



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF VUSHTRRI
MUNICIPALITY FOR THE YEAR 2019

Prishtina, June 2020

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

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

This audit is carried out in line with the International Standards of Supreme Audit Institutions, and good European practices.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the *Vushtrri Municipality* 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 *Ylber Sadiku, Team Leader, and Fisnik Rudaj and Muharrem Qyqalla team members* under the management of the Head of Audit Department *Bujar Bajraktari*.

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Executive Summary

This report summarises the key issues arising from our audit of Vushtrri Municipality for 2019, which includes the Opinion of the Auditor General on Annual Financial Statements. Examination of 2019 financial statements was undertaken in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

Our audit focus has been on:



Conclusions

Conclusion on Annual Financial Statements - Some of the items in the Annual Financial Statements were adjusted following our suggestions. However, AFS were fully in compliance with applicable rules and standards, except for misclassification of expenditures in different economic categories. This is explained in more details under the Emphasis of Matter paragraph.

Conclusion on Financial Management and Control Although internal controls have operated effectively in some areas, financial management and control have been followed by significant weaknesses in some important financial systems. Controls over expenditures require further improvement to prevent misclassification of expenditures, overlooked procurement rules, management of capital projects and to avoid increased payments by court decisions.

Conclusion on the implementation of prior year recommendations - Implementation of prior year recommendations is not monitored at the appropriate level, and there is no progress in their implementation. Despite the actions taken, there is a need for additional action to implement our recommendations.

Opinion of the Auditor General¹

Unmodified Opinion with Emphasis of Matter

For more details, see Chapter 1 of this report.

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

Response of Management in audit 2019

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

The National Audit Office appreciates the cooperation by the management and staff of Vushtrri Municipality during the audit process.

Audit Scope and Methodology

The Audit involves examination and evaluation of Financial Statements and other financial records in regard to as the following:

- Whether the financial statements give a true and fair view of the accounts and financial matters for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- Whether the internal controls and internal audit functions are appropriate and efficient; and
- Whether appropriate actions for implementation of audit recommendations have been undertaken.

The audit was based on risk assessment. We have analysed the Municipality's operations, the extent the management controls could be relied to in order to determine the level of in-depth testing required to obtain evidence supporting the Auditor General's opinion.

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

The following chapters provide in detail our audit findings and recommendations in each audited area. Management response on audit results are presented in Annex II.

1 Audit Opinion on Annual Financial Statements

We have audited the AFS of Vushtrri Municipality for the year ended on 31 December 2019 in accordance with the Law on NAO and the International Standards of Supreme Audit Institutions. Audit examinations were carried out in order to allow expressing opinions on AFS which comprise the Statement of Cash Receipts and Payments, and Budget Execution Statement, provided further in detail.

Unmodified Opinion with emphasis of matter

In our opinion, except for the effects of the issue described in the Basis for Qualified Opinion paragraph, the Annual Financial Statements for the year ended on 31 December 2019 give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards of cash based accounting.

Basis Opinion

The audit is carried out in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the section 'Auditor's responsibilities for the audit of the Annual Financial Statements' of our report. In compliance with ISSAI 10 and 30, and other relevant requirements for audit of budget organisations' AFSs, the NAO is independent from the Municipality. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

We would like to draw your attention to the fact that, through budget planning, the Municipality misclassified expenditures of €438,567 and €56,428 from payments made by Treasury as a result of court/enforcement decisions. For more, see sub-chapter 2.1 Budget planning and execution further in this report. Our audit opinion has not been modified in this respect.

Responsibility of Management for AFS

The Mayor of Vushtrri is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Cash based Accounting, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law No. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented) and Regulation No. 01/2017 on Annual Financial Statements of Budget Organisations.

The Mayor 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 conducted in accordance with ISSAIs. These standards require that we obtain reasonable assurance about whether the financial statements are free from material misstatements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will detect every material misstatement that might exist. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

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

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

We communicate with the management of the audited entity regarding the audit scope, planned time and significant findings including any significant shortcoming in internal control that we have identified during the audit.

The audit report is published on the NAO's website, except for information classified (as sensitive) or other legal or administrative prohibitions in accordance with applicable legislation.

2 Financial Management and Control

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

Financial Management and Control Conclusion

In the context of financial systems, controls over revenues are generally appropriate and are being effectively applied. However, controls over expenditures need to be further improved in order to prevent: misclassification of expenditures, overlooked procurement rules, management of capital projects, and to avoid increased payments by court decisions.

2.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Sources of Funds	19,119,355	20,480,036	17,784,421	87	16,614,801	14,936,159
Government Grant - Budget	16,356,113	16,356,113	15,369,953	94	14,760,460	13,244,927
Own Source Revenues ³	2,546,784	2,546,784	1,550,507	61	1,024,423	1,286,793
Carried forward from previous year ⁴ –	0	1,035,528	497,100	48	722,774	324,723
Domestic Donations	0	179,293	111,142	62	57,774	53,767
External Donations	0	192,264	106,186 ⁵	55	10,654	25,949
Borrowing	216,458	1,418.13	89,534	98	38,716	0
Other receipts ⁶	0	78,636	60,000	76	0	0

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

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

⁴ Municipal Own Source Revenues unspent in previous year carried forward into the current year.

⁵ Includes a direct payment of €6,000 which has not gone through TSA and the same was disclosed in the AFS.

The final budget is higher than the initial budget by €1,360,681. This increase is a result of revenues of €1,035,528 carried forward from the previous year, increased domestic donations by €179,293, increased external donations by €192,264 and deposits of €78,636 carried forward from previous year from the property expropriation trust fund. Borrowing was reduced by € 125,040.

In 2019, the Municipality spent €17,784,421 or 97% of the final budget. An improvement of 7% compared to 2018. Explanations for the current position of budget outturn are detailed below.

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

Description	Initial Budget	Final Budget	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Spending of funds by economic categories	19,119,355	20,480,036	17,784,421	87	16,614,801	14,936,159
Wages and Salaries	10,207,561	10,241,650	9,936,267	97	9,772,738	9,450,294
Goods and Services	3,083,496	3,234,502	2,528,131	78	2,006,102	1,397,121
Utilities	309,035	321,440	274,878	86	257,594	232,614
Subsidies and Transfers	192,914	195,651	195,167	100	179,792	187,426
Capital Investments	5,326,349	6,408,158	4,789,977 ⁷	75	4,398,575	3,668,704
Other payments ⁸	0	78,636	60,000	76	0	0

Explanations for changes in budget categories are given below:

- The final budget for wages and salaries increased by €34,089 as a result of revenues carried forward from previous year;
- The budget for goods and services increased by €151,006 as a result of carried-forward revenues of €278,883, donors grants of €7,000, reduction in borrowing budget by € 127,950. The budget on utilities increased by €12,405 as a result of revenues carried forward;
- The budget for subsidies increased by €2,737 as a result of revenues carried forward;
- The budget for capital investments increased by €1,081,809 as a result of carried-forward revenues of €707,413, grants revenues of €371,488 and borrowing by €2,910.

