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Zyra Kombëtare e Auditimit
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National Audit Office

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AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF THE
MUNICIPALITY OF PRISHTINA
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 organizations 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 Prishtina, 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 Team Leader Luljeta Sylaj and Members Syeda Oruqi and Ardita Salihu, under the management of the Head of Audit Department Zuke Zuka.

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Executive Summary

Introduction

This report summarizes the key issues arising from our audit of the 2017 Annual Financial Statements of the Municipality of Prishtina, 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 (ISSAIs). 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 04.10.2017.

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 Senior Management and Staff of the Municipality of Prishtina for cooperation during the audit process.

Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

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

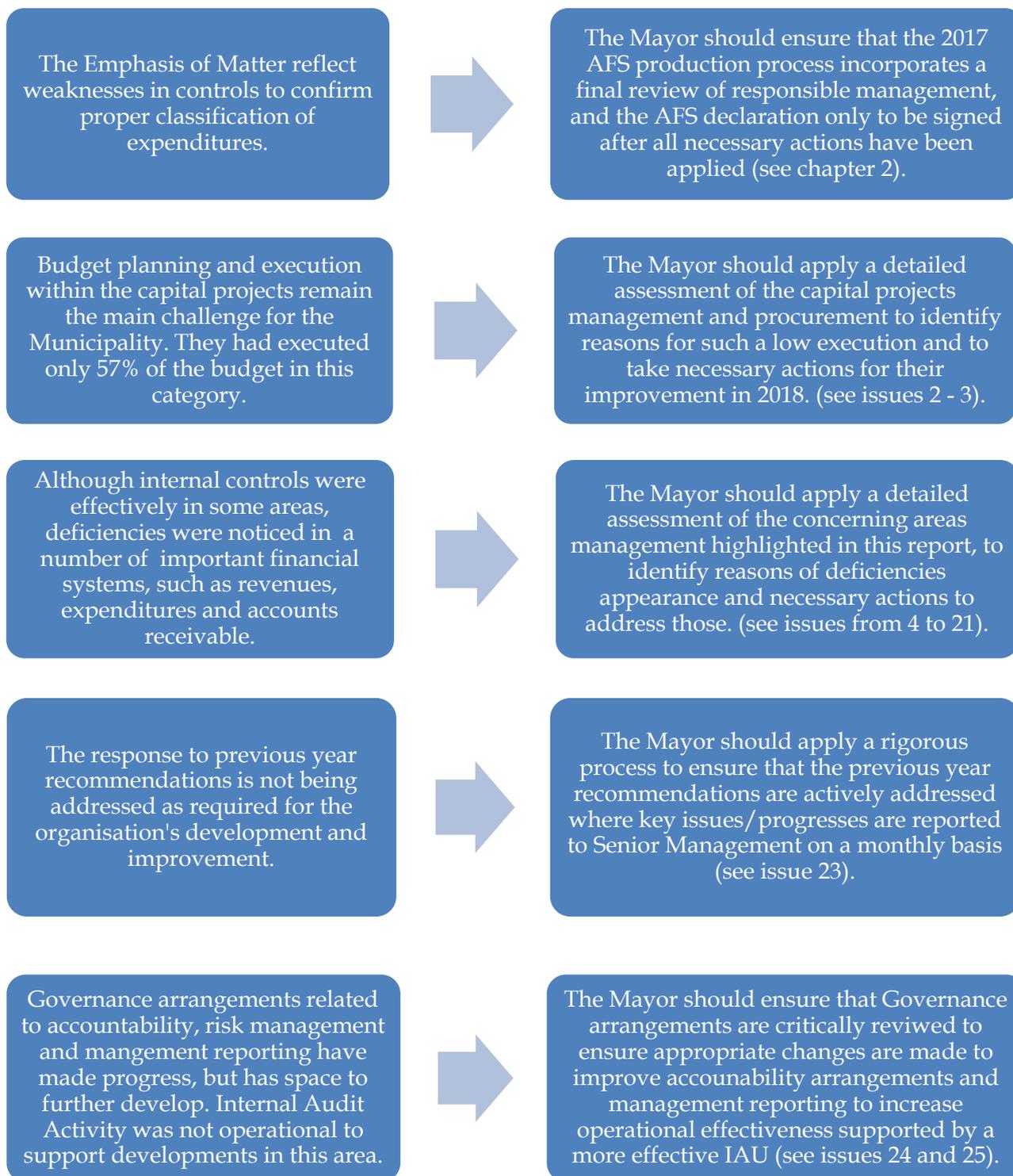
Emphasis of Matter

As Emphasis of Matter, we want to mention the fact that expenditures for goods and services in the amount of €1,823,140 were wrongly executed and reported from the category of capital investments. The largest part of them were wrongly budgeted as Capital Investments.

For more, see Section 2.1 of this Report.

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

Key Conclusions and Recommendations



The Management's Response on 2017 audit

The comments of the Mayor on issues which we have not been agreed are outlined in detail in Annex III.

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. We have analyzed its business to the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the Auditor General's (AG's) 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 for the 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 Prishtina for the year ended on 31st of December 2017, which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement, Disclosures and other following reports.

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

Basis for the opinion

Our audit was conducted 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 Financial Statements" section of our report. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.

Emphasis of Matter

We draw your attention to the fact that expenditures for Goods and Services (for maintenance of green spaces, facility fumigation, fuel for heating and similar, as well as executed payments by Treasury for different operational expenditures) are wrongly paid by the category of capital investments. Their total value is €1,823,140, where out of them €1,571,267 were also wrongly budgeted. Such expenditures have occurred also the earlier years. According the Municipality are result of limited budget for goods and services which are essential, therefore they have been approved with the budget law.

Regardless the presented reasoning, according the International Public Sector Accounting Standards, these are considered operational expenditures and should be paid by the category of goods and services.

Key Audit Matters

Those matters that, in Auditor's professional judgment, present special significance for the audit of the AFS are issues that the Municipality should address in the context of the AFS as a whole. In this aspect we present the issue of payments for the projects with co-financing:

- In the previous year, we have reported for transfers¹ of money that the Municipality has made according the agreements with donors or Publicly Owned Enterprises and we have recommended that agreements for the co-financed projects should have an assurance when it comes to achieving determined purposes, including clear reporting requirements during the implementation and monitoring of the project before the transfers of funds are made. However, transfers in same form are made in 2017 as well. The Municipality has signed agreements with the Austrian Development Agency (ADA) for implementing the project "Initiative for rural economic sustainability" for subsidising farmers of Prishtina region. The project is three year, with share of €1,500,000 by the Municipality and €337,425 by ADA. The Care Osterreich² was selected as a implementer of the project to whom in September 2017, the Municipality transferred the amount €476,518 from which only €35,450 were spent for six farmers. The free funds of €441,068 have remained within the Care Osterreich account, which are expected to be transferred at the moment when the farmer meets the predefined criteria. We will continuously follow the implementation of project to ascertain if the donor is adhering into the agreement and the obligation for co-financing and whether the Municipality is correctly declaring the amounts that the donor pays to the beneficiary, as third parties;
- The accounts receivable of the Municipality continue to be high even in 2017. Out of them €10,581,792 are receivables from property tax of Socially Owned Enterprises which are

¹ Payments to NOGs "Women in Business for the implementation of the Mobile Farm Market Project", "Help-Hilfe for support, socio-economic stability through strengthening the micro-businesses sector in Kosovo" and Urban Traffic (IVECO) for the purchase of buses".

² With its representative for the Balkan, Care International Kosova.

administered by the Privatisation Agency of Kosovo, and this comprises 21% of the total. The value of €1,458,016 are receivables of the Government Building ex “Rilindja” which from 2008 is being used as Government Facility and is expropriated in 2013. Only from the expropriation year, this debt is €238,132. According the Municipality, this issue under legal review and according the final results, it will be handled this year³; and

- The issue of assets management remains challenging, because the inherited assets and those received as donation still are not completely recorded in the accounting books of assets.

Responsibility of Management and Persons Charged with Governance for AFS

The Mayor of the Municipality of Prishtina 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 Finance Management and Accountability (as amended and supplemented).

The Mayor of the Municipality is responsible to ensure the oversight the Municipality’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 any material misstatement that might exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

An audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers 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.

