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Zyra Kombëtare e Auditimit
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**AUDIT REPORT OF THE MUNICIPALITY OF OBILIC
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

Prishtina, May 2019

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

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

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

This audit is carried out in line with internationally recognized public sector auditing standards and good European practices.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Municipality of Obilic in consultation with the Assistant Auditor General, Naser Arllati, who supervised the audit.

The report issued is a result of the audit carried out by Luljeta Sylaj (Team Leader) Alban Beka and Syeda Oruçi (team members) under the management of the Head of Audit Department Zukë Zuka.

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Executive Summary

This report summarises the key issues arising from our audit of the Municipality of Obilic for 2018, which includes the Opinion of the Auditor General on Annual Financial Statements. Examination of 2018 financial statements was undertaken in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). Our approach included tests and procedures that were necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in the External Audit Plan dated 15/01/2019.

Our audit focus has been on:



The level of work undertaken to carry out the audit was determined depending on the quality of internal controls implemented by the Management of Municipality.

Opinion of the Auditor General

Unmodified Opinion with emphasis of matter

The Annual Financial Statements for 2018 *present a true and fair view* in all material aspects.

Emphasis of Matter

As emphasis of matter, we mention the fact that expenditures in the amount of €102,040 were incurred and reported incorrectly throughout economic categories.

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

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

Key Conclusions and Recommendations

The AFS production process is generally managed in accordance with legal requirements. However, Emphasis of Matter for management for classification of expenditures is still a challenge for the municipality.



The Mayor should ensure that the AFS production process for 2019 includes a final review of the responsible management, and the AFS declaration is not signed unless all necessary actions have been implemented (see chapter 2).

Internal controls have operated effectively in some areas, but weaknesses were noticed on some important financial systems. Budget planning and execution in the category of capital projects remains a challenge for the municipality, where the execution of the budget was 67%.



The Mayor should strengthen controls where failures in the process have been identified. Mainly, should apply a detailed assessment over the management of capital projects and procurement, in order to identify reasons behind the low performance and take necessary actions to improve their condition in 2019. (see Issues B1 and B2).

Regarding previous year's recommendations, we noticed an increased commitment to address them, where 50% of recommendations were implemented and the rest were in the process.



The Mayor should continue the engagement for implementation of all issues and recommendations presented in the report.

Governance arrangements related to accountability, risk management and management reporting need to strengthen.



The Mayor should ensure that Governance arrangements are critically reviewed to undertake adequate measures for improvement of accountability arrangements and management reporting (see issue B4).

Response of the Mayor

The Mayor has taken into account and is reconciled with the detailed audit findings and conclusions, and is committed to address all recommendations given.

1 Audit Scope and Methodology

The Audit involves examination and evaluation of Financial Statements and other financial records, as follows:

- 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;
- Whether the internal controls and internal audit functions are appropriate and efficient; and
- Whether have been taken appropriate actions for implementation of audit recommendations.

Audit work undertaken is based on risk assessment. We have analysed Municipality's business, the level of reliance on management controls, in order to determine the level of detailed testing required to provide the necessary evidence and that support the opinion of the AG.

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

The following sections provide a detailed summary of our audit findings and recommendations in each area of review.

2 Annual Financial Statements and other External Reporting Obligations

Our audit of the Annual Financial Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information presented in the AFS, including the declaration made by the Chief Administrative Officer and Chief Financial Officer.

The declaration on presentation of AFS includes a number of assertions relating to the compliance with the reporting framework and the quality of information within the AFS. These assertions intend to provide assurance to the Government 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 Obilic for the year ended on 31st of December 2018 which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement, Disclosure and other accompanying reports.

In our opinion, the Annual Financial Statements for the year ended on 31st of December 2018 present a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (according to cash based accounting), Law no.03/L-048 on Public Financial Management and Accountability (LPFMA) (as amended and supplemented) and Regulation MoF no.01/2017 on Annual Financial Reporting by Budget Organisations.

Basis for the opinion

The audit is carried out in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the Audit of 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:

We draw your attention to the fact that expenditures in the amount of €102,040 were incurred and reported incorrectly throughout economic categories.

- Payments for utilities (electricity) in the amount of €33,397 were spent out of the category of capital investments. While, expenditures for subsidising Caritas Kosova to improve the health care in the amount of €29,767 were budgeted and spent incorrectly out of the category of capital investments;

- Also the amount of €27,370 was budgeted and spent out of the category of goods and services that related to subsidising of funeral expenses;
- The value of €5,610 was spent out of goods for payment of overtime hours which should have been paid out of the category of wages and salaries; and
- The value of €5,895 was spent from the category of goods and services while it related to capital investments, execution of some works in the facility of the Municipality.

According to the municipality, the classification had taken place due to increased expenses for street lighting and lack of budget in the respective categories. However, this was also influenced by weaknesses in budget planning. Our opinion is not modified for this issue.