⁶ Deposit for property expropriation trust fund – €78,636 is a deposit carried forward from the previous year, whilst €60,000 were executed during 2019.

⁷ Includes a direct payment of €6,000 which has not gone through TSA and the same was disclosed in the AFS

⁸ Deposit for property expropriation trust fund – €78,636 is a deposit carried forward from the previous year, whilst €60,000 were executed during 2019

Issue C1 – Misclassification of expenditures

Finding Administrative Instruction no.19/2009 on the accounting plan for use by budget organisations stipulates that economic code implies the nature of expenditures and revenues in the budget register.

As we mentioned in the Emphasis of Matter, the Municipality has wrongly budgeted and paid €438,567. These expenditures was supposed to be planned in and paid from Subsidies and Transfers, whilst €131,139⁹ were planned in and paid from goods and services and €307,428¹⁰ from capital investments.

In addition, expenditures for Wages and Salaries in the amount of €56,240 executed by the Treasury according to court/enforcement decisions were paid from the category of Goods and Services. These expenditures relate to the obligations arising from the collective agreement for payment of three jubilee salaries and accompanying salaries upon the retirement of employees.

Misclassifications were partly due to poor planning and partly due to liabilities arising from the collective agreement.

Impact Poor budget planning across economic categories has led to misclassification of expenditures. Inadequate reporting or classification of data in the financial statements leads to misunderstanding of the financial operations of the Municipality.

Recommendation C1 The Mayor should ensure that all necessary actions are taken so that all expenditures are planned under adequate budget categories and that payments are made from and expenditures recorded in adequate economic categories. This should include the planning of funds for the compensation of jubilee and accompanying salaries for former workers who have not been compensated as well as those who are about to retire and the clear classification/differentiation of capital projects from other expenses such as subsidies or goods and services

⁹ **Payments made from the category of Goods and Services are:** €97,440 for "Funeral services for citizens"; €35,000 for "Home care for pregnant mothers, the elderly and the disabled"; €31,518 for "Implementation of active labour market programmes" and 2,181 for supporting two students of the Municipality of Vushtrri with plane tickets in order to continue their studies abroad

¹⁰ **Payments made from the Capital Investment category are:** €55,958 for "Covering interest rate for borrowers"; €26,200 for "Supply and assembly of greenhouses"; €117,194 for "Supply of equipment to support businesses" LOT1; €13,900 for "Supply of equipment to support hairdressers" LOT 2; €19,140 for "Supply of cow milking machines"; €9,470 for "Supply of machines for the ploughing of gardens for the needs of farmers"; €17,863 for "Raising orchards - walnuts and hazelnuts"; €7,680 for "Supply and assembly of greenhouses - second phase"; €4,090 for "Supply of milling and ploughing machines for farmers' needs"; €30,380 for "Supply of spraying machines for farmers' needs" €708 for "Supply of IT and equipment for AK Vushtrri" and some contracts with minimum values with a total value of €4,843 for the supply of IT equipment and other equipment for funded schools from borrowing

2.4.1 2.1.1 Revenues

Revenues generated by Vushtrri Municipality in 2019 totalled €2,122,937, or around 50% more than the previous year. These relate to revenues from property tax, construction permits, administrative fees, business activities, waste collection fee, rent etc. The Municipality collected other revenues generate by other institutions on behalf of the Municipality such as traffic fines of €235,784 and court fines of €9,620. In addition, the Municipality received donations of €352,663.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2019 Receipts	% of 2019 Receipts	2018 Receipts	2017 Receipts
Own source revenues	2,546,784	2,546,784	2,122,937	83	1,586,465	2,021,801
Tax revenues	880,401	880,401	820,800	93	661,711	578,400
Non-tax revenues	1,666,383	1,666,383	1,302,137	78	925,754	1,443,401

Issue C2 – Weaknesses in property tax data management

Finding

From the samples tested for compliance with applicable regulations and laws on the evaluation of tax base, we identified the following weaknesses.

- There is no harmonization between Article 8 of Municipal Regulation no. 02/2018 on Immovable Property Tax and ProTax Data System for the evaluation of the tax base for the category of properties - unfinished and non-ready residential buildings. This was encountered during the testing of a taxpayer of zone I, which instead of the calculation of €160 per m² it was made with the value of €132 per m². We have analysed this category of property in ProTax and have identified that there are 105 objects (from zone I to V) in which the determination of the tax base in zones is not determined according to the municipal¹¹ regulation.
- Article 11 of Law no. 06/L-005 stipulates that a deduction of €15,000 for primary residence is allowed for natural persons only. In one case, we found that the deduction was applied to six (6) units of a taxpayer who was a legal person. Consequently, the total estimated value of the facilities has been reduced by €90,000, thus reducing the tax collected.

While in the first case municipal officers were not aware of these differences, in the second case they declare anomalies in the ProTax system.

¹¹ Tax base according to the regulation through zones: Zone I = €60, II = €140, III = €120, IV = €110 and zone V = €100. While in ProTax the set value was: Zone I = €132, II = €116, III = €100, IV = €92 and zone V = €84.

It should be highlighted that in the ProTax system there are still taxpayers without a personal number, although the municipality is in the process of improving it through verification of properties, new registrations and co-operation with citizens

Impact

The underestimation of the tax base for properties not finished and not ready for residential purposes as well as the application of deductions for primary residence in the facility units of legal taxpayers affects the reduction of the total estimated value of taxable objects and consequently has led to the collection of less revenues.

Recommendation C2 The Mayor should provide for additional controls in the property tax department, so that the data in the ProTax system is harmonised with the Regulation on municipal immovable property tax and the law, and ensure that all such cases are corrected.

1 – Failure to inspect 20% of all objects within the territory of the Municipality

Finding

Law no.06/L-005 on Immovable Property Tax, Article 15.2, stipulates that inspection activities shall be carried out each year for at least twenty per cent (20%) of all objects within the territory of the Municipality. Vushtrri Municipality failed to conduct this inspection during 2019. Of 21,384 objects in the ProTax system, a total of 2,451 objects or 11.46% were inspected.

According to municipal officers, some of the main reasons behind failure to achieve the required percentage of inspections are the problems encountered with electronic tablets at the beginning of the year and the field surveyors' negligence.