³ According the law on property tax in government facilities and those that are in used of government are released from property tax.

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

2.2 Compliance with AFS and other reporting requirements

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 Organizations;
- Requirements of LPFMA no. 03/L-048, (as amended and supplemented);
- Requirements of Organic Law on Local Governance;
- Compliance with Financial Rule no. 01/2013 and 02/2013;
- Action Plan for addressing of recommendations;
- Requirements of Financial Management and Control procedures;
- Quarterly reports including also the nine-month statements in time;
- Reports and unpaid invoices; and
- Procurement plan and the report for the public signed contracts.

In the context of the AFS, the advices that we have given in the Audit Memorandum were addressed during the preparation process. However, the engagement of Chief Financial Officer still remains a challenge.

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

Expect the Emphasis of Matter to the audit opinion we have identified errors also to the disclosure of liabilities, article 17, which were overstated in total by €10,335. Initially, were overstated by €76,415, as a result of two subjects within the Education Directorate which were paid during 2017 but were wrongly reported as liability in AFS, while on the other hand were understated by €66,080 as a result of not declaring four unpaid invoices.

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

2.3 Recommendations related to Annual Financial Statements

In relation with the above-mentioned finding we give the following recommendation:

Recommendation 1 The Mayor should ensure that an analysis is undertaken to determine the highlighted causes in the audit opinion and to the key issues. Specific actions should be taken to address the causes systematically to eliminate errors in the classification of non-capital expenditures and to confirm the correct evaluation of outstanding liabilities.

Further on, the Mayor should ensure that effective processes are in place to confirm that the 2018 AFS production plan formally addresses all issues related with compliance. Further on, this should include the AFS review by Management, with specific focus on high risk areas 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 Organizations. Specifically, the focus of the audit was Budget management, Procurement issues, Human Resources, Accounts Receivable as well as Assets and Liabilities.

Financial Management and Control Conclusion

The Municipality of Prishtina in general has placed relatively good system of controls in report with its statutory obligations. However, still remain a range of areas that require further enhancement. While controls over the execution of revenues and investments should be added with purpose that the Municipality to implement those in a high rate in relation to its opportunities. Despite this, it is required increased concentration of the Municipality in preventing the execution of direct payments by Treasury.

It is worth mentioning that around 43% of the capital investments budget was spent in the last quarter, while only in December €4,109,762 or 23% of the total expenditures were spent. This is an indicator that the capital projects faces delays as in the completion of works also and procurement processes. Further on, other fields where further improvements are required include the Personnel Management, Subsidies, Goods and Services, Capital Investments, Assets and Liabilities.

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 ⁴	2017 Outturn	2016 Outturn	2015 Outturn
Sources of Funds	62,023,630	71,288,276	57,049,572	58,774,749	64,525,481
Government Grant -Budget	37,416,255	37,494,011	37,411,514	35,638,815	35,573,654
Carried forward from previous year ⁵ -	-	8,746,590	3,041,711	6,382,842	16,383,352
Own Source Revenues ⁶	24,319,875	24,319,875	16,230,271	16,394,896	12,265,988
Internal Donations	-	1,615	-	10,699	4,700
External Donations	-	189,927	123,345	347,497	297,787
Revenues from borrowings	287,500	536,258	242,731	-	-

The final budget in relation with the initial budget was increased for 12% or €9,264,647. This increase is a result of revenues carried forward from the previous year in the amount €8,746,590, which transfer was approved by the Municipal Assembly in December 2016, from Government grant €77,756 for covering of wages, external and internal donations €191,542, as well as from the borrowing of the Ministry of Health €248,758 that was related with the performance in health.

For the auditing year, the Municipality has spent 80% of the final budget, a same rate compared with 2016. Explanations for the current position are given below.

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

Description	Initial Budget	Final Budget	2017 Outturn	2016 Outturn	2015 Outturn
Spending of funds by economic categories	62,023,630	71,288,277	57,049,572	58,774,749	64,525,481
Wages and Salaries	28,044,512	28,128,949	28,128,949	27,900,604	27,404,645
Goods and Services	7,637,910	7,963,454	7,834,544	7,418,324	9,008,155
Utilities	1,793,000	1,793,000	1,776,482	1,791,297	2,079,910
Subsidies and Transfers	1,816,810	1,916,810	1,506,072	1,655,659	1,621,155
Capital Investments	22,731,398	31,486,064	17,803,525	20,008,865	24,411,616

⁴ Final budget - the budget approved by the Assembly, subsequently adjusted by the Ministry of Finance.

⁵ Own Source Revenues of Municipalities unspent in previous year carried forward into the current year.

⁶ Receipts used by the entity for financing its own budget.

Explanations for changes in budget categories are given below:

- The budget for the category of capital investments was increased for the amount of own source revenues of the previous year. Regardless the budget increase, only 57% of the investments budget was spent. the Public Investments Program includes 97 projects, whilst 30 of them were not executed at all or are executed up to the 10% rate. The low performance is as a result of delayed requests by the requesting units for the initiation of the procurement procedures, the operators complaints which have extended the timeframe until the signing of contracts, delays in execution of works by companies and not timely resolution of property issues;

From the report of signed contracts it is seen that 80% of contracts with average/high value are signed in the second six-month of the year, which is an indicator that the execution of works and payments could remain for the coming year. However, delays in implementation are also obvious in some projects started before 2017;

- The budget for Wages and Salaries was increased for €84,436, this results from the Government decision taken in December 2017, through which this budget was increased for €77,756 to cover the budget deficit of this category. This lack of budget is caused by the increase of employees' coefficients, as well as by compensation in the amount of €29,898 for one suspended employee in 2008 who had won the case as claimant against the Municipality. Further on, from donors grants we added also €6,682;
- With the review of budget, the category of Goods and Services had budget increase in the amount of €325,543. The amount of €248,758 was from borrowing, which comes from the agreement between the Municipality and the Ministry of Health, that had to do with the increase of performance in health. Further on, to this category were added and €76,785 by the donors grants which had supported different projects, related with campaigns, activities and farmers subsidies. Regardless the budget, around 1,8 million expenditure for Goods and Services were paid by the category of capital investments;
- The budget for Utilities has not changed from the initial budget. Regarding to this budget did not have a good planning, because the subordinate units of the Municipality had not managed to pay the utilities at the end of year from this funds and expenditures were covered from funds of other economic categories, through the execution of direct payment from Treasury. Only by our own sampling €404,764⁷ were paid for heating expenditures – Termokos;
- The category of Subsidies and Transfers was increased for €100,000 funds that were allocated from the own source revenues with decision of the Municipal Assembly, with purpose of subsidizing the cultural and social activities; and
- The Municipality during the years also received grants from external donors in the amount €191,542, which were allocated for goods and services to finance the support of different fields as for property tax, carrier advising, farmers, etc. Meantime the execution was €123,344 and transfer for the other year has remained the amount of €68,198.

⁷ Payments for Termokos from the code of capital investments 31121 in the amount €264,084, as well as €140,679 from code 13610.

Issue 2 – Low level of budget execution within the capital investments

Finding Low execution regarding capital investments is the main challenge with which the Municipality is facing. Only 57% of the budget in this category is spent and the issue has not been addressed by Management in the last years even though it has been handled in the previous audit reports. According to the Municipality, the reasons for such a low budget execution are related to delays in implementation of projects, initiation and conclusion of contracts with delay and poor planning of expenditures.

Risk Low execution of capital investments will result in ineffective usage of available funds. For the Municipality, failure to fulfil the program for capital investments will result in the implementation of less projects as well as in the quality of services.

Recommendation 2 The Mayor should undertake a systematic evaluation of reasons for the low level of budget execution to the capital investments in 2017 and earlier, and to set out practical options for the improvement of its execution for 2018. The budget performance should be reviewed on a monthly basis to continuously identify barriers for the execution of budget in the planned level. There where the initial budget assumptions are incorrect, this should be completely reflected in the position of the final budget.

Issue 3 – Payments through court decisions

Finding Treasury has executed payments according the article 39.2 and 40 in the amount of €1,875,280 from the Municipality's Budget directly into the account of Economic Operator (EO). From testing we noticed that for 28 payments executed according the directions of bailiffs in the amount €867,397, the Municipality had paid additional expenditures in the amount €36,755, for the bailiffs. Even though we have not received the required written response, the execution of payments from Treasury comes as a result of entering into liabilities without previous commitment of funds, in lack of budget, from the receipt of services with expired contracts, etc.