Responsibility of Management for AFS

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

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

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

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

2.2 Compliance with AFS and other reporting requirements

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

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
- Requirements of LPFMA no. 03/ L-048, (as amended and supplemented);
- Compliance with Financial Rule no.01/2013 (Public Expenditures) and 02/2013 (Asset Management);
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures;
- Quarterly and Monthly reports on outstanding liabilities and revenues; and
- Procurement plan and report on contracts signed.

In the context of the AFS we have no issues to raise. A number of financial adjustments were required to improve the final AFS. However, remains challenging the misclassification of expenditures.

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 to be correct.

Related to external reporting requirements we have not issues to raise.

2.3 Recommendations related to Annual Financial Statements

Recommendation A1 The Mayor should be engaged so that during budget planning for the organisation are assessed real needs of the municipality in order to make adequate budget planning and to eliminate errors in classification of expenditures in respective economic categories.

3 Financial Management and Control

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

Financial Management and Control Conclusion

The Municipality of Obilic had spent 87% of the final budget for 2018, which is a good execution at the general level, although challenging remains the level of execution of capital investments. In the context of financial systems, controls over revenues and expenditures are generally appropriate, yet, mechanisms for collection of revenues need improvement, as well as the area of capital investment and recruitment need further improvement.

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 ¹	2018 Outturn	2017 Outturn	2016 Outturn
Sources of Funds	6,851,926	7,354,681	6,387,148	5,870,255	5,511,351
Government Grant -Budget	5,909,763	5,897,985	5,613,954	5,090,813	4,241,691
Carried forward from previous year ²	-	396,610	169,938	133,548	515,298
Own Source Revenues ³	876,728	912,880	530,367	548,797	725,279
Internal Donations	0	25,247	18,705	5,842	7,738
External Donations	0	50,634	50,634	91,255	21,345
Financing from Borrowing	65,434.60	71,325	3,550	-	-

The final budget is higher than the initial budget by €502,755. This increase is a result of the internal and external donations, and revenues carried forward from the prior year.

¹ Final budget – the budget approved by the assembly, which was subsequently adjusted for by the Ministry of Finance.

² Own Source Revenues unspent in previous year carried forward into the current year.

³ Receipts used by the entity for financing its own budget.

In 2018 the Municipality has spent 87% of the final budget, which compared with 2017 there is a decrease of 4%.

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

Description	Initial Budget	Final Budget	2018 Outturn	2017 Outturn	2016 Outturn
Spending of funds by economic categories	6,851,926	7,354,682	6,387,148	5,870,255	5,526,498
Wages and Salaries	3,875,959	3,878,181	3,833,181	3,695,367	3,673,058
Goods and Services	549,877	595,663	520,242	350,052	372,479
Utilities	123,000	149,015	148,160	167,628	116,453
Subsidies and Transfers	138,799	143,377	139,930	135,981	133,127
Capital Investments	2,164,291	2,588,446	1,745,635	1,521,227	1,231,381

Explanations for changes in budget categories, including reason and the impact they had are:

- Despite the fact that during the year the budget for capital expenditures had increased by €424,155, as a result of revenues carried forward from previous year and grants, only 67% of the budget was spent. The Public Investment Program had included 30 projects, 8 projects were implemented at less than 75%, while the project for the zoning map is not being implemented, for which are planned €50,000;
- The final budget for wages and salaries compared to the initial one had increased by €2,222, from revenues carried forward from 2017 to on call shifts in health;
- Funds budgeted for goods and services were increased by €45,786, out of which from revenues carried forward from 2017 €24,100, from revenues of this year €18,152 and from the borrowing fund €3,534. The budget of this category was spent at 87%;
- The budget for utilities had increased by €26,015. However, even this amount was not sufficient to pay debts of the municipality for utilities. During the year €33,397 were paid out of the category of capital investments through the bailiff in order to pay of electricity liabilities. Also debts in the amount of €77,976 remained outstanding for 2019; and
- The final budget for subsidies and transfers had increased by €4,578, due to own source revenues of the previous year. Budget execution for this category was 97%.

Issue B1 - Budget Execution

Finding For 24 budgeted capital projects, the municipality has spent only 67% of the Capital Investments budget. As a result, several projects were not implemented such as: greening of surfaces, sewage, some roads etc. een fully realized. The municipality accepts this challenge, according to which the cause is late initiation and conclusion of contracts, as well as incomplete fulfilment of contracts. For unfinished projects will be spent revenues carried forward or the budget of 2019.

Risk Failure to fulfil the capital investments program will result in fewer implementation of projects, their damaging as they suffer setbacks, which directly affects the wellbeing of citizens and the quality of services.

