2.3.1 Strategic Plans	The Mayor should draft an action plan to monitor achievement of objectives by establishing effective oversight functions. To ensure that the anti-corruption plan will also be drafted which will be implemented in line with requirements, and as such serve for more effective governance.			No measures taken.
2.3.2 Management Reporting and Accountability	The Mayor should ensure that a review is implemented to determine the format of financial reporting to senior management which is required to support effective business management - and ensure that an appropriate solution is in place by the end of 2017.		There are reports on managerial controls, especially financial ones, but reports on physical and operational progress need to be updated to ensure that those operations are managed in systematic manner.	

2.4 Internal Audit System	The Mayor should ensure that are taken necessary steps so that are adhered legal guidelines in terms of organising IAU's organisational chart, namely to strengthen the role of internal audit services. In addition, to ensure implementation of IAU recommendations by responsible directorates of audited systems, and the Audit Committee to produce an annual report in line with Administrative Instruction 11/2010.		The Head of the Audit Committee was selected at the end of 2017, but he had not conducted and activity related to IAU recommendations.	
3.1 Budget Planning and Execution	The Mayor should ensure and establish clear objectives for improvement of planning and budget execution in future periods, and establish a systematic monitoring over the planned budget execution, particularly for capital projects.		There is still low budget execution, especially related to Goods and Services and Capital Investments.	
3.1.1 Revenues	The Mayor should establish controls over verifications of properties, changes should be done on time, and charges to taxpayers to be accurate in order to correctly collect property tax.		The plan for re-questioning and Verification has been drafted and started to be implemented by the beginning of the fiscal year 2017. According to the plan, a total of 2949 properties will be verified during 2017. Till the end of 2017 has carried out verification of 1535 properties or 52% of the planned.	
3.1.1 Revenues	The Mayor should ensure that the urbanism service reviews all requests, only after they are completed with all required documentation for a construction permit, and to ensure that the commission for review of requests will adhere to the 30 day deadline from the time of request received, so that services provided to citizens are prompt and accurate.		The deadline to review issuing of construction licences has been met, but there are still delays due to the social property issues within the city.	

3.1.1 Revenues	The Mayor should ensure that no contracts will be extended to those who have not met prior year liabilities, and impose appropriate measures to collect all arrears in a reasonable time. In addition, to ask from the official responsible to create clear and complete records with all necessary information so that management of rents is more efficient.			No measures taken.
3.1.2 Wages and Salaries	The Mayor should ensure that are taken necessary actions to adhere to procedures so that person whose employment relationship has ended are removed on time from the payroll system.	Yes		
3.1.2 Wages and Salaries	The Mayor should ensure that are taken necessary actions so that legal requirements related to relicensing are adhered in terms of licensing of healthcare personnel, in line with the relevant Administrative Instruction on Registration and Licensing of Health Professionals.	Yes		
3.1.3 Goods and Services and Utilities	The Mayor should ensure that project managers for each stage prepare written reports wherein is specified the exact route or location where the works are executed, and confirm the quantity and quality of works. In addition, to ensure that no expenses are certified without the relevant contract.	Yes		
3.1.3 Goods and Services and Utilities	The Mayor should ensure that upon entering into any type of agreement to also consider the cost of services, and if the price offered is not reasonable to seek services from another EO with optimal service cost.	Yes		
3.1.4 Subsidies and transfers	The Mayor should ensure that are taken necessary actions so that are adhered the criteria set out in the Internal Regulation, whereby are provided well-justified requests by the beneficiaries when deciding on award of financial funds.			No measures taken.



3.1.5Capital Investments	The Mayor should ensure that beforehand are reviewed all bills of quantities for capital projects so that implementation of projects is done solely with the initial contract, whenever possible.	Yes		
3.1.5 Capital Investments	The Mayor should ensure that upon development of every procurement activity is adhered the LPP and every EO participating in the tender fulfils the criteria established in the Tender Dossier.	Yes		
3.1.5Capital Investments	The mayor should ensure that the procurement office will follow all criteria in the Tender, and if the criteria are not implemented, to demand responsibility from the officials, namely from the procurement manager.	Yes		
3.1.5Capital Investments	The Mayor should ensure that the Procurement Office, namely the bid evaluation committee would respect all the criteria of the Tender Dossier and other legal requirements, and in case of their violation, to demand responsibility from the officials, namely from the procurement manager.	Yes		
3.1.5Capital Investments	The Mayor should improve the planning process and ensure monitoring of these agreements from initiation up to their complete implementation, in order to prevent subsidies and transfers out of the budget of capital investments.	Yes		
3.2.1Capital and Non Capital Assets	The Mayor should ensure that e-assets system will function in its full capacity, and upon budget planning to obtain accurate information on depreciated equipment, in order to enable their replacement in a timely manner, without disrupting operational activities of the Municipality.			No measures taken.

3.2.2 Handling of Cash and Cash Equivalentents	The Mayor should ensure that this practice will be stopped and request from officials responsible to deposit funds collected into bank accounts within set legal deadlines.			No measures taken.
3.2.3 Receivables	The Mayor should ensure that all records on taxpayers are updated and completed with all the necessary information, and analyse the causes behind low collection and to establish mechanisms to increase collection. In addition, to find a practical solution to collect remaining debts from renters whose business locations were torn down.			No measures taken.
3.3 Outstanding Liabilities	The Mayor should ensure that there is a fair and timely reporting of all outstanding invoices from all departments, and to ensure that budget planning is based on a clear cash flow plan, so that budget appropriations are not exceeded by any means.			No measures taken.

## Annex III: Letter of confirmation



Komuna e Kaçanikut

### LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2017 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 Komunës së Kaçanikut , për vitin e përfunduar më 31 dhjetor 2017 (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.

z. Besim Ilazi

Kryetar i Komunës,

Data: 30.05.2018, Kaçanik,