Risk The payments form through court decisions risks the implementation of planned capital projects from where are taken funds for payment, as well as by causing additional damage of the budget due to bailiff expenditures. Further on, this form of payment increase the risk that the operator intentionally to do not bring invoices in order to benefit included parties.

Recommendation 3 The Mayor should take appropriate actions in order to stop the created practices of payments with court decisions or direct payments from Treasury. Their avoidance should be done by strictly adhering to public procurement rules (good management of contracts from planning, execution up to their reporting), as well as treasury rules related to commitment of funds in time as well as other steps up to the execution of payments.

3.2 Revenues

Revenues generated by the Municipality in 2017 were in the amount €23,559,620. In this amount dominates revenues from property tax that compiles 30% of the total revenues, after them are revenues from construction permits, cadastre, revenues from the legalization of objects, administrative fees, usage of spaces etc. Further on, the Municipality this year has received also revenues from fines from traffic, courts and the forest agency in the amount of €892,998 which are disclosed in AFS.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2017 Receipts	2016 Receipts	2015 Receipts
Total own source revenues	24,319,875	24,319,875	23,559,620	24,243,686	18,035,992
Property tax	4,976,810	4,976,810	6,961,321	7,176,272	5,623,478
Municipal fees	19,343,065	19,343,065	16,598,299	17,067,414	12,412,514

In 2017 from the own source revenues were allocated €31,861,892 for expense from which were spent only 60%. While from the collected revenues €13,034,228 are carried forward to be spent in 2018. On the other hand the Municipality had managed to collect 97% of the planned revenues with budget.

From the own source revenues of the Municipality 34% of the total expenditures of the Municipality are covered, which are planned to be spent for infrastructure adjustment or capital investments in the capital and its surrounding.

Our audit disclosed some deficiencies for the way of revenues management in the Municipality, as in following.

Issue 4 – Poor planning of revenues by categories

Finding The Municipality has managed to execute almost all planned revenues, with deviation of only 4%, however if we see those by categories we notice big differences. For example, for the legalization of facilities, €4,000,000⁸ were foreseen to be collected while only 2% were executed, the same had occurred also with revenues from parking which were executed only 16%, against the 2 million plan.

Risk Poor planning of revenues compared with previous trends leads to the stagnation in executing planned projects from own source revenues and failure to fulfil the organization's objectives.

⁸ Unreal planning, when it was known the deadline of law for legalizations is on 05/02/2017

Recommendation 4 The Mayor should ensure that an objective and implementable planning is made and the same should be followed with activities and appropriate measures for implementation.

Issue 5 – Giving properties in use without compensation

Finding The Municipality in 2014 carried through the verification of all municipal properties, including the parcels in the so called area “Industrial Zone”⁹. At least 37 parcels of this zone with about 6 hectares are used by different businesses without any compensation to the Municipality. According to the Directorate of Property in the Municipality, this year has started to consider the possibility of generating revenues from parcels of this zone.

Risk Leaving municipal properties to be used by businesses without agreement/contract damages the revenues of the Municipality and increase the risk that users to manipulate with those properties.

Recommendation 5 The Mayor should review the cause of using properties without compensations and take actions to sign agreements with businesses/users of the properties for their compensation, whether through rent or other legal forms.

Issue 6 – Failure to verify 1/3 of the Municipality properties

Finding The Municipality had not managed to perform the verification of 1/3 of the immovable properties as required with law for the immovable property tax no. 03/L-204 and applicable AI. From total 97,408 properties until now, the Municipality managed to verify only around 23,521 of them. The verification process is totally similar with that of recording except that it does not result with recording of a new property but with improvement of existing notes.

Risk Failure to verify 1/3 of the properties could result with deficiency of complete information of the current taxable property, with possible impact that the evaluated revenues for property tax to be lowered.

Recommendation 6 The Mayor should analyse reasons and barriers why legal requirements in this area were not implemented and undertake additional actions to ensure that the verification of municipal properties in the coming year is carried through as foreseen with law.

⁹ The part in west of the city of Prishtina, respectively in the direction of Fushe Kosova.

Issue 7 – (Non) Generation of revenues from business fees

Finding The Regulation for Tariffs, Charges and Municipal Fines foresees annual charges for exercising some business activities which operate within the Municipality. The Directorate of Strategic Planning, which is in charge with this issue, does not have accurate information for the number of business activities that are obliged to pay the municipal fee. Revenues from this fee rely upon in voluntary declaration of businesses. The businesses obliged to pay this fee were not issued an invoice, at the same time we have not noticed that any measure has been undertaken against those who have not paid. €68,180, or 18% have been collected from this fee less during this year than the last year when were collected €83,887.

Risk The collection of revenues based on business willingness and lack of accurate data, directly affect in the reduction of total municipal revenues and in unreal planning of revenues.

Recommendation 7 The Mayor should take measures to create an accurate base for all businesses that operate in the Municipality and are liable against this fee based on the regulation issues in the Municipal Assembly. Further on, to ensure that businesses are being billed in regular basis and all necessary actions for their collection are taken.

Issue 8 – Recording and reporting of data

Finding The Municipality does not have any software for recording and reporting of revenues that are collected by the department of public services. During the year €683,354 have been collected from this department. Data are being recorded manually and are being transferred from year to year, risking their accuracy. We could not find a base accurately specifying the amount of payment and liabilities owed by users of municipal space. According to the officials, a program for this type of revenues was in place in the past but it faces setbacks.

Risk Recording of revenues manually, increases the risk of errors and complicates the process of generating timely detailed reports for the Management, regarding the collection and accounts receivable.

Recommendation 8 The Mayor should ensure that the appropriate recording system is put in operation to support the collection and management of revenues.

Issue 9 – The management of revenues generating from public spaces

Finding

Based on the Regulation for placement, construction and removal of objects in municipal public property and the decision of the Mayor to form the committee for granting consents, the users of public spaces through their requests or inspection, obtain consent/rejection for the usage of public spaces. For the same they are billed with summer/winter season tariffs¹⁰.

Based on this we have found that:

- Committee for identification of users for the summer season was formed after the start of this season on 19.05.2017, while the business locals have continued to operate without getting consents;
- Further on, the committee for the winter season was not formed at all. On the other hand, 30 locals had filed request for consents, for which they had no answer; and
- Although the committee for granting consents in the summer season constitutes of five members, this consent is signed only by two of them. This according to the officials is due to numerous commitments of employees and that two of the members are inspectors.

Risk

Not establishing the Committees in time causes inefficiency in collection of revenues and damages the reputation of the Municipality toward citizens and users of public spaces as contributors to the budget. The decision signed only by two members of committee does not provide assurance in making reasonable decisions.

Recommendation 9 The Mayor should ensure that the Committee for identifying the usage of public spaces should in place before the seasons start, in order to ensure smooth running of the process, and collection of revenues in time. Further on, the consent is given from all members of the Committee.

3.3 Wages and Salaries

Wages and Salaries are paid through a centralized system (payroll) managed by the Ministry of Public Administration (MPA) and MoF. Controls that operate in local level by the Municipality are related to: payment control, signing of payroll lists, verification of possible changes that could be presented through forms, updating of personnel files as well as the budget review for this category and reconciliation with Treasury.

The Municipality had started to implement the reconciliations in system for multipliers/grades and classification of positions by work catalogue. Until now the reconciliation is done for a considerable part of staff.

¹⁰ Sezoni veror përfshin periudhën prill – shtator, sezoni dimëror përfshin periudhën tetor- mars.

Issue 10 – Classification of job positions

- Finding** During the review of some cases where have been made reconciliations in system according the catalogue of work places, we have concluded that is has not been respected the European principle emerged from this catalogue: *Same wage for the same work*. At the Centre for Social Work, we have noticed that for all officials that had multiplier 5.5, MPA has approved multiplier 6 (grade 10). But in one case, even though the Officer has the same position according the multiplier 5.5, he is being compensated with multiplier 7. However, the act of appointment for the current coefficient is not updated.
- Risk** Differences in grading for the same job position, could demotivate other employees which perform the same job by risking the quality of work and services offered to citizens.
- Recommendation 10** The Mayor should ensure that the Personnel Office reviews all reconciled positions and/or those that will be a subject to change in order to have necessary updates in place.