Recommendation B1 The Mayor should undertake a systematic assessment of reasons behind the low level of budget execution of price investments in 2017, and determine practical options for improvement of performance for 2018. Where initial budget forecasts are incorrect, this should be fully reflected in the final budget position. While planning and spending for capital projects should be done conform economic codes, for respective categories depending on benefits.

Issue B2 - Direct Payments by the Treasury

Finding According to the Article 39.2 of LPFMA, each valid invoice and payment request for goods and services delivered, or works for the BO should be paid within 30 days of the receipt of the invoice. While under Article 40 of the LPFMA, the invoice can be executed directly by the Treasury after receiving the final decision by the court/bailiff.

Based on abovementioned criteria, Treasury had executed payments in the amount of €62,538 from the municipal budget directly to the account of the Economic Operator (EO)/Bailiff. Works were completed, but were not paid in accordance with regular procedures for spending of public money. This has happened due to lack of funds for respective expenditures. Execution of these payments had caused additional costs of €9,000.

Risk Forms of payment through court decisions risk implementation of planned capital projects or delivery of services whereof funds for payment have been taken. Such payments cause additional damage to the budget due to enforcement costs.

Recommendation B2 The Mayor should ensure controls, greater accountability and timely fulfilment of liabilities towards operators, and avoid entering into liabilities in lack of funds or contracts. Also, during the budget planning should be done an estimation of possible amounts of cash outflow from court disputes and plan them within the annual budget, so that is not risked implementation of other planned projects.

3.1.1 Revenues

Own Source Revenues are administered and collected by the municipal administration, where the main goal is to spend these funds for provision of better services to citizens. Own source revenues are important sources of municipal revenue.

Revenues collected by the municipality for 2018 were in the amount of €917,275. Revenues from property tax comprise 47% of the total, while the rest are revenues for registration of inheritance, administrative fees, Business fees, construction permits etc. Also, the municipality has received revenues from traffic fines in the amount of €93,072 and court fines in the amount of €100.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2018 Receipts	2017 Receipts	2016 Receipts
Property tax	368,959	421,667	431,175	333,395	328,871
Municipal tax	507,769	415,986	486,100	558,453	453,926
Total	876,728	837,653	917,275	891,848	782,797

Recommendations

We have not recommendations in this area

3.1.2 Wages and Salaries

Wages and Salaries are paid through a centralized payments system. Controls operating at the local level by the Municipality relate to checking payments monthly by signing the payroll list, verification of possible changes that may be presented through forms; and budget review for this category and reconciliations with the Treasury. For 2018 the budget for the category of wages and salaries was €3,878,180, while spending was €3,833,181 or 99%.

Issue A 2 – Deficiencies in recruitment of teachers**Finding**

According to the AI 17/2009 (MEST) Article 4.2 “Procedure for selection of the education staff” - Commission for the selection of education staff will review all requests of candidates, and on bases of criteria (level of professional preparation, work performance, work experience in education, etc. will be compiled a short list of three (3) candidates for interview. In the competition for two (2) class teachers for the school “Fazli Grajqevci” had applied 15 candidates, while the commission had included in the short list three (3) of them on which we found no evidence on their selection. Outside the short list remained candidates with more work experience. According to the officials from the Municipal Education Directorate (MED), for the short list was given a priority to residents of the Municipality of Obilic, based on the Law on the Environmentally Endangered Zone of Obilic, although this criterion was not presented in the job advertisement.

In the other case, according to AI 10/2018 for Normative Over Professional Staff of the General Education, “Instructive-educational institutions during publication of competitions for job vacancies, seek staff according to this AI.” For primary education is required the Faculty of Education - Primary Program or Faculty of Teaching. In the competition for 1 teacher at the school “Naim Frashëri” in Breznica was selected a candidate that had not completed the faculty. According to the officials of MED, initially was selected a candidate who had met the criteria but the candidate has not showed up for work, thus due to lack of other candidates they had decided engage this candidate until the end of the school year.

Risk

Failure to adhere to applicable Instructions poses a risk of discriminating candidates, and recruiting incompetent candidates for adequate positions, whereby are affected beneficiary parties, in our case the pupils.

Recommendation A2 The Mayor should ensure that are designed proper controls so that recruitments are done through a transparent, competitive process and in accordance with legal requirements. In cases when there are insufficient human resources, consultations should be made with relevant central bodies (relevant ministry) and such cases should be regulated according to the regulation.

Issue C1 - Special Services Agreements

Finding According to Law no. 03/L-149 on Civil Service, Article 12, clause 4 and Law no. 03/L-212 of Labour, Article 10, is allowed entering into contracts for specific services and specific tasks. Based on this the Municipality to obtain necessary services, has engaged 34 persons through Special Services Agreements (SSAs). Their engagement was done through simplified recruitment procedures. Out of nine (9) cases tested, in four (4) of them, persons were engaged in regular job positions. The same persons performed their duties through these contracts in the previous year as well. These persons were engaged in various positions, transport officials, editors, maintenance, etc. According to the municipality, this was due to lack of approved positions in the budget planning.