Impact

Failure to inspect 20% of all object within the territory of the Municipality may led the municipality having incomplete information about the current taxable property, as changes in property are not included. This also leads to incorrect planning of the value of revenues and projects intended to be financed therefrom.

Recommendation A1 The Mayor should provide effective mechanisms for inspecting the set quota of 20% of the objects as required by the new law and increase control over the management of fieldwork.

2.1.2 Wages and Salaries

The final budget for wages and salaries is €10,241,650. The number of employees by budget was 1,587, whereas by the end of the year the number of employees was 1,540. During 2019, there were employed 55 new staff. We tested 54 samples of €25,926 as part of substantive testing, and 12 samples as part of compliance testing.

Issue B1 – Shortcoming in engaging staff with special service agreements

Finding Article 12 of Law no. 03/L-149 on Civil Service stipulates that fixed-term appointments for a period of less than six (6) months shall be made based on contracts called “Special Services Agreements” (SSA) for which a simplify recruitment procedure is applied.

During 2019, the municipality had 34 employees engaged with the SSA. Of them, 25 were engaged from 2018. In all cases, simplified recruitment procedures were initially used, while 21 of them had their contracts extended up to three times for another six months at the request of the relevant directorates where they were engaged. These services were mainly for regular¹² positions. The reason why these contracts were signed was the lack of budget planning for these positions, and it was easier to engage in this form

Impact Covering regular positions with SSA increases the risk that the work will not be performed with the right quality, considering that the engagement of staff with short-term contracts may be fewer compared to regular workers, and consequently may damage the performance of the municipality. While the contracting of special services, respectively the continuation of the SSA without new procedures limits the competition and, consequently, staff with inappropriate competence can be selected.

Recommendation B1 The Mayor should ensure that the SSA is used only for specific works and that contracts do not last longer than the established legal deadline. Actions should be taken to address the needs for regular positions in the Ministry of Finance during budget planning and should ensure that they are budgeted and paid from the category of wages and salaries.

¹² Officials for construction permits, officials for citizens’ service, digitalisation officials, assistants, river maintenance officers, forest keepers etc.

2.1.3 Goods and Services

The final budget for Goods and Services (including utilities) in 2019 was €3,555,941, out of which €2,803,009 were spent. Those relate to outsourced services, utilities, various office supplies, maintenance of facilities and equipment, etc. We tested 44 samples of €398,558 as part of substantive testing, and 7 samples as part of compliance testing.

Issue B2 – Delays in delivery of goods

Finding In two payments, we found delays in the delivery of goods and fines/penalties specified in the contract were not applied. The cases are:

- Payment in the amount of €13,139 for the contract “Supply of fuel - firewood for the needs of M.A. Vushtrri”, the delays were 46 days over the 10-day deadline set out in Article 2.1 of the contract.
- Payment in the amount of €2,880 for the contract “Supply of inventory for schools Lot 2” the delays were from 3 to 20 calendar days, over 30-day deadline set out in Article 1.2 of the contract.

The reason for the delays was poor management of municipality’s requests for supply and the irresponsibility of the Economic Operator).

Impact Delayed delivery of goods hampers the development of municipality’s operational activities. Failure to apply penalties not only has financial implications but also leads to minimised responsibility of the EO in meeting the contracted deadlines.

Recommendation B2 The Mayor should provide additional monitoring controls so that all goods and services are accepted under the contracted terms, and that for unjustified delays, penalties set out in the contract are applied.

Issue B3 - Shortcomings in contract management

Finding Article 61 of the Rules and Operational Guidelines for Public Procurement (ROGPP), defines the responsibilities of the project manager. We have identified two cases in which payments have been executed in the absence of reports from contract managers, namely

- Payment in the amount of €4,736 for official lunches for closing year 2019, from the contract "Hotel Services for CA." The lack of a report is justified with the large volume of work at the end of the year; and
- Payment of €1,120 under the CPA contract for "Supply with fuel for the needs of M.A.", for June for MFMC. The lack of a report was due to the lack of knowledge of the contract manager regarding the legal requirements for contract management

Impact Lack of reports from contract managers may lead to poor management/monitoring of contracts and may result in irregular payments

Recommendation B3 The Mayor should ensure that contract implementation is monitored through report drafted by the relevant managers, and that no payment is made unless there is sufficient evidence that contract's provisions are implemented by the EO.

Issue B4 - High procedural expenditures of the payments executed according to court decisions

Finding Article 39 of LPFMA stipulated that every valid invoice and demand for payment for goods, services and/or works supplied to the budget organization is paid within thirty (30) calendar days after the budget organization receives such an invoice or demand for payment. Law no. 06/L-133 on the Budget of the Republic of Kosovo for 2019 and the chart of accounts clearly define that expenditures should occur from adequate economic categories.

We have identified that the Treasury executed payments in the amount of €64,236 based on court decisions. Payments related to the obligations arising from the collective agreement for the compensation of three jubilee salaries and three accompanying salaries upon the retirement of employees in the amount of €56,240 and another €7,996 for goods/services and utilities. This form of payment, in addition to affecting misclassification of expenditures (addressed in the audit opinion), has also affected the increase of expenditures, as the main debt to claimants was €51,353 while court/enforcement procedural expenditures were €12,883.

The reason for the execution of such payments arose as a result of poor planning and lack of budget by the Education Directorate for these cases.

Impact Payments to be executed directly by the Treasury through enforcement procedures has led to the increase of expenditures for the municipality and the misclassification of expenses

Recommendation B4 The Mayor should deepen co-operation with the MoF to ensure that funds to pay liabilities arising from the collective agreement are budgeted and paid on time from the category of wages and salaries in order to avoid misclassification and unnecessary expenditures.

2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €195,651, out of which €195,167 were spent in 2019. Those were mainly granted to public and non-public entities and mainly relate to support to agriculture, culture, and sports sectors and other activities within the Municipality. We tested five samples of €34,647 as part of substantive testing, and six samples as part of compliance testing.