3.4 Personnel Management

the Law no. 03/L-149 on Civil Service of Republic of Kosovo; Labour Law no. 03/L-212 and Law on Rights and Obligations no. 04/L-077 regulate the issues covering personnel management and organization. We have identifies several shortcomings, such as:

Issue 11 – Engagements with Special Service Agreements

- Finding** When testing Special Service Agreements (SSA) in nine cases, we have noticed that the Municipality engaged officials in performing works for period longer than six months without respective recruitment procedures. This staff was engaged in different positions as Media Officer, Coordinator, collaborator, architect, officer for infrastructure, surveyor, operator, assistant, etc.
- Risk** Covering of positions with temporary agreements results with poor performance and monitoring of staff and increases the insecurity if in such positions is engaged the adequate staff. The lack of proper competition and the quality of services provided could be of a poor level and organization's objectives to not be achieved.
- Recommendation 11** The Mayor should ensure that employees through special service agreements are engaged only in cases when specific requests arise. The engagement is made in line with legal requirements through a competitive and transparent process and the period of engagement to be done within the foreseen deadlines with law. While for all regular work positions should be ensured that are budgeted by the category of wages and salaries as well are paid from the payroll system.
-

Issue 12 – Exceeding of determined time for holding positions with Acting

Finding According the Law on Civil Service, article 30, in case of vacant positions, the Acting cannot be appointed longer than three months. In nine cases of managing positions, we have noticed that they were covered with Acting, for a relatively long period time, some of them since 2015. Further on, the implementation of recommendation on updating the personnel files still remains challenging.

Risk Covering managing positions with Acting over the foreseen time, increase the risk that the executed performance and responsibility in these positions to not be in the required level. Failure to update files, can affect in unreal evaluations of staff and can affect in non-rational distribution of duties and responsibilities within the institution.

Recommendation 12 The Mayor should ensure that managing positions are covered from competent persons with regular positions. In case of replacement, the duration of function as Acting should not be longer that the period determined with law. While the repeated recommendation related to maintenance of files should be finally addressed this year.

3.5 Goods and Services and Utilities

The final budget for Goods and Services in 2017 was €9,756,454, while the executed budget was €9,611,027. The most part of expenditures in this category include utilities and of communication, fuels for heating, maintenance of facilities, maintenance of roads, and other contractual services. Further on, from this category are executed direct payments from Treasury, based on article 39.2 and 40 of LPFMA.

Issue 13 – Weaknesses on planning and accepting of goods

Finding To the tested payments of fuel for heating, as a matter of inadequate planning, the municipality has done exceeding of the contracted quantities. In the framework contract the foreseen annual value for fuel for heating and generator is 30,000 litres. However, only in two samples, we have noticed that the received quantity was 111,295 litres. According to the municipality, the reason for this is the extension of procurement procedures for the new activity, as result of complaints and other procedural problems.

Further on, the payment for fuels in amount €6,930 is also made through this contract, after its expiration¹¹.

¹¹ Two invoices of date 06.12.2017 and 08.12.2017 in the amount €6,930 have been paid after the expiration of contract on 02.12.2017.

Risk Avoiding rules resulted in weakness in payments for goods and services. The Municipality risks entering into liabilities without coverage due to ineffective management of contracts and allows to be subject to claims which could result with additional expenditures.

Recommendation 13 The Mayor should strengthen controls in this direction to ensure that are rules of public procurement are considered and a regular oversight is being implemented when it comes to the contract management. At an appropriate time period before the contracts expired, procurement procedures should start allowing new contracts to be concluded in time.

3.6 Subsidies and Transfers

The final budget for Subsidies and Transfers was €1,916,810. Out of them €1,506,072 were spent in 2017. Those relate to farmers subsidizing, compensation of their damages, as well as support for cultural and sports activities, etc.

Despite some improvements occurred in the subsidies distribution and management, still has deficiency in reporting, which would witness the destination of money given.

Issue 14- Non-reporting by beneficiaries of subsidies

Finding For the subsidising of projects¹², the Municipality failed to collect narrative feedback or financial/accompanying evidences which would demonstrate if funds are spent for the intended purpose.

Risk Non-reporting/monitoring of subsidies expenditures, except that it could lead in misuse of the subsidies purpose, it leaves space for lack of responsibilities by directorates/programs by which are spent the funds.

Recommendation 14 The Mayor should strengthen controls on subsidies management and ensure that subsidies are awarded in line with rules by applying additional controls in monitoring the spending of funds to ensure that subsidies are spent for the intended purpose. In this aspect, the Municipality will increase the credibility to citizens.

¹² Subsidy for H.K Prishtina for "Support for the progress of races" in the amount €9,950, for the project "Medea, or exile art" in the amount €3,310 as well as for the project "Forever Wolf" with €5,000.

3.7 Capital Investments

For 2017, the final budget of Capital Investments was €31,486,065 while were spent €17,803,525 or 57%. This execution presents a poor performance in relation with the 2016. Furthermore, negative trend is presented since 2015.

Issue 15 – Poor planning of quantities and mismanagement of the contract

Finding In the tendering process for the project “Renovations and improvements of infrastructure of the health and social facilities” was a criteria the lowest price. The winning bid with the lowest price was €132,021. During the execution, in some positions have been done sensitive exceeding of quantities, more than it was foreseen during the planning that in total the quantities of contract have been exceeded for over 200% (but not in total amount)¹³. According to article 5 of AI for Public Framework Contracts, CA will specify in the tender dossier the amount or quantity, as a threshold and allow derivation from it plus/minus 30%, and if the purchase-orders exceed that, the contract should be automatically terminated.

Risk Failure to plan approximate quantities risks awarding most expensive bids even though in principle during the bids evaluation, it is perceived as the lowest price bid is being awarded, and as a result to cause financial loss for the Municipality and always exist the risk of misuse during the whole tendering process and execution of one contract.

Recommendation 15 The Mayor should ensure that requesting units evaluate as more accurate the needs for works that will be ordered, in order to not be repeated the similar cases. We would suggest that on the case of planning the quantities, a review of them to be done also by a team/second staff that has knowledge for the intended project.

¹³ If comparisons are made with the bidder with second lowest price (€144,835), for the same quantities worked, when the Municipality paid €146,806, whereas according to the second bidder these quantities would cost the Municipality €84,511. Therefore, as a result of the high discrepancy of the planned and necessary quantities to be executed, has made that the cheapest bidder to cost the Municipality more expensive, for at least €62,2945.

Issue 16 - Deficiency in the evaluation process of tenders**Finding**

In two tested files we have noticed deficiency during the evaluation process of tender, such as:

- For the project “Inventory of the new kindergarten in Tophane” the Municipality awarded the EO with price €57,830 and not the cheapest bid which was €47,587. The Municipality evaluated that the EO with the cheapest price had not meet the criteria required *for completed work in supply with inventory minimum €50,000 for the last three years*. The Municipality had requested explanations and the latter had sent sufficient evidences which showed that it met this criterion, however it was eliminated. This negligence of the evaluation committee has cause the Municipality with a contract with higher price over €10,000; and
- In the tender dossier “Supply with two auto ambulances for UHC” at the requirements over the technical/professional opportunity, it is required that the EO to bring the guarantee declaration from the manufacturer, but it had prepared a formal declaration signed by the company itself. In the evaluation report, the committee has concluded that the EO had met all criteria and was responsible by announcing in this way winner. After the receipt of auto ambulances, the EO had brought also the guarantee from the manufacturer.

Risk

Unfair evaluation of bids risks that the Municipality to pay prices not competitive as well as it creates spaces for bidders to use the rights for complaints and as result to drag the implementation of projects. Furthermore, the evaluation of EO as responsible, meantime that it had not met an important criteria as it the guarantee, risks that the EO not to adhere the contracted terms.

Recommendation 16 The Mayor should strengthen controls on the management of procurement processes ensuring that the evaluation committees perform objective evaluation fully in accordance with the determined criteria in the tender dossier.