Risk Covering positions with special service agreements results in poor performance and monitoring of staff and increases the uncertainty as to whether the staff engaged in such positions are merit-based.

Recommendation C1 The Mayor should ensure that employees with SSA are engaged only in cases when there are specific requests. For all regular job positions should be ensured that they are budgeted from the category of wages and salaries and paid out of the payroll system.

3.1.3 Goods and Services and Utilities

The final budget for Goods and Services in 2018 was €595,663, out of which were spent €520,224 or 87%. The largest part of expenditures in this category include utilities, other contractual expenditures, fuel and wood for heating, routine maintenance, vehicle maintenance, medical supplies, etc. Findings for this category relate to misclassifications and are presented at the Emphasis of Matter.

Recommendations

We have no recommendations in this area.

3.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €143,377, out of which in 2018 were spent €139,929, or 97%. They relate to subsidising cultural and social activities, farmers, scholarships for students and pupils, as well as individual support for treatment, etc. Findings for this category related to misclassifications and are presented at the Emphasis of Matter.

Recommendations

We have no recommendations in this area.

3.1.5 Capital Investments

The final budget for Capital Investments for 2018 was €2,588,446, out of which were spent €1,745,635 or 67%. Last year the level of implementation was 75%. While the Public Investment Program (PIP) includes 30 projects, 12 of them are implemented at 80% or less. Also, from this category were executed direct payments by the Treasury, based on Article 39.2 and 40 of the LPFMA, for municipal expenditures.

Issue A 3 - Procedures for additional works

Finding The contract is a binding agreement between parties under which are created obligations and rights for parties that sign it, before the work or service starts. The Municipality had signed an annex contract for the project "Construction of the Bridge in Plemetin Village", in the amount of €31,200 after the completion of works. These works, according to the documentation, were not foreseen, but necessary for implementation of the project. Works had been approved by contract managers, and for them was selected the cheapest bid. According to the Municipality the Annex contract could not be concluded on time due to lack of budgeted funds.

Risk Performance of additional works before the annex contract can result in additional costs, or not achieve the value for the money. On the other hand, if the party is not compensated on time, it will lead to penalties by the Economic Operator.

Recommendation A3 The Mayor should secure available resources for implementation of projects, on the other hand secure that additional works are preceded by an annex contract that specifies precisely conditions and prices of works or service received.

Issue A 4 – failure to apply the construction book

Finding According to Law 04/L-110 on Construction, Article 26 clause 1.5, the contractor is supposed to have at the construction site a journal and a construction book. In all implemented projects we have noticed that was kept only a journal and not a construction book. According to the Director of Local Infrastructure, project managers have not requested the construction book but only the journal, as they reported directly to the director and the Mayor and overlooked this legal requirement.

Risk Failure to apply the construction risks the needed transparency regarding the project implementation as planned, as it should be at the construction site in cases of inspection of project performance.

Recommendation A4 The Mayor should ensure that project managers require from the contractors to apply the construction book, as a tool for construction and development of the project.

Issue A 5- Inappropriate planning of projects

Finding Under the contract, for the project “Paving of roads with stone cubes - Murat Krasniqi; Presheva; Naser Kastrati; Kongresi i Manastirit; 11 Qershori” was foreseen paving of five roads with stone cubes in the amount of €85,635. On three roads residents did not allow execution of works, as under the project was not foreseen installation of sewage system. Municipality with the consent of the EO had terminated the contract and the contract was implemented only for two roads. This was due to the existence of the old sewage system, but it did not meet the needs of citizens.

In the other case, the contract “Installation of sewage system - first part” in the amount of €55,366 was foreseen installation of sewage system for 11 places, but in two of them was not implemented due to property problems and residents have demanded that atmospheric precipitations are channelled into pipes.

Risk Signing contracts without proper planning and without resolving property issues burden the budget of the following year, and above all damages citizens’ perception of the Municipality.

Recommendation A5 The Mayor should ensure that before initiating procedures projects are planned in their entirety, and all property issues resolved, so that there are no setbacks or unimplemented projects.

3.2 Capital and non-capital assets

Asset management is an important part of financial management and control in the public sector. A proper assets management requires that the municipality has a full view of assets, control and management procedures, and constantly updates changes in its records. Compared to the previous year Municipality made essential progress in terms of assets management.

At the end of 2018 the net value of non-financial capital assets was €45,535,222, while in the previous year was €12,960,601. The increase of value of assets, besides current year's recording of assets, is due to recording of assets from previous years as recommended by the NAO. Municipality has also presented the value of assets under €1,000 according to the E-assets report in the amount of €178,381 and stocks €137,232.