Issue C3 - Weaknesses in subsidy management

Finding We have identified several issues in the management of subsidies which had to do with shortcomings in determining the criteria for application, non-compliance with the criteria during evaluation and their management/monitoring

- For the three public calls: “Private sector development grants - Lot 1 for start-ups”, “Tractor milling machines” and “0.5 are tunnel type greenhouse”, we noticed that the calls for application did not specify measurable and specific criteria for the selection of potential beneficiaries. This has led to almost all applicants meeting the criteria, so the commissions have used other sub-selection criteria that were not written/documented. Moreover, municipal officials have failed to prove this assessment regarding the rejected applicants;

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- During 2019, the municipality paid €55,958 according to the contract that it had with a commercial bank for "Covering interest rates for borrowers". The purpose of this contract was to support the development of agribusinesses and other businesses by subsidising interest on loans that will be allocated to borrowers. From the testing of public calls/payments, we have identified that there is no assurance that the objective of this contract has been achieved. This finding derives from the fact that we have not been provided with evidence proving that the interest paid by the municipality was for the purposes set out in the municipal contract with the bank, and only after our suggestions has the municipality begun to engage in this regard to verify whether the municipality's expenses are in accordance with the set goals. The municipality has not set up mechanisms to ensure that the municipality's payments are being used for certain purposes.
 - In the public call of the Department for Culture, Youth and Sports (DCYS) for financing NGO projects, we have identified that a beneficiary of a subsidy of €20,000 has not met the criteria of public call regarding the certification that the beneficiary has no debts to TAK (We were provided with proof of TAK certification with debts, which is from 2017) and did not present the certificate that it is not under investigation (a certificate presented later proves that the NGO carrier was under investigation). In the public call within the Directorate of Health, the beneficiary of the subsidy of €12,000 did not meet the criteria regarding the certification that it has no debts to TAK (certification of TAK proves that the NGO had unpaid debts).

The main reason for the point one and two is the lack of regulation for the allocation of subsidies for the Directorate of Agriculture. As for the third point, the main reason for the occurrence of such situations, according to the evaluation commission, is the serious situation of the beneficiaries.

Impact

Failure to determine measurable criteria in the call for applications and failure to comply with public call criteria has complicated the applications evaluation process, has resulted in the selection of beneficiaries without merits and led to discrimination of other applicants. The lack of oversight mechanisms related to the use of the awarded subsidies may prevent them from being used for the intended purposes.

Recommendation C3 The Mayor should ensure that the applications evaluation process is documented with relevant evidence while ensuring that the principle of competition is not violated, and that the beneficiaries of subsidies are only applicants who meet the criteria set out in the public call. The mayor should also establish supervisory mechanisms to ensure that the subsidies awarded achieve the intended purposes.

2.1.5 Capital Investments

The final budget for Capital Investments was €6,408,158, out of which €4,789,977 were spent in 2019. Those relate to construction and rehabilitation of road infrastructure, water supply, sewage, construction of schools and parks, expropriations, purchase of equipment and various capital upgrades. We tested 74 samples of €2,455,748 as part of substantive testing, and 5 samples as part of compliance testing.

2 – Amendments in the non-framework contract items without the prior approval of the Chief Administrative Officer

Finding Article 61.21 ROGPP specifies, “An amendment to a contract refers to a change in the terms and conditions of an awarded contract”, article 61.22 stipulates, “the amendment to the contract shall be prepared by the procurement department”, while article 61.23 stipulates that “only after obtaining approval from the CAO”. While amendments in the contracted quantities are allowed +/- 30% of the framework contract.

In the contract "Expansion of the water supply network in Pestovë" in the amount of €69,868, amendments were made in the quantities of some items, thus increasing/decreasing the contracted quantity or, in some cases, not executing the contracted items at all, but without changing the total price of the contract. The necessary approvals were not obtained from Chief Administrative Officer and the procurement office for these amendments as required by Articles 61.22 and 61.23 of the ROGPP.

The need for amendment was a result of local residents' demand to expand the network. Whilst the non-approval of these amendments occurred because the project manager was not aware of the legal requirements of public procurement regarding the contracts amendment.

Impact Amending the contracted BoQ and cost estimates without the approval of the procurement office and the Chief Administrative Officer reveals weaknesses in the controls exercised by senior management and it may result that due to the execution of the contract with amended conditions, the cheapest operator has not been selected.

Recommendation A2 The Mayor should ensure that project managers are acquainted with legal requirements for public procurement (this can be done through training) and that any changes to the terms of the contract before or during the implementation period will be made only after the notice of the procurement office and after obtaining approval from the Chief Administrative Officer.

Issue B5 - Lack of execution project

Finding Article 20 par. 10 of ROGPP requires that the technical specifications for the employment contract shall include an execution project as a substantial part of itself.

We have identified that in six (6) employment contracts the municipality did not draft the execution project, but it did develop the procurement procedures by only preparing the Bill of Quantities and cost estimates. The lack of executive projects was mainly due to renovations and road construction. The lack of projects according to the assessments of the responsible officials was due to the simplicity of the works planned to be carried out.

Impact Lack of execution projects and initiation of procedures for capital projects only with BoQ and cost estimate increases the risk that during the project execution process various obstacles may arise both professionally and in the delays in works or in increasing project costs.

Recommendation B5 The Mayor should ensure that, for all procurement activities related to works, no procedures are initiated without clear specifications according to the execution project, which would prevent delays and additional costs.

3 – Shortcomings in certification of payments and contract management

Finding

In five (5) contracts, we have identified shortcomings in the certification of payments, and contracts management as follows:

- Financial Rule no. 01/2013 on the Public Funds Expenditure, articles 22 to 26, stipulate, *inter alia*, that the receipt of goods should be done then payment must be made. In the contract "Supply of equipment for the city museum" in the amount of €37,669, a payment of €15,000 was made, based on the first stage, the receipt, and the acceptance report. All these were signed by the contract manager and the acceptance commission. However, through a physical examination at the city museum, we found that the goods/works have not been accepted. According to the contract manager, the acceptance of the goods/works was not done for the following reasons: the technical acceptance of the museum in which the supply and installation of equipment was expected to take place had not been done yet, there was no security in the museum and the lack of area for storing purchased goods. As a result, according to the contract manager, goods were stored in the EO warehouse. However, based on our analysis, this situation was due to the initiation of the procedure at the end of the year where there was no proper assessment of the needs for this contract, as well as due to the use of funds, which would otherwise go surplus. After the completion of the audit, we were informed by the contract manager that the equipment has already been supplied which have been stored in the facilities of the two schools of the municipality until the conditions for their placement and installation in the city museum are created:
- In the contract "Construction of Ahmet Krasniqi Square in the city of Vushtrri" in the amount of €93,664, we identified through physical examination that item 1 within the part D-Final works for the placement of concrete slabs from natural stones was not executed according to the dimensions contracted by contract (contracted were these dimensions: 30 * 20 * 12cm while dimensions 60 * 40 * 12cm were placed). In addition, contrary to the contract/project, we found that around the boundary line of the square area, the concrete slabs were replaced with cubes (local cobblestones) with dimensions 10 * 10 * 10cm:

- In the contract "Reconstruction of public areas in squares (phase II)" in the amount of €50,652, where part of this contract are the reconstruction of four (4) parks, two of which we have physically examined. In the park at the house of Mahmut Agë Gjinolli, we found that in item E.1, the placement of the cubes was done with dimensions 10*20cm, while the contracted ones were with dimensions 20*20cm. While the item F.3 for planting decorative trees a total contracted amount of 40 trees was paid while the amount of 30 trees was executed (overpayment 10*20=200 €). At Hamam (Turkish bath) Park, we found that item C10 for the supply and installation of the kerbing stones (32 meters at length of 160 €) was paid, although it was not executed at all:
- In the contracts: "Construction of 12 roads with concrete cubes" LOT 1 in the amount of €54,953 and "Construction of 10 roads with concrete cubes" LOT 2 in the amount of €84,960, from the physical examination we have identified that there are modifications in the contract, but without changing the total price of contracts. Through the physical examination, we found that in some streets, kerbing stones were not placed (which were in the contract), due to the specifics of the road (the road was limited to the walls of inhabitants' houses and the roads were widened to the walls), but invoicing was made for the kerbing stones under the contract. According to the confirmation of the contract manager of these two contracts, in 12 roads, the placement of the kerbing stones was not executed due to the road configuration mentioned above. It should be noted that in the laying of cubes in str. "Daut Ymeri" of the contract LOT 2, kerbing stones with dimensions 10/20cm were placed, whilst they were contracted with dimensions 18/24cm. After our remarks, they improved it and the kerbing stones were placed on this road according to the contracted dimensions:
- In the contract "Construction of the bridge in the village Doberllukë" in the amount of €99,129, we have identified that in the item 3.5¹³ in the technical specification, the amount was increased from 83m³ to 90m³ or from €4,980 to €5,400 thus resulting in over payment of €420. It should be noted that after we identified it, this was improved and funds were returned to the municipal budget. This omission was due to lack of controls exercised by the certifying officer and contract manager.

¹³ Item 3.5: Supply of material, preparation of moulds, reinforcement and concreting of walls, bridge wing wall and returns of the bridge from reinforced concrete (hido concrete) of class C-30/37 Mpa (the price includes concreting and preparation of moulds, return walls of the bridge and horizontal and vertical hydro isolation of the wing wall and returns of the bridge). Concreting will be done in special conditions including water with dimension according to the detail.

All these modifications in the implementation of contracts have been made without the approval of the Chief Administrative Officer and the procurement office as required by law and rules/guidelines for public procurement. It should be noted that contract managers were unaware of the legal requirements for public procurement regarding the necessary approvals to modify contracts.

Impact

Execution of works contrary to the contracted BoQ and cost estimate without the approval of the procurement office and the Chief Administrative Officer indicates weaknesses in the controls exercised by senior management. This may affect the quality of the work performed and changes to the terms of the contract may result in failure to select the cheapest. While payments for unfinished work can result in budget damage and misuse of public money.

Recommendation A3 The Mayor should ensure that contract managers and certifying officer apply effective controls over the process of spending public money to ensure that payments are made only according to the contracted prices and the work/supplies performed. In addition, for financial errors and identified changes, the municipality should ensure that the funds are returned to the municipal budget and the necessary approvals are made for contracts that have not yet been completed.

4 – Shortcomings in procurement procedures

Finding

According to Article 12.5 of Law no. 06/L-133 on budget allocations 2019 states that the Budget Organization should not announce a tender for a capital project approved in tables 3.2, 3.2B and 4.2 after 31 October 2019 for potential expenditure in fiscal year 2019, unless those costs are planned for that capital project for the following years. Also, according to Article 12.6 of the Budget Law for 2019, it is required that the signing of contracts for multi-year capital projects is done by budget organizations only if such expenses are provided in the budget law for fiscal year 2019 and for two (2) following years. The following requirements of the budget law were not taken into account in the two procurement activities, namely:

- The municipality after October 31 has initiated the procurement activity for a project, which was approved in the budget table 4.2 only for 2019. Respectively, on 05.11.2019, it signed the "Declaration of needs and determination of the availability of funds (DNPDF)" and on 07.11.2019 it made the Notice of contract for "Supply of equipment for the city museum". This situation was due to the lack of knowledge regarding the legal requirements for concluding contracts at the end of the year.
- The municipality signed a two-year contract for the "Construction of the FMC in Vushtrri" in the amount of €346,222. The contract was concluded in the absence of sufficient funds because €85,000 are provided for 2019 in the budget law, while the estimate for 2020 is €150,000 (total €235,000). This situation was due to the failure of plans for the co-financing of this project, consequently the project was initiated by delay, which has influenced on the impossibility to providing sufficient funds for the coming years.

Impact

Signing a contract in the absence of sufficient funds may hinder the implementation of the contract and lead to the prolongation of planned projects' implementation.

Recommendation A4 The Mayor should provide additional controls so that contracts are signed only when there are funds that ensure their execution, regardless of whether their financing is from own source revenues or other financing funds.

Issue B6 – Delays in contract execution

Finding From the payments tested, we have identified delays in the execution of nine¹⁴ (9) contracts which were supposed to complete in 2019, but have not yet been completed during the time we were in the execution of the audit (March 2020).

It should be noted that in none of these cases was there a request/approval for the extension of the deadline for the implementation of contracts as required by the standard tender dossier in Article 18. In addition, there was no application of penalties.

The reason for the delays was mainly due to the inadequate management of the municipality regarding property issues, job specifics, irresponsibility of the EO, weather conditions, etc. While not following the procedures for approving the necessary delays was due to the lack of knowledge of contract managers regarding legal requirements.

Impact Delays in the execution of projects affect the increase of contractual obligations, which then become a burden on the budget for the following year. This also affects the performance and achievement of the set objectives of the municipality

Recommendation B6 The Mayor should ensure that projects are not started without securing there is no property issues, adequate project specifications should be drafted and contract managers should formalize the process of postponing deadlines when they are justified by the municipality. Penalties for unreasonable delays should also be applied

¹⁴ The contract dated 09.10.2019 for "Reconstruction of public areas in squares - second phase in the amount of €50,651.65 - the deadline for the contract execution is 45 working days; Contract dated 29.11.2019 for "Supply of equipment for the city museum" in the amount of €37,669 - the deadline is 15 calendar days; Contract dated 03.03.2018 "Construction of Hasan Prishtina Cultural Centre" in the amount of €1,178,132 - the deadline for the contract execution is 30.12.2019; Contract dated 08.11.2019 for "Construction of the auxiliary football stadium" in the amount of €118,527 - the deadline is 35 working days; Contract dated 23.10.2018 for "Asphalting of the road Vushtrri-Nadakofc-Pestovë first phase" in the amount of €282,347 - the deadline for the contract execution is 30.08.2019; Contract dated 31.05.2019 for "Asphalting of the road Vushtrri-Nadakofc-Pestovë - Second phase" in the amount of €198,288.85 - the deadline is 90 working days; Contract dated 15.10.2018 for "Construction of the bridge in the village Doberllukë in the amount of €99,129 which should have been completed during 2019; Contract dated 12.09.2019 "Construction of sports fields" in the amount of €55,466.18 - the deadline for the implementation of the contract is 50 days and "Renovation of the house of Mahmut Agë Gjinolli" in the amount of €134.121.