Issue 17 – Entering into contracts in lack of funds committed

Finding According to the Financial Rule 01/2013, no contract should be signed without prior commitment and that the commit should be an integral part of the contract. The contract for “Adjustment of park near 1 October Hall” with amount €79,376, was signed without prior commitment of funds. The commitment was done after the receipt of invoice. Furthermore, for the contract for “Supply with two auto ambulances for UHC” in amount of €103,996, the commitment was incomplete in the amount of €50,000. Incomplete commitments were also to the contracts as: handling of stray dogs and handling of construction waste.

Risk Signing of contract in lack of funds committed risks the non-fulfilment of contract or its late implementation and in this was the non-achievement of Municipality’s objectives.

Recommendation 17 The Mayor should ensure that no contract is signed without securing the needed funds and commitment is made for its execution.

Issue 18 – Delays in the implementation of contracts

Finding On the occasion of contract signings is determined also their time of execution. We have noticed that had delays in projects as in following:

- The process of construction the Boulevard over “backbone” is followed with projection shortcomings and significant delays. The project in value of €977,725, for which the contract is signed on 12/06/2015 is foreseen to be completed after 180 days, and the same is not completed yet. In September 2017, the contract manager was also substituted with a new manager, who is waiting the report of a committee on evaluating the earlier works, additional stages, and continue further with supervision of the project. The Municipality did not apply penalties, but the only penalty was a warning to the company. Further on, greening stages were paid to the company even though it did not provide the issue of its irrigation, which had affected in the drying of most of the trees;
- According the contract “Supply with inventory for municipal administration”, in the amount of €55,150 signed on 21/11/2016 and the contract management plan, the timeframe of completion was 45 days from the date of signing. The supply was made on 05/07/2017, respectively with seven months of delay. In the meantime, the execution security had expired and the same had not been renewed. According to the contract manager, the timeframe of contract executions has been postponed due to lack of space for putting the inventory by the Municipality; and

- In the management plan for the contract “Construction of road Barileva-Besi” the start of works and their duration in a timeframe of 180 days is determined. The contract was signed in October 2015, while the works still have not been finalised. According to the project manager, causes for the delay in the implementation of works are problems with expropriation that have arisen after the works have started. This due to the start of the projects without expropriating the lands before that will be part of the project.

Risk

Delays in completion of projects reflect in the quality and damage of works. Entering into contractual liabilities without analysing good the real needs and terms for the completion of works, risks further extension of the implementation of projects and causes burden in the budgets of coming years. Overall it damages the reputation of the Municipality.

Recommendation 18 The Mayor should undertake necessary measures for completing the projects which are being carried through the years. Further on, it should ensure that the issue of expropriations is solved before they are initiated, in order not to have interruptions of works and projects are implemented in line with the dynamic plan, while the contracts for supplies are planned according the real needs and appropriate terms for implementation.

3.8 Common Issues on Goods and Services and Capital Investments

The common issues that relate to Goods and Services and Capital Investments are as follows:

Issue 19 - Purchase-order after the invoice/works have been received/accepted

Finding

According the Financial Rule 01/2013, the process for initiate of expense, it precedes the purchase request, commitment of funds, purchase-order, the receipt of goods and after the invoice. In 52 tested payments, that related with capital investments and goods and services, have not been respected the abovementioned rules. The purchase-order and commitment of funds was made after the receipt of works/supplies, respectively after the receipt of invoice.

During the testing also we have encountered in two¹⁴ payments that have been executed with unrecorded invoices.

¹⁴ Invoice for cleaning and maintenance of health dwellings value of 21,552€ and invoice for oil supply, values of 38,595€

Risk Entering into liabilities due to lack of funds committed/purchase-order may cause the increase of outstanding liabilities and as consequence, the execution of payments directly by the Treasury. Failure to record invoices is in contradiction with Rule 01/2013 for Expenditure of Public Money and overall risks the fair evaluation of financial liabilities.

Recommendation 19 The Mayor should ensure that the responsible staff adheres to the determined legal steps on the expenditures process when initiating expenditures, securing that funds are committed purchase-order prepared in time. Furthermore, the Municipality should ensure that the invoice receipt book is kept where each received invoice is recorded and identified.

3.9 Capital and Non-Capital Assets

The asset management is an important part of financial management and control in the public sector. A good management of assets require that the Municipality to have a view of completeness of the assets, procedures of their control and management and to continuously update changes in its registers. In general, last years, is done enough progress regarding the recording of inherited assets, however there is still work to be done and intensified coordination between some directorates.

Issue 20 – Weakness in assets management

Finding The weaknesses in assets management were as follows:

- Regarding the capital assets, the asset officer records the purchased assets based on respective documents of executed payments (CPO). This means that only for purchases for which the payment is executed, the property is recorded as municipal asset. But according to article 10 or rule 02/2013 all non-financial assets, after the receipt should be recorded in the account registers regardless if they are paid or partially paid. Further on, the expropriated land for public interest on the case of constructions was not recorded as asset. This was caused by the lack of communication between the cadastral directorate with the assets officer;
- For the above-mentioned reason, also one of the digital booths for usage 24/7 for services of civil status was not recorded as municipal asset. Same, not even the donation by the donor TIKa for the restoration of City Park does not figure as municipal asset. Both these two assets are in use;

- For the facilities: 43 municipal apartments given in use, ex-facility of Appeal Court, ex-facility of Municipal Court, the building where it is located the Directorate of Inspection and Privatization Agency of Kosovo still has not been done their recording. This because the Municipality is awaiting an external committee of the central level which will start the evaluation of all properties;
- The e-Asset module is not used at all. Stocks are recorded in an overall register of non-capital assets in the Excel application. Although we have notices that the data are sufficiently structured in this database manually maintained, however, this application may present permanent risk for release of errors, deletion, etc.;
- For the received good in the amount €55,150 (Supply with inventory) and €16,970 (Supply with IT equipment), was not appointed the committee for receiving goods. The good was received by the project manager and one project supervisor. Article 8, point five or rule, states that Committee for the Receipt of non-Financial Asset should be in composition of not less than three members of the respective field.

Risk

Lack of accurate information on assets does not allow an effective management and controls over assets. As a result of lack of assets recording, their recording is visibly understated, so the risk of their misuse exists. On the other hand, receiving goods in lack of relevant Receiving Committee may lead in receiving non-qualitative goods and not in line with the contracted terms.

Recommendation 20 The Mayor should ensure that all directorates effectively collaborate with the assets officer in order that the latter is provided with sufficient documents for assets recording – having an emphasis on the cadastral directorate, the procurement office and receiving committees. Further on, all necessary actions should be taken to put in place e-Asset system for identifying assets under €1,000.

3.10 Receivables

Receivables mainly consist of: property tax¹⁵, construction fees, rents and for expropriations by the Ministry of Environment and Spatial Planning. The Municipality has not managed to collect all the receivables for which has provided services, in lack of adequate politics and specific measures. The amount of receivables at the end of 2017 had reached in €46,116,184.

Issue 21 – Lack of specific measures for the collection of receivables

Finding

In management of receivables we have identified the following deficiencies:

- The Municipality does not have plan or strategy regarding the management and collection of receivables¹⁶;
- Receivables from construction fees have reached the amount of €5,090,868, mainly old receivables of years 2012-2015¹⁷.

For the issue of construction permits, the Municipality had received bank guarantees, but in no case at all had not used the right for withdraw of guarantee, despite the fact that it were not respected the payments timeframes according the agreement. This year the directorate that deals with this issue has shown interest to engage a bailiff to collect these funds;

- From the apartments given with rent, 14 of them have not executed payments that derive from their contractual obligations;
- The Municipality is not aware that how much is the debt by users of public spaces for which has not issued invoice during the winter season, as it had not managed to create the evaluation committee. Further on, it the value of business fees and from commercials is not known¹⁸.

Risk

The high level of receivables and inefficiency in their collection remain challenge even for the coming period. Failure to collect the receivables risks that they become old uncollectable, creating a direct financial loss for the Municipality.

¹⁵ Still problems exist with generation of accurate data from the property tax program. NAO has published a special report for this system (Pro Tax).

¹⁶ The Municipality had signed in 2014 a Letter of intent, through which is determined a dynamic plan of timeframes for settlement of debts by PAK, but had failed as the PAK had not adhered to.

¹⁷ From 2015 and so on they who are equipped with license are more regular in payments.

¹⁸ Refer the issue 8.