However, according to the Regulation 02/2013 on assets management, Article 6 states that each BO should establish and update assets register. While, the old municipal building was demolished based on the decision of the Municipal Assembly during November 2018, it was not deleted from the assets register. Its value was €106,517. However, during the audit period, in February 2019 the municipality has made the adjustment by deleting this asset from the system (assets register).

Recommendations

We have no recommendations in this area.

3.3 Handling of cash and its equivalents

Petty Cash is a small fund of money held in the care and control of the budget organization, department or smaller budget units depending on budget appropriations, and is used to cover small value expenditures (up to €100).

Recommendations

We have no recommendations in this area.

3.4 Receivables

The value of accounts receivable (AR) at the end of 2018 was in the amount of €1,099,339, which related to property tax, change of land destination, corporate tax, sale of apartments, municipal rent and lease of public spaces.

AR from Property Tax comprise 63% of the total debt. Municipality in 2018 was maximally engaged in collection of these debts, and had issued some reprimands as a measure to encourage all municipal debtors to pay their debts, although some of them had responded accordingly, the debt remains concerning. Through reprimands Municipality managed to collect €50,941 old debts from property tax.

Issue B3 - Challenges in Managing Accounts Receivable

Finding

According to the Article 23 of Law no. 06L/005⁴ on Immovable Property Tax, according to contracts signed for lease and purchase of apartments, and according to rulings to conduct business, each party is obligated to pay the debt to the municipality within the deadlines. Despite this, this situation is quite challenging for the municipality which should increase collection efforts in several directions. Testing of our samples in this area has identified the following:

- While testing 24 samples on property tax we have reconfirmed the taxpayers' debt presented in the AFS, only in these samples the debt was €106,961. According to the municipality even though in 2018 were issued reprimands and some citizens responded, again this debt is not being collected at a satisfactory level;
- In two samples we tested leases of premises, the debt was €3,104, although leaseholders of premises had not meet the obligation, they were given lease contracts again. According to officials, leaseholders had paid an amount of money before leasing and had pledged to make other payments, which did not happen;
- While testing the sample on use of municipal spaces, even though the total debt of the user was €4,320, the same continues to use this property without meeting any obligations. Municipality had issued a reprimand but he had not responded;
- The debt of 510 businesses was €101,990, which had increased by €23,845 compared to the previous year. During 2018, Municipality had issued reprimands to business entities that had not paid their debt, but this has not given any results. Moreover, according to the municipality in the list are also inactive businesses, but owners do not inform the municipality about their inactiveness; and

- From the sale of apartments that had taken place in 2015, the Municipality is not managing to collect revenues, where the total debt is €72,352. This is due to the inability of buyers to transfer the ownership. Municipality has not yet made any decisions on these debtors.

Risk The high level of receivables remains a challenge for the next period. The high level of receivables poses a risk as they may become uncollectible, by creating a precedent for other debtors who may feel unequally treated and thus resulting in direct financial losses for the municipality.

Recommendation B3 The Mayor should ensure that are actively reviewed all possible options by establishing policies and regulations to increase efficiency of collection of receivables. All measures should be reviewed in accordance with the law against operators who do not meet obligations. In addition, municipality should consider the possibility of using a software for their management.

3.5 Outstanding liabilities

The statement of liabilities not paid to suppliers at the end of 2018 was €151,991. These liabilities are carried forward to be paid in 2019, which related to liabilities for goods and services, utilities and capital investments. The largest share of the debt or 51% consists of utilities.

On the other hand, Municipality implements a relatively regular reporting process of liabilities. Directorates are generally aware of the requirements of the regulation on reporting of outstanding liabilities, and the responsible officer reports timely to the Treasury concerning.

While regarding the claims of other parties towards the municipality, based on current court disputes, municipality has listed several possible cases with an estimated amount of €1,494,049.

However, this reflects only a part of budget difficulty faced by the Municipality, which should meet these liabilities before making other payments for 2019, or damages in case claimants win the disputes.

Recommendations

We have no recommendations in this area.

⁴ Article 23 of the law no. 06L/005, clause (2) 2 specifies "For the tax year 2018", the second instalment of immovable property tax is paid up to 31 December of that tax year, according to the Law no. 03/L-204 on Immovable Property Tax, as amended and supplemented by the Law no. 04/L-100.

4 Good Governance

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

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

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

Overall Governance Conclusion

In the Municipality of Obilic, compared to the last year was noticed greater commitment of the Mayor and staff towards provision of services and improvement of lives of citizens of the municipality. In this year was worked towards the increase of municipality's budget, which was achieved. In 2019, the Municipality of Obilic will have a budget of about 12 million⁵euros or 100% more than in 2018. In addition, the response towards audit recommendations, good functioning of the Internal Audit Unit, establishment of the Audit Committee, drafting of the risks list, drafting of Internal Regulation on assets management, are just some of the steps towards engaging and improving governance in the municipality.