2.1.6 Common Issues on Goods and Services and Capital Investments

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

5 – Weaknesses in the tender evaluation process

Finding

In two procurement activities, we found that the requirements set out in the contract notice/tender dossier for technical and professional capacity were not respected, where in the case of the EO group, it was requested that the group leader have not less than 60% of the determined value of similar contracts completed in the last three years. This was proved in:

- Procurement activity "Physical security of municipal facilities¹⁵" in the amount of €532,958. The required value of similar projects, completed in the last three years, was not less than €700,000 while the group leader has provided evidence of similar contracts in the amount of €219,927 or 31%, and
- Procurement activity "Expansion of the water supply network" with a foreseen value of €1,800,000. The required value of similar projects, completed in the last three years, was not less than €2,500,000, while the group leader provided evidence of similar contracts in the amount of €1,334,049 or 53%.

This is because the evaluation commissions namely the procurement office have calculated a part of the services/works of similar contracts to the tenderers that were being completed

Impact

Failure to comply with the requirements of the tender dossier is contrary to public procurement rules and may result in selection of irresponsible bidders violating the principle of equal treatment of bidders.

Recommendation A5 The mayor should ensure that the requirements set out in the contract notice/tender dossier are adhered to, so that only operators who have met all the conditions are awarded with a contract.

¹⁵ Full title of the contract: "Physical security of municipal facilities, Schools, Centre for Social Work, Main Family Medicine Centre and Residential House"

6 - Inadequate segregation of duties in the management of procurement activities

Finding

Article 62.3 of the ROGPP stipulates the segregation of duties in the management of procurement activities and contracts. We identified two procurement activities in which the legal requirements for the segregation of duties were not taken into account. Respectively:

- In the framework contract "Servicing and maintenance of vehicles of the Municipality of Vushtrri", two of the members of the bid evaluation commission were appointed contract managers:
- In the procurement activity "Supply of equipment for business support" in the amount of €117,194, the employee who has signed the BoQ and forecast has also been appointed a member of the bid evaluation commission, while another member who was in the bid evaluation was assigned also as the manager of this contract

This non-segregation of duties has occurred due to insufficient staff in the requesting units.

Impact

Engagement of the same officials in several tasks in the management of procurement/contract activities can result in conflict of tasks and can negatively affect the financial and operational management of contracts.

Recommendation A6 The Mayor should ensure that the segregation of duties and responsibilities in procurement activities is done in accordance with the legal requirements of the procurement in order to avoid the possibility of conflict of duties.

2.2 Capital and non-capital assets

The amount of capital assets presented in AFS is €111,991,768, that of non-capital assets is €437,913, and of stock is €49,218. We have tested 75 samples of €2,325,998 as part of substantive testing, and carried out compliance testing regarding internal procedures for assets management, assets stocktaking and evaluation, functioning of e-assets system etc.

Issue C4 – Shortcomings in assets accounting register

Finding Testing for this area has resulted in some shortcomings and has been handled as follows:

- According to Article 11.3 of Regulation no. 02/2013 on the management of non-financial assets, after the completion of the investment process, the capital assets will be classified as assets in use and depreciation will be applied. We have identified five¹⁶ payments with a total value of €95,726, which were registered as an ongoing investment, while they had to be registered as assets in use because the projects had been completed and technical acceptance had been made. While in another case, the payment in the amount of €31,987 was recorded twice as an asset in use, because the same was included in the registration with the total contract of €54,953 "LOT 1 Construction of 12 roads with concrete cubes".
- According to Article 11 of Regulation no. 02/2013, assets found in the following investment phase should be registered in the following investment category, and after the completion of the investment, the asset should be classified as assets in use. We have identified that the payment of €33,925 for the completed contract "Construction of Bajram Curri School in the village of Dumnica e Mesme", still appeared in the register of capital assets as an ongoing investment. The ongoing investment account had to be closed because the registration was made as an asset in use with the total value of the contract.
- The payment in the amount of €10,938 for "Maintenance and reconstruction of asphalted roads" has been recorded as an ongoing investment, although it should have been recorded as an increase in the value of reconstructed roads.

¹⁶ €54,250 for the contract "Construction of 10 roads with concrete cubes", €17,091 and €3,896 for the contract "Construction of bridges and protective walls", €13,720 "Adjustment of roofs of AMF" and €6,768.78 "Renovation of school buildings - second phase"

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- Vehicle registration, among other things, is defined by Article 39 and 43.1 of Law no. 05/L-132 for vehicles. The payment of €26,900 for the supply of a loading machine Skip Excavator was registered as an asset in use, but the same was not registered on behalf of the municipality at the Vehicle Registration Centre. Respectively, the registration certificate of the vehicle that shows the legal/natural person proving the owner of the vehicle was not issued. It should be noted that the same has been given for use to the Regional Waste Company "Unity" for an indefinite period.
 - According to Article 6.1 of Regulation 02/2013 on the management of non-financial assets, it is required that the asset register is kept separate for each asset. We identified that payments for the contract "Asphalting of seven (7) local roads" in the amount of €308,725 were registered with an identification number for the total value of the contract. While the registration had to be done separately with different identification number according to the asphalted roads. Consequently, this situation has caused an incorrect statement of the accounting asset register.
 - From testing the assets under €1,000, we identified 4 purchases, in the amount of €8,688, which were not registered in the e-asset system. In this regard, we have verified that there are still problems with the functioning of "e-asset" because in some cases, depreciation is not applied and there are problems with the naming of registered assets.
 - The municipality has carried out the process of inventory of non-financial assets, but the inventory situation has not been compared with the situation in the records of non-financial assets as required by Article 19.4.3 of Regulation 02/2013, neither was the assessment of non-financial assets made.

The erroneous recording were mainly due to the large volume of work at the end of the year, the negligence of the asset official and the lack of knowledge regarding the requirements of the regulation on asset management.