Recommendation 21 The Mayor should ensure that all possible options are actively considered, by putting policies in place and rules in order to increase effectiveness in collection of receivables. Further on, it should consider all measures in compliance with law, against operators who do not meet contractual obligations.

3.11 Outstanding Liabilities

The Municipality has declared liabilities to suppliers in the amount of €1,262,935, and amount lower for 26% compared with 2016 (€1,696,652). While in relation with the other parties pretends to the Municipality, based on current court disputes, the Municipality has listed in total 46 possible cases with an evaluated amount of €6,180,290.

In relation with the addressing of recommendation for liabilities, the Municipality has made a step forward. There is a report of Directorates to the responsible officer and the same has met the requirement of rule 02/2013, for monthly reporting to the Treasury. However, our testing has identified some shortcomings, which make the above balances to change for a non-material amount, which is not adjusted in the AFS.

Issue 22 - Contingent liabilities

Finding The Municipality's contingent liabilities related to different issues such as property, administrative, residential, and penal, damage compensation, etc. raised by dissatisfied claimants. Their value disclosed in AFS was €6,180,290 and the same were increased by €1,283,225 from the previous year. Their increase and loss of cases in court (bailiff) may affect the budget which is planned to be spent in other projects.

Risk The high level of contingent liabilities may aggravate the Municipality's financial situation, if final court decision will be in favour of claimants.

Recommendation 22 The Mayor should initiate an evaluation of financial impact that claims and lawsuits could have toward the budget of the Municipality, and analyse possibilities for current situation in relation to contingent liabilities.

4 Progress in implementing recommendations

Our Audit Report on the 2016 AFS of the Municipality of Prishtina has resulted in 26 key recommendations. The Municipality had prepared an Action Plan stating how all given recommendations will be implemented. The AG's report was discussed in October in the Municipal Assembly, but was not discussed the action plan for the implementation of recommendations. Currently, the Municipality through the assistance of a USAID project is working on the possibility of implementing the AG's recommendations.

Until the end of our audit from the recommendations given for 2016, seven recommendations have been implemented; seven were in process and 12 have not been addressed yet. From 2015, 17 recommendations were carried forward (eight unimplemented and nine others were being implemented). For a more thorough description of the recommendations and how they are addressed, see Annex II.

Issue 23 – Low level of Implementing the recommendations from previous and earlier year

Finding The lack of a formal monitoring of how the AG's recommendations are being implemented, have affected that a low number of recommendations have been completely implemented, while most of them are in process of implementation or unimplemented, including also recommendations from earlier years. The Municipality has not followed any formal process to manage and monitor the way of implementation of AG's recommendations.

Unimplemented recommendations, which are being continuously repeated relate to: low level of budget execution, misclassification of expenditures, incomplete assets registers, the lack of risks register, poor performance of IAU, failure to perform the obligations by users of the municipal apartments (renters), incomplete reporting of liabilities, as well as failure to verify 1/3 of the municipal properties.

Risk The continued weakness of management and other controls in key financial systems resulted in:

- Irregularity in payment execution and classification of expenditures;
- Non-operation of IAU; and
- Weaknesses in management of revenues and AR.

Recommendation 23 The Mayor should ensure that the implementation of Action Plan is continuously monitored and reported on a regular monthly or quarterly basis in relation to the progress made in this direction. Recommendations that are not implemented according to the timeframes, reviewed in a shortest timeframe possible by the Mayor and undertake proactive measures against presented barriers during implementation.

5 Good Governance

Introduction

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

A key indicator supporting effective governance is the implementation of audit recommendations as this demonstrates to what extent the Management is taking actions to improve 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

Regarding the good governance we appreciate the progress that the Municipality has done in relation with the completion and submission of self-assessment questionnaire, which last year was not completed at all. However, there are some deficiencies regarding the governance within the Municipality, especially in relation with not full implementation of recommendations from previous year, avoidance of plan for risk management, lack of specific initiative in the increase of revenues and ineffectiveness of internal audit as a catalyst of efficiency of internal controls.

According the Law for spatial planning, the planning of local level is done through three documents: Municipal Development Plan; Municipality Zoning Map; and Detailed Regulatory Plans.

The Municipality during 2017 had the 2012-2022 Municipal Development Plan, but the same did not have calculated any cost for its implementation and it is not determined any timeframe for the achievement of objectives or their monitoring. The assessment of this strategy was made only informally.

Currently the Municipality has made preparations for the drafting of zoning map as initial document for the creation of strategy, after which will be created the new Municipal Development Plan.

Further on, in this stage, the Municipality has drafted three detailed regulatory plans: the detailed regulatory plan for blocks "B17", "B18", "B19" and "B20", that for the Urban Coverage "B" of the neighbourhood New Prishtina and regulatory plan for "Sofalia 2016-2024".

5.1 Internal Audit System

The Internal Audit Unit (IAU) operates with four members of staff - the Head of IAU and three auditors. To perform an effective audit is required a comprehensive work program that reflects financial and other risks of the audited entity and that provides sufficient assurance over the effectiveness of internal control. The impact of Internal Audit output should be judged by the importance that Management places on addressing recommendations and from the support provided by an effective Audit Committee.

Issue 24 - Poor functioning of IAU

Finding

A number of weaknesses exist related to current IAU operations:

- Despite the recommendations given and the commitment of Management for the functionalizing of IAU, this unit almost is non-functional also during 2017. They during the year had completed only one audit report regarding the process of revenues management in the "Library Hivzi Sylejmani" and three audits were in process, which have started with request of Management. The audits in process had the same focus and had to do with "Dodona Theatre", "Municipal Archive" and in "Cultural Centre of Kids of the Municipality of Prishtina";
- IAU had not compiled the statutory for IAU. During 2017 was not established the Audit Committee (AC) which would support Management in the improvement of internal control, by ensuring the IAU independence, oversight of plans and monitoring of the implementation of recommendations. The Committee was established in 2018;
- The Strategic Plan and Annual plan of work were prepared but were not approved and signed by Chief Administrative Officer.

These results indicate non-readiness in recognising and maximising the benefit of Internal Audit or seeking assurances over the effective operation of internal controls. Further on, this shows poor quality Internal Audit planning.

Risk

Inadequate IAU function affect that the level of internal controls are not improved and risks that same errors and shortcomings continue to repeated. As a result that AC is not operational, there is a lack of assurance and advices that are provided to the Management in relation to risks, internal controls systems and audit. In particular, this may result in shortcomings in implementation of the IAU plans and reduces the assurance that audit recommendations are taken on board and implemented.

Recommendation 24 The Mayor in cooperation with the Head of AC and Director of IAU should analyse the current situation and ensure smooth operation of internal audit activities in line with legal requirements with purpose of meeting the objectives t. First steps should be the approval of IAU charter and plans, and through an effective committee to support continuous operational activities, with focus in addressing recommendations, in order that benefits from the internal audit are much higher.

5.2 Management Reporting, Accountability and Risk Management

In order to have a proper planning, to 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.

Although, a range of internal controls are applied by Management to ensure that systems 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 25 – Weaknesses in management controls and risk management

Finding As a result of poor management controls, substantial amounts from the capital investment budget have not been spent and large numbers of payments were directly executed by the Treasury. Further on, the management of procurement and revenues was not in proper level. The Management should carry out regular analysis on budget performances, to review the procurement plan, collection of revenues and its liabilities.

On the other hand, the Municipality does not have any risk register drafted according to FMC requirements, there is no risk management strategy, nor a report on their management has been prepared.

Risk Poor accountability requirements and financial reporting should be strengthened to have an impact on effectiveness of financial management. This results in weaknesses in the budget process and reduces Management’s ability to respond to financial challenges in time.

Recommendation 25 The Mayor should ensure that a review has been carried through to determine the form of financial and operational reporting to Senior Management. Budgetary performances, 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.

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 emphasized 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 emphasized.