Although budget implementation in capital projects, their management and initiatives to collect municipal revenues remain challenging areas for the municipality.

Regarding the strategic plans, all municipalities are obligated to prepare and follow them at the organizational level, such as: urban planning, spatial planning, emergency operational plan, anti-corruption strategic plan, regional development strategy, etc.

Municipality of Obilic possesses some of these plans but they need to be updated and amended after drafting the Municipal Development Plan and Zoning Map, which are obligated by the Law on Spatial Planning. Currently, the municipality has a Local Economic Socio-Economic Development Strategy 2017-2021 and a Municipal Development Plan 2016-2025, which should be amended. During 2018, municipality had not managed to enter into a contract for drafting of the Municipal Development Plan, since the procurement procedure was cancelled twice.

⁵ <https://mf.rks-gov.net/desk/inc/media/4CEFBA4C-4397-4901-AB93-2AA37F43A9F7.pdf>

4.1 Internal Audit System

The Internal Audit Unit (IAU) operates with two members of staff - the Head of IAU and one auditor. An effective audit requires a comprehensive work programme that reflects financial and other risks of audited entities and provides sufficient assurance over the effectiveness of internal control. The impact of Internal Audit reports should be judged by the importance that management places on addressing recommendations and the support provided by an effective Audit Committee.

Municipality of Obilic has established the Audit Committee in January 2019, therefore it could not provide its assistance to the IAU. The AC is an advisory and supportive body for internal auditors to better fulfil their function and preserve independence.

Issue A 6 - Functioning of IAU

Finding According to the Administrative Instruction 23/2009⁶, Article 3, stipulates that each organization with a budget of 3 to 5 million euros should have at least two internal auditors. While in 2019, municipality has a budget of over 12 million euros. Municipality currently has only one Auditor who is the Director of IAU. As a result, this unit has not managed to implement its annual plan, out of seven audits two were not completed. One audit was of great importance as it related to procurement. The limitation on recruitment of new staff is because the internal auditor who currently is on early retirement is included in the payroll of the municipality. On the other hand, the municipality has not yet made a request for additional staff for this unit.

Risk Engaging only one auditor in a municipality poses a risk as the IAU may not cover all risk areas, and make it impossible for the management to take timely actions to prevent potential mistakes.

Recommendation A6 The Mayor should consider that with the creation of budgetary conditions, to plan additional staff for the IAU, in order to fully functionalise this unit and implement the annual plan. At the same time, IAU should include more audits in order to improve the efficiency in the process of risk management, control and governance.

⁶ AI 23/2009 on Establishment and Functioning of the Internal Audit Unit in Public Sector

4.2 Management Reporting, Accountability and Risk Management

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

Although, a range of internal controls are applied by Management to ensure that systems and operate as intended, we have noticed that the measures applied are not fully effective.

Issue B4 - Weaknesses in Management Controls

Finding Due to insufficient management controls, the budget of capital investments was at a low level, and large payments were carried out in the last quarter of the year, or 41% of the budget. In addition, management of receivables was not at the right level. Management should make regular analyses of budget developments, review the procurement plan and collect revenues.

Under the rules of Financial Management and Control, municipality should have a risk management system, this system was established but was not monitored.

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

Recommendation B4 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, CI expenditures, and procurement plan should be subject to regular reporting and reviews 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.

5 Progress in implementing recommendations

Our Audit Report on the 2017 AFS of Obilic Municipality resulted in 20 key recommendations. The Municipality had prepared an Action Plan stating all details of actions and activities on how all recommendations will be implemented. The report of the AG although it was in the agenda of the Municipal Assembly it was not discussed, neither was discussed the progress of implementation of the Action Plan on recommendations given.

At the end of our audit period for 2018, 13 recommendations have been implemented, one was in process, four have not been addressed yet, while two are closed. For more thorough description of the recommendations and how they are addressed see Table 4 - Summary of recommendations.

Table 4 Summary of prior year recommendations and of 2018

No	Audit area	Recommendations of 2017	Actions taken	Status
1	AFS	<p>The Mayor should ensure that have been analysed the causes for the emphasis of matter in the audit opinion. Specific actions should be taken to address the causes systematically to confirm the complete management and recording of assets, including also their fair disclosure in AFS.</p> <p>Further on, the Mayor should ensure that effective processes are in place to confirm that the 2018 AFS production plan addresses all issues related to compliance. 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.</p>	Issues based on which was emphasised the audit opinion of previous year were implemented entirely, the assets register was updated.	Recommendation was implemented
2	Budget Process	The Mayor should undertake a systematic evaluation of reasons for the low level of budget execution to capital investments in 2017 and to determine practical options for the improvement of its execution for the 2018. There Where initial budget planning's are incorrect, this should be completely reflected in the position of the final budget. While, planning	No actions for 2018	Unimplemented recommendation