Impact

The lack of accurate and complete records causes lack of information on management regarding the asset owned by the municipality, causes over/underestimation of assets and may result in incorrect presentation of information in financial statements. While not comparing inventory with the situation of asset registers and failure to assess assets does not provide assurance about the accuracy and completeness of asset registers.

Recommendation C4 The Mayor should ensure that the capital asset register is updated in accordance with the audit findings addressed above to ensure that all municipal assets are accurately identified and recorded in the relevant municipal asset registers. The Mayor should also ensure that the process of inventory and valuation of assets is carried out according to the requirements of Regulation 02/2013 on the management of non-financial assets by budget organizations.

2.3 Receivables

The Municipality disclosed in the 2019 AFS receivables in amount of €4,101,196. This is made of receivables from property tax, waste collection tax, business tax, construction permits, use of public property, land tax etc.

Issue B7 – Constant increase of accounts receivable

Finding The municipality did not have effective management in the collection of receivables as their increase continues over the years. From the previous year, they have increased by €652,680 or about 19%, the largest increase being in the waste collection tax. Although the municipality has taken some action to collect debts from property tax (large debts to the municipality) actions were not enough. Seeing the large increasing trend, tax collection remains challenging, and in particular, the receivables for the collection of waste for which it is the beginning of the revenue management.

In the disclosures of receivables in the financial statements, the initial balances were underestimated by €3,466 in business taxes. This situation was due to the negligence and competence of the officials who manage this data.

While some accounts are managed by integrated systems (property tax, business tax and waste), other accounts are managed in Excel and the data presented does not provide complete assurance on their accuracy and completeness.

Impact Lack of actual actions for the collection of accounts receivable results in an increase in these accounts, leads to the risk that the Municipality will face financial losses and to non-execution of municipal projects financed from own source revenues. Failure to report fully the accounts receivable as well as data management in Excel affects the accuracy and completeness of the information about the receivables and their disclosure in the AFS.

Recommendation B7 The mayor should ensure higher efficiency in the collection of accounts receivable. Designing and applying clear programmes and procedures on how to manage and collect them would help in this regard.

2.4 Liabilities

2.4.1 Outstanding liabilities

The statement of liabilities towards supplier by the end of 2019 was €106,760. These liabilities are carried forward to be paid in 2020.

Issue C5 – Delays in execution of payments

Finding Financial Regulation 02/2013 MoF, Article 5, considers the invoice, which has not been paid 30 days after its receipt as a late obligation for payment. Of the seven cases tested, in two of them in the amount of €40,122 there were delays in the payment of invoices, one 6 days and the other 42 days delay. Delays in payment of invoices have occurred due to a lack of allocation of funds.

Impact Delayed payments may cause budget implications for the following fiscal year

Recommendation C5 The Mayor should provide for additional controls over execution of payments to eliminate delays in the payment of invoices.

2.4.2 Contingent liabilities

The statement of contingent liabilities at the end of 2019 was €3,246,346. We tested eight samples.

2.4.3 Contractual liabilities

Based on the data obtained from the audited entity, the balance of contractual liabilities as of 31.12.2019 was €4,329,527¹⁷. This amount was drawn from the list of co-payments and annual report on signed public contracts.

¹⁷ This is the amount presented by the auditee.

2.5 Internal audit function

Internal Audit Unit (IAU) operates with two members – Director and one auditor. In addition to the Strategic Plan, IAU had also prepared the annual work plan where six (6) audits were included. All planned audits were conducted as well as three (3) other audits as part of IAU's recommendations implementation follow-up. The number of recommendations given in the audit report is 21, of which 15 were implemented, five were in the process of implementation and one was not implemented.

Audits were focused on the areas of procurement, assets, assessment of controls in finance, education, and agriculture directorates. The audits covered the period 2019 mainly.

The Audit Committee was operational and held four (4) meetings where the external audit report and IAU audit report have been discussed, focusing on the implementation of recommendations given by NAO.

7 – Failure to staff IAU

Finding Article 5.1.1 of Regulation 01/2019 on the establishment of the Internal Audit Unit stipulates that every public sector entity with a budget of over €7 million shall have at least three auditors. IAU in Vushtrri Municipality consists of the head and one member.

Finding Failure to staff IAU with sufficient staff may affect the internal audit not to cover all areas of risk and to prevent management from taking timely action in preventing possible errors.

Recommendation A7 The Mayor should ensure that timely budget planning is done for the required positions and that the Internal Audit Unit will be staffed with sufficient staff according to the regulations in force.

3 Progress in Implementing Recommendations

Our audit report for the AFS of the Vushtrri Municipality for 2018 has resulted in 16 recommendations. The municipality has prepared an Action Plan outlining how to implement the recommendations made. The municipality has also prepared a periodic report on the implementation of the recommendations (30 September and 15 March) according to the requirements of the Labour Regulation on the implementation of audit and action plans. However, the findings of municipal officials in these reports do not fully match with the ascertained situation from the audit. Even during the discussions with municipal officials, it was acknowledged that the municipality is in an inconvenient situation regarding the implementation of the recommendations. By the end of our 2019 audit, two recommendations have been implemented; five were in process and nine were not implemented. For a thorough description of recommendations and the way they are handled, see Table 4)

Table 4 Summary of prior year recommendations and of 2018

No	Audit area	Recommendations of 2018	Actions undertaken	Status
1	AFS	The Mayor should ensure that are taken actions to address the causes behind the Emphasis of Matter in the audit opinion. Specific actions should be taken to eliminate errors in planning/budgeting of expenditures and their classification. Moreover, the information related to the disclosure of receivables should be complete to enable their full and accurate presentation in the AFS	The municipality has made disclosures of all accounts receivable, but the issue of misclassification of expenditures remains the same.	In process of implementationRef.C1
2	Budget planning and execution	The Mayor should ensure that expenditure planning is made in accordance with the law on budget and economic codes set by the accounting plan on categories.	During the audit, we did not encounter payments for capital expenditures made from the category of goods, but the misclassification of salary expenditures according to court decisions remains the same this year.	Not implementedRef.B4
3	Revenues	The Mayor should ensure that on site evaluation of properties is reflected in the	We have not encountered	In process of implementation