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 recommendations of previous two years

Audit Component	Recommendation carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
1.4 Compliance with AFS and other reporting requirements	<p>High Priority - The Mayor should ensure that an analysis is undertaken to determine the causes of failure to address the significant risk related to completeness of assets, misclassification of expenditures and payments to donors' accounts which resulted in Emphasis of Matter. Actions should be taken to address the underlying causes in a systematic manner to ensure a correct valuation of capital assets. This process should be monitored formally by the Mayor.</p> <p>High Priority - The Mayor should ensure that effective processes are in place to confirm that the 2016 AFS production plan formally addresses all compliance issues. This should also include review of the draft account with specific focus on high risk areas and/or areas where errors have been identified in previous years. The Declaration made by the CEO and CFO should not be submitted unless all necessary checks have been applied to the draft AFS.</p>			No measures taken.
2.2 Governance	In order to avoid such situations, the Mayor should strengthen controls and ensure that Finance department is in possession of all evidences over liabilities. The payment of outstanding liabilities should be treated with priority when planning budget, and should strengthen financial discipline and pay all invoices on timely basis.			No measures taken.

2.3 Recommendations of previous year	The Mayor should review why the prior year action plan was not submitted to OAG and why audit recommendations have not been implemented. We recommended that action plan for 2015 is produced on timely basis and set out a timetable for addressing the recommendations, determine accountable staff members with initial focus on those of greatest significance raised by audit.		The action plan is submitted, but the level of implementation of recommendations is very low.	
2.5 Risk Assessment	The Mayor should ensure that in cooperation with the management teams, he will discuss and identify high level risks in all municipality sectors, determine prevention measures and actions, and responsibility for risk management is delegated to respective staff. He should also ensure regular reporting and reviews on the implementation of requirements in this area.			No measures taken.
2.5.2 Management Reporting	The Mayor should ensure that a review is implemented to determine the format of financial and operational 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 2016.		In process, has a form of reporting but are reported only the monthly activities of departments.	
2.6 Internal Audit System	The Mayor should ensure that internal audit functions are strengthened and materialized with the on-going handling of internal control system, and should provide reasonable assurance that controls operate effectively and as designed. To gain maximum benefit from Internal Audit, we suggest establishing Audit Committee within a reasonable timeframe.		In process, is created the committee, but further does not operation good this unit.	
3.3 Budget Planning and Execution	The Mayor should ensure that budget performance is systematically monitored on a monthly basis and that this review identifies and addresses barriers to planned levels of budget execution. This activity will be preceded by an appropriate planning process, determining objectives and their liaison with the municipality's budget.			No measures taken.

3.3 Budget Planning and Execution	The Mayor should analyze the reason behind non execution of revenues and the revenues trend through recent years and based on this the Mayor should make an objective and workable planning. Further, the same plan should be followed with adequate activities and measures for implementation.		In process / have been taken some initiatives for creation of revenues software.	
3.3 Budget Planning and Execution	The Mayor should ensure that funds are used in accordance with initial budget appropriation and in case of such deviations; expenditures should be presented and disclosed in accordance with legal requirements by providing full transparency to the users of financial statements.			No measures taken.
3.4 Procurement	The Mayor should ensure adequate measures for respecting public procurement rules and appropriate supervision for qualitative contract management.		In process / but still deficiency to the procurement as evaluation of tenders, exceeding of contracts and other.	
3.5 Expenditures not related to procurement	The Mayor should ensure that this practice is not repeated when it comes to the new arrangements and agreements being implemented, the controls should be strengthened, especially in requesting periodic reports from partners on progress achieved towards the funds spent. In the following arrangements for all similar projects, the municipality should take the role of the Contracting Authority, and manage all procedures from initiation to completion of projects. The municipality should prepare final reports for projects funded so far, and the in the audit to come, they will be separate part of reviews.		In process / has had request for reporting in relation with funds transferred, however as a phenomenon is repeated also this year.	

3.5.2 Remunerations (wages and salaries)	The Mayor should review real needs for engagement of employees with special service contracts. The need for additional staff for the career positions should be analyzed and if the increase of the number of staff is necessary, this should be incorporated in budget planning. Eventual barriers to staff increase should be discussed also with the Ministry of Finance and other stakeholders.		In process / the number is reduced.	
3.5.2 Remunerations (wages and salaries)	The Mayor should ensure that personnel office applies all requirements of the Civil Service Regulation for completing files, including regular assessments of performance for the entire staff.		In process, have started to be completed the files.	
3.5.3 Subsidies	The Mayor should ensure that current regulation for subsidies will be amended and supplemented in those parts where lack of clarities are identified and criteria, requirements, procedures and appropriate documents are determined for awarding and for control of funds distributed for subsidies.		In process, is in process of drafting the new rule.	
3.6 Revenues	The Mayor should analyze cases mentioned above and put in place controls required, that all properties on rent should be monitored in the meaning of payment of rent on regular monthly basis.			No measures taken.
	The Mayor should review controls and apply additional activities for the execution of guarantees according to the agreement, in order that revenues collection is done on timely basis.		In process, cases will go to bailiffs.	
	The Mayor should put in place controls over verification of properties, changes should be followed on timely basis and charges for taxpayers should be accurate in order to execute property tax in a correct manner.			No measures taken.
3.7 Assets and Liabilities	The Mayor should review controls related to asset management and ensure correct and complete recording. The issue of assets identified but not recorded in KFMIS should be discussed with the Ministry of Finance and modalities for their inclusion in the system should be found.		In process / the value of unrecorded assets is obviously lower.	

3.7.2 Handling of receivables	The Mayor should analyze the reasons behind the increasing trend of these accounts and strengthen controls to prevent their further increase. An adequate strategy and mechanisms should be put in place to enable identification and collection of debts accumulated, including legal remedies.			No measures taken.
3.7.3 Handling of debts (liabilities)	The Mayor should ensure concrete actions in order that the Finance department can record and pay on timely basis all liabilities, while contingent liabilities should be treated carefully upon future budgetary planning.		In process – is decreased the number of errors.	
Audit Component	Recommendation given in 2016	Implemented	In process of implementation	Not implemented
2. Financial Statements	<p>The Mayor should ensure that an analysis is undertaken to address the causes of Emphasis of Matter in terms of Audit Opinion. The budget process should be a reflection of real expenditures in order all expenditures are gradually classified within appropriate codes. When it comes to the subordinate institutions, we would encourage to carry out an internal audit to obtain sufficient assurance on how the revenues were collected and expenditures incurred, at least for the previous two years.</p> <p>The Mayor should ensure that an appropriate solution is found to cover the position of the CFO. Further on, before the statements are sent to the MoF, they must undergo a comprehensive review in terms of their content and accuracy, with particular emphasis on the recording of third parties as well as receivables from business taxes.</p>			No measures taken.

2.1 Progress in implementing recommendations of previous year	The Mayor should consider the reasons why a number of previous year's recommendations have not been implemented and to ensure that the action plan prepared after receiving this report will incorporate all the recommendations given and will set the exact deadlines, measures and persons responsible for implementing the recommendations. Similarly, the Mayor should implement responsibility measures against persons in charge for implementing remedial measures for the issues raised by the audit.			No measures taken.
2.2 Self-Assessment Questionnaire	The Municipality of Prishtina failed to fulfill its obligation to complete the self-assessment questionnaire and submit it to the MoF.	Yes.		
2.3.1 Plans and Strategic Objectives	The Mayor should ensure that both strategic and operative plans contain clear objectives and are in line with the vision and policies of overall municipal governance. This would allow a fair assessment of the results and review of the departmental objectives, where appropriate.		In process, is created the group for the zoning map.	
2.3.2 Management Reporting and Accountability	The Mayor should ensure that the reporting by the heads of municipal departments is sufficient, qualitative and timely in order to increase the decision-making ability and timely response to situations that may threaten the smooth running of the Municipality's financial and operational activities.			No measures taken.
2.4 Internal Audit System	To gain maximum benefit from Internal Audit, the Mayor should take immediate measures to resolve the problem of full functioning of the IAU, whilst the benefits from these services are minimal and without almost any impact.		In process, IAU is not operational but is created the Audit Committee.	
3.1 Budget Execution	The Mayor should carry out a comprehensive analysis of the causes and reasons for the low level of budget execution for capital investments in 2016 and determine the practical options for improving the execution in 2017.			No measures taken.