		and spending for the certain projects should be done in line with economic codes allocated for respective categories depending the benefits.		
3	Payments from Treasury	The Mayor should ensure controls, greater accountability to the timely carry out of liabilities towards operators, and to avoid entering into liabilities in lack of funds or the contract. Further on, during the budget planning, to be done an evaluation of possible amounts of cash outflow from court disputes and these to be planned Within the annual budget, in order to not be risked the implementation of the other planned projects.	Municipality could not act to improve the situation.	Unimplemented recommendation
4	Revenues	The Mayor should improve the property verification process and ensure that the verification of 1/3 of properties to be done on a regular annual basis, in order that notes about the property tax to be complete, to reflect the real situation of the taxed properties. The increase of property recording Will result with more municipal revenues as well as better budget performance.	Municipality had engaged the team in the field and has managed to verify 1/3 of properties.	Recommendation was implemented
5	Revenues	The Mayor should ensure that the Municipality as a salesman of apartment in fulfilment of dispositions of law 04/ L061 to clarify with relevant authorities the ownership issue of apartments and to conclude the process of transferring ownership to the new owners. Further on, to apply the needed procedures for the recording of owners in the property tax system.	Purchasers of apartments have been recorded in the property tax system.	Recommendation was implemented
6	Revenues	The Mayor should ensure that no public property will be permitted to be used or misused Without payment of rents foreseen with contract. It should be found forms to take immediate measures that force the obligors to respect the contractual obligations.	Thera are no new leases with exception of those through auction, for which was paid the liability.	Recommendation was implemented

7	Revenues	The Mayor should ensure that criteria for determined fees in regulations should be implemented according to the respective cases, in order that revenues to be timely and properly collected, by clarifying the charges that belong the obligors.	In 2018 there were no revenues from this code.	Recommendation was implemented
8	Wages and salaries	The Mayor should ensure that the Human Resources Office and the Finance Office have taken proper steps and in cooperation with MPA to reconcile in the payroll system the coefficients as have been allowed With current regulations.	The Mayor has taken all the measures, but in one case the process was not accepted by the MPA. Since has entered into force the Law on Salaries we have not raised a specific issue.	Closed recommendation.
9	Personnel Management	The Mayor should review the causes of such avoidances in the recruitment procedures and to ensure strengthening of controls in this area, in order that the recruitment procedures to be developed in line with required regulations.	The MED adheres to the regulation	Recommendation implemented.
10	SSA	The Mayor should ensure that employees with SSA to be engaged only in cases when it has specific requirements and engagements for these services should not last more than six months. For all regular work positions should be ensured that have been taken into consideration on the occasion of budget planning, to be handled as necessary and to be discussed With MoF.	The municipality for 2018 had used simplified recruitment procedures, but some of the SSAs were not for specific positions but for regular ones.	Recommendation was partially implemented.
11	Goods and Services	The Mayor should strengthen controls to ensure that public contracts are signed only with operators that fully meet the criteria required with tender dossier.	For each contract were requested sufficient references.	Recommendation implemented.
12	Subsidies and Transfers	The Mayor should strengthen controls on subsidies management and to ensure that scholarships are awarded in compliance with placed regulations and criteria, in order that the process to benefit those who have met more closely related criteria.	Was produced a new regulation and were applied criteria for selection of beneficiaries.	Recommendation implemented.
13	Capital investments	The Mayor should ensure that the requesting unit clearly understands	Requesting units have exactly specified the	Recommendation implemented.

		the requirements correct technical specification and in similar cases, the procurement officer should provide practical advices for the requesting unit on the content of positions and after to start the procurement processes.	goods needed for purchase.	
14	Capital investments	The Mayor should ensure that it has been carried out an internal review to ensure that the Contract management Plan will be timely updated based on the completion of the works.	For each contract was prepared a management plan and its updating.	Recommendation implemented.
15	Common issues	The Mayor should ensure strengthening of controls in the expenditures area, by securing that the commitment of funds is done before entering into liabilities, and the invoices are paid Within the deadline. Further on, on the occasion of receiving the goods to be appointed the respective committee, which would ensure that the goods match in the aspect of quality and quantity with the contracted goods.	Currently, commitments of funds and payments are made within the deadlines, with exception of four cases.	Recommendation implemented.
16	Capital assets	The Mayor should ensure that all directorates effectively cooperate with the assets officer to provide sufficient documents regarding the Municipality's assets. After, the assets officer should regularly maintain this register by updating with all required information.	Municipality has adjusted the assets register.	Recommendation implemented.
17	Receivables	The Mayor should ensure that all possible options are actively considered, by placing policies and regulations in order to increase efficiency in collecting receivables.	The municipality had given a number of reprimands for taxpayers, but again the level of AR remains high compared to the previous year.	Unimplemented recommendation.
18	Implementation of recommendations	The Mayor should ensure that the action plan is reviewed by analysing the causes of unimplemented recommendations, and to sets out a new timeframe for addressing of recommendations with accountable staff members, with initial focus on areas of greatest significance. Monitoring the progress of the	The action plan on implementation of recommendations and has been prepared on time, and monitored. However, not all recommendations have been implemented.	Recommendation closed as unimplemented.

		recommendations should be done systematically, and there were has setbacks, to be proposed adequate measures.		
19	Internal Audit System	The Mayor should take specific actions for the preparation of the action plan for implementation of IAU recommendations, and to take all actions toward the administrative units that recommendations address, to have a maximum commitment in taking of improvement measures in areas Where weaknesses have been identified, While the AC establishment should be given special importance.	The IAU has produced five final reports, for which there are plans for implementation of recommendations, and their monitoring, and was established the AC.	Recommendation implemented.
20	Management Reporting,	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 reviews 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.	The Mayor has held weekly meetings, there are minutes, but issue raised in the report show that this area need to be treated further.	Unimplemented recommendation.
No	Audit Area	Recommendations given in 2018		
1	AFS	The Mayor should be engaged so that during budget planning for the organisation are assessed real needs of the municipality in order to make adequate budget planning and to eliminate errors in classification of expenditures in respective economic categories.		
2	Budget Planning and Execution	The Mayor should undertake a systematic assessment of reasons behind the low level of budget execution of capital investments in 2017, and determine practical options for improvement of performance for 2018. Where initial budget forecasts are incorrect, this should be fully reflected in the final budget position. While planning and spending for capital projects should be done conform economic codes, for respective categories depending on benefits.		
3	Budget Planning and Execution.	The Mayor should ensure controls, greater accountability and timely fulfilment of liabilities towards operators, and avoid entering into liabilities in lack of funds or		

	Court Decisions	contracts. Also, during the budget planning should be done an estimation of possible amounts of cash outflow from court disputes and plan them within the annual budget, so that is not risked implementation of other planned projects.
4	Wages and Salaries	The Mayor should ensure that are designed proper controls so that recruitments are done through a transparent, competitive process and in accordance with legal requirements. In cases when there are insufficient human resources, consultations should be made with relevant central bodies (relevant ministry) and such cases should be regulated according to the regulation.
5	SSA	The Mayor should ensure that employees with SSA are engaged only in cases when there are specific requests. For all regular job positions should be ensured that they are budgeted from the category of wages and salaries and paid out of the payroll system.
6	Capital Investments.	The Mayor should secure available resources for implementation of projects, on the other hand secure that additional works are preceded by an annex contract that specifies precisely conditions and prices of works or service received.
7	Capital Investments.	The Mayor should ensure that project managers require from the contractors to apply the construction book, as a tool for construction and development of the project.
8	Capital Investments.	The Mayor should ensure that before initiating procedures projects are planned in their entirety, and all property issues resolved, so that there are no setbacks or unimplemented projects.
9	Receivables	The Mayor should ensure that are actively reviewed all possible options by establishing policies and regulations to increase efficiency of collection of receivables. All measures should be reviewed in accordance with the law against operators who do not meet obligations. In addition, municipality should consider the possibility of using a software for their management.
10	IAU	The Mayor should consider that with the creation of budgetary conditions, to plan additional staff for the IAU, in order to fully functionalise this unit and implement the annual plan. At the same time, IAU should include more audits in order to improve the efficiency in the process of risk management, control and governance.
11	Management reporting	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, CI expenditures, and procurement plan should be subject to regular reporting and reviews 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 emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor's opinion is not modified in respect of the matter emphasised.

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

Annex II: Letter of confirmation



Dalës-lizane

Nr. 11-302

Data 16.04.2019

Gr.

Datum

Republika e Kosovës-Republika Kosovo- Republic of Kosovo
Kuvendi Komunal Obiliq - Skupština Opštine Obilić - Municipality Assembly Obiliq



LETËR E KONFIRMIMIT

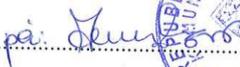
Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2018 dhe për zbatimin e rekomandimeve

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 Obiliqit, për vitin e përfunduar më 31 dhjetor 2018 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

z. Xhafer Gashi, pa: 

Data: 16.04.2019, Obiliq,

Kryetar i Komunës së Obiliqit,



LETTER OF CONFIRMATION

For compliance with Auditor General's findings in the Audit Report for 2018 and on the Implementation of Recommendations

To: National Audit Office

Honoured,

We hereby confirm that:

- We have received the draft audit report of the National Audit Office on the 2018 Annual Financial Statements of the Municipality of Obilic, 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:

Xhafer Gashi

Date: 16.04.2019, Obilic