3.1.1 Revenues	Although this year we noticed a commitment of the Directorate of Culture to regulate and put the financial management of these two entities into the system, however, the Mayor should act towards the achievement of this goal. We would also encourage an internal audit for each institution to obtain sufficient assurance on how to collect revenues and expenditures for the previous two years.	Yes.		
3.1.1 Revenues	The Mayor should initiate the establishment of procedures with the Civil Registration Agency in order to establish an appropriate form of reconciliation between the issued forms and the reconciliation with the supervisor in order to leave adequate and easy tracks of the collected revenues. Further on, he should ensure that cross-departmental reconciliations are carried out on a regular monthly basis and all inconsistencies are clarified in time	Yes.		
3.1.1 Revenues	The Mayor should ensure that the Urban Planning Directorate and the Property Tax Section effectively communicate so that all legalized for construction premises pay at the same time the exact value of property tax in line with the areas verified through legalization files. This would, to certain extent, facilitate the process of property tax verification.		In process, has improvement although is not managed to be done the 1/3 verification of properties.	
3.1.1 Revenues	The Mayor should ensure that officials in charge of managing with municipal property undertake all legal remedies for collection of the fees set out in the contract, while the committee for evidencing the use of public spaces should be made before the summer season starts.			No measures taken.
3.1.2 Wages and Salaries	The Mayor should ensure that such decisions are executed in time in order to avoid the losses of the municipal budget. Further on, the personnel files should contain the required documents and approved by the senior management of the Municipality and the performance appraisal system for the municipal staff should be applied.		In process / files are in process of completion.	

3.1.3 Goods and Services (including Utilities)	The Mayor should increase controls over the management of requests for services essential to the Municipality in order to have them provided in time. During the budget planning, the legal office should scrutinize all outstanding liabilities of the Municipality and estimate potential amounts of cash outflow from opened court disputes and ensure that the same are included in the annual budget. In regard to vehicles insurance, the Municipality should examine the payments made to the EO and undertake the right actions for funds return.			No measures taken.
3.1.3 Goods and Services (including Utilities)	The Mayor should ensure that the decision and prices paid have legal support, and if not initiate negotiations with the Ministry so that such supplies are subject to open procurement procedures.	Yes.		
3.1.3 Goods and Services (including Utilities)	The Mayor should review the real needs for engaging employees with contracts for specific services. The need for additional staff for career positions needs to be analyzed and if the increase in the number of staff is necessary, this should be incorporated into budget planning. Eventual obstacles related to staff increase should also be discussed with the Ministry of Finance.		In process, their number is in decrease.	
3.1.3 Goods and Services (including Utilities)	The Mayor should ensure that appropriate measures are in place in order to comply with public procurement rules and initiation of procurement procedures is approved according to procurement regulations and no supplies are made outside the contracts.	Yes.		
3.1.4 Subsidies	The Mayor should strengthen the controls in such a way that sufficient and relevant evidence is provided for each subsidy confirming that the subsidy is spent according to the intended purpose.		In process, the Regulation is discussed in Assembly.	
3.1.5 Capital Investments	The Mayor should ensure that changes/re-designations in the capital projects of the municipality presented in the Budget Table 4.2 "Financing of Capital Projects" should be preliminarily approved by the Municipal Assembly, as foreseen by the law.			No measures taken.

3.1.5 Capital Investments	The Mayor should ensure that contract managers and certifying officers provide full service delivery reports, and only after it has been confirmed that the services are received in the amount and the appropriate quality, the payments are certified.	Yes.		
3.1.5 Capital Investments	The Mayor should ensure that contracts are not signed without securing the funds beforehand. Further on, the purchase order is drafted and prepared after the selection of the bidder with whom the contract is signed.			No measures taken.
3.1.5 Capital Investments	The Mayor should consider that the agreements for co-financed projects will have an assurance of achieving the set objectives, including clear reporting requirements during project implementation and monitoring before transfers of funds are made.		In process.	
3.1.5 Capital Investments	The Mayor should ensure that the Procurement Office prior to the initiation of procurement procedures reviews the request of the requesting unit and, where the request is not appropriate, return it to the reviewing unit so that the requests are measurable and acceptable for supplies.	Yes.		
3.2 Assets	The Mayor should ensure the co-operation of the Directorates for Information on the Purchase of New Assets, so that the Asset Officer has the necessary documentation for recording in KFMIS. The E-assets module should be functionalized for identification of asset under €1,000 and inventory of stocks, including all sectors.			No measures taken.

3.2.2 Receivables	The Mayor should ensure that a working group is established for receivables from business tax which would in detail analyze the balance of these accounts, and review the recording, billing and collection mechanisms so that in the future the Municipality would have a sufficient legal base to prosecute businesses irresponsible in paying this tax. Shortcoming identified in the Property tax system in should be discussed with the respective department at the MoF so that the citizens have a correct balance for the tax obligations against the Municipality.			No measures taken.
3.3 Outstanding Liabilities	6 The Mayor should establish a protocol system for each invoice received by operators. Further on, he should ensure that formal confirmations on unpaid invoices are made by the departments responsible for the requests of the CFO.			No measures taken.

Annex III: BO's comments on audit report findings

Findings/Issues	Agree Yes/No	Comments from the BO in case of disagreement	NAO view
Finding 13:	No	<p>Exceeding of fuel quantities foreseen with contract, has been explained also in the previous year and during the audit carried out this year, but due to correctness we present one more time our explanations in short points;</p> <p>The contract in question is a contract of 2014 (signed on 02.12.2014) which means at the time when there was no quantitative or monetary restriction on the level of use of framework contracts. We remind you that in point 1.4 of General Terms of the Contract that is part of the tender dossier writes: Estimated quantities, determined in Section C, Price List, are only indicative quantities and DO NOT obligate the Contracting Authority to buy any of them. The Contracting Authority can rightly buy less or more quantities than those estimated for each item, e.g. within a same part (LOT). However, the Contracting Authority referred to in Article 1.1 is obligated to use this framework agreement whenever it procures goods mentioned in point 1.1. Restrictions regarding the use of framework contracts have been approved by the Administrative Instruction number 2/2015 dated 10.03.2015, which limits the use of the contract plus/minus 30%. Use of this contract to supply schools was made based on the fact that the other activity developed to supply schools with fuel was cancelled due to complaints and other problems with the quality of fuel, for the which now there is a Court Decision (for the EO "Hib Petrol"). The contract was used until the foreseen timeframe in the contract, as almost until that timeframe there was no contract from the CPA, for which it was necessary to wait a long time due to complaints in the PRB and after contracting by them, from 02.12.2017, fuel supplies we do from that contract. Regarding the payment after the expiration of the contract, I explain that supplies were carried out before the expiration of the contract and there is no legal restriction on carrying out the payment after the expiration of the contract.</p>	<p>Our recommendation remains since the finding addresses the weak planning phenomenon by the authority where only in two purchases, the quantity was exceeded by 270 percent of the indications (set in the contract). This has resulted in budgetary implications where sampling has shown that this has resulted in errors in classifications of some payments made for fuel.</p> <p>As for the supply claim before the expiration of the contract this does not stand because the case we have audited shows that the purchase order and the shipment note are after the expiration of the contract (please, see reference no 11 in this report).</p>

Annex IV: Letter of confirmation

LETTER OF CONFIRMATION

To: National Audit Office

Venue and date: 24.05.2018

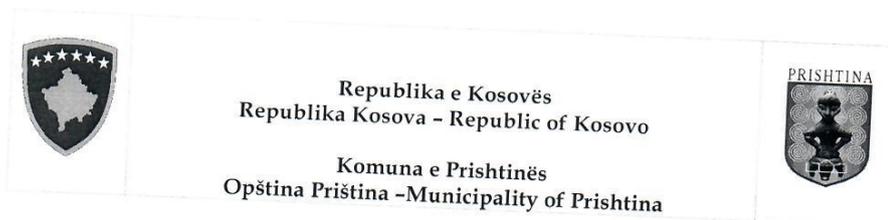
Honoured,

We hereby confirm that:

- We have received the draft audit report of the National Audit Office on the 2017 Annual Financial Statements of the Municipality of Pristina, hereinafter referred to as the Report;
- Agree on the findings and recommendations and I have no comment on the content of the Report; and
- Within 30 days from receiving the final report, I will submit the action plan on implementation of recommendations including the deadlines and responsible staff for their implementation.

Mayor:

Shpend Ahmeti



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 Prishtinës, për vitin e përfunduar më 31 dhjetor 2017 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe komentet i keni të bashkëngjitura 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.

Shpend Ahmeti
z. Shpend Ahmeti

Kryetar i Komunës së Prishtinës



Data: 24.05.2018

Prishtinë,