		Property Tax Calculation System. In addition, the system should be updated with information that enable identification of beneficiaries from deduction on primary residence. The purpose of this action is to increase the revenues from property tax.	similar cases at the first point, but there are still taxpayers without a personal number in Protax.	n Ref.C2
4	Wages and salaries	The Mayor should ensure that all dispositions and legal requirement are met during the execution of the recruitment procedures, and to establish professional commissions, which make sure that the set criteria are fully met, and that only meritorious candidates have earned the job positions.	From samples tested, we have not encountered similar issues	Implemented
5	Wages and salaries	The Mayor should ensure that recruitment with SSA is done only for specific duties and the contracts should not exceed the legal deadline. Further on, should undertake actions so that the needs for covering regular positions are addressed at MoF during budget planning, and to ensure budgeting and payment out of the category of wages and salaries	The situation is the same this year.	Not implemented Ref B2
6	Goods and services	The Mayor should ensure that, in case of supply, their receipt is made by respective managers by drafting reports based on relevant instructions, and that no payment is executed without supplied sufficient evidence, and to ensure that the provisions of the contract are being applied	This year the situation is the same because we have encountered cases of payments in the absence of reports, and without acceptance of the goods.	Not implemented Ref B3
7	Goods and services	The Mayor should provide additional monitoring controls so that all goods and services are accepted under contractual terms, and in cases of unjustified delays in delivery, to apply penalties laid down in the contract	The situation is the same this year as we have encountered cases of delays in the delivery of goods.	Not implemented Ref B1
8	Subsidies & transfers	The Mayor should ensure that the criteria for public calls for applications are measurable, specific and clear, and the principle of competition is not violated. Furthermore, monitoring controls should be increased upon allocation of subsidies	The issue of unwritten criteria has repeated this year, while regarding the issue of reporting of beneficiaries,	In process of implementation nRef.C3

			we have not encountered cases during this year.	
9	Capital investments	The Mayor should strengthen controls to ensure that executive projects are drafted in line with the requirements of OGPP, for preparation of technical specifications of works contracts. Procurement process for executive projects should be carried out at the beginning in order to precede to the initiation of procurement procedures in other projects for works.	The situation is the same this year	Not implemented Ref.B5
10	Capital investments	The Mayor should ensure that causes for delays are analysed and that the dynamic plans match with deadlines for completion of works, and ensure that there is an Executive Project included for each project. Further on, to analyse the causes that have led to project setbacks due to weaknesses in procurement process, and to undertake measures to improve their management	The situation is the same this year as we have encountered delays in the implementation of capital projects.	Not implemented Ref.B6
11	Capital investments	The Mayor should ensure that through procurement manager beforehand is done an analysis and evaluation of the criteria that should be included in the tender dossier, in order to create competition of operators by receiving the most beneficial bid for the Municipality. Such changes to the terms of the contract should not be allowed.	We have not encountered such cases during this year.	Implemented
12	Common Issues	The Mayor should establish cooperation with MoF so that obligations arising from the collective agreement are planned/budgeted, and paid in due time from the category of wages and salaries. Liabilities should also be paid within the foreseen legal timeframes, as set forth by the LPFMA, in order to avoid payments through enforcement decisions, and with higher costs.	The situation is the same this year	Not implemented Ref.B4
13	Capital and non-capital assets	The Mayor should ensure that assets register is updated with all relevant information so that all assets of the Municipality are identified and recorded correctly in respective assets register, by not understating or overstating assets in the AFS. In this context, should ensure	This year we have not encountered non-registration of capital assets, while there are problems with	In process of implementation Ref.C4

		controls for full recording of financial and non-financial assets.	inadequate registrations, e-assets still has problems with the application of depreciation.	
14	Receivables	The Mayor should ensure higher efficiency in collecting receivables, should set up clear procedures for their management and collection. A plan, an operating program, and legal actions through private enforcement agents will increase the level of debt collection.	The increasing trend of A/R has continued this year as well.	Not implemented Ref.B7
15	Liabilities	The Mayor should ensure controls in the execution of payments, and in case of presentation of the municipal liabilities, they should be fully reported, including all liabilities under the Financial Rule 02/2013.	We did not notice any non-reporting of invoices during the respective months, while there were delays in the payment of invoices.	In process of implementation nRef.C5
16	Management Reporting	The Mayor should ensure establishment of effective risk management processes within relevant sectors of the organization, to ensure that the form of financial and operational reporting to senior management is set, which requires to support effective management of the activity.	The municipality issued an internal reporting template, but it was not used in all cases.	Recommendation closed as unimplemented
No	Audit area	Recommendations of 2019		
1	Budget planning and execution Ref.C1	The Mayor should ensure that all necessary actions are taken so that all expenditures are planned under adequate budget categories and that payments are made from and expenditures recorded in adequate economic categories. This should include the planning of funds for the compensation of jubilee and accompanying salaries for former workers who have not been compensated as well as those who are about to retire and the clear classification/differentiation of capital projects from other expenses such as subsidies or goods and services		
2	Revenues Ref. C2	The Mayor should provide for additional controls in the property tax department, so that the data in the ProTax system is harmonised with the Regulation on municipal immovable property tax and the law, and ensure that all such cases are corrected		
3	Revenues Ref. A1	Recommendation A1 The Mayor should provide effective mechanisms for inspecting the set quota of 20% of the objects as required by the new law and		

		increase control over the management of fieldwork
4	Wages and Salaries Ref. B1	The Mayor should ensure that the SSA is used only for specific works and that contracts do not last longer than the established legal deadline. Actions should be taken to address the needs for regular positions in the Ministry of Finance during budget planning and should ensure that they are budgeted and paid from the category of wages and salaries
5	Goods and Services Ref. B2	The Mayor should provide additional monitoring controls so that all goods and services are accepted under the contracted terms, and that for unjustified delays, penalties set out in the contract are applied
6	Goods and Services Ref. B3	The Mayor should ensure that contract implementation is monitored through report drafted by the relevant managers, and that no payment is made unless there is sufficient evidence that contract's provisions are implemented by the EO
7	Goods and Services Ref. B4	The Mayor should deepen co-operation with the MoF to ensure that funds to pay liabilities arising from the collective agreement are budgeted and paid on time from the category of wages and salaries in order to avoid misclassification and unnecessary expenditures
8	Subsidies and Transfers Ref.C3	The Mayor should ensure that the applications evaluation process is documented with relevant evidence while ensuring that the principle of competition is not violated, and that the beneficiaries of subsidies are only applicants who meet the criteria set out in the public call. The mayor should also establish supervisory mechanisms to ensure that the subsidies awarded achieve the intended purposes
9	Capital Investments Ref.A2	The Mayor should ensure that project managers are acquainted with legal requirements for public procurement (this can be done through training) and that any changes to the terms of the contract before or during the implementation period will be made only after the notice of the procurement office and after obtaining approval from the Chief Administrative Officer
10	Capital Investments Ref.B5	The Mayor should ensure that, for all procurement activities related to works, no procedures are initiated without clear specifications according to the execution project, which would prevent delays and additional costs
11	Capital Investments Ref.A3	The Mayor should ensure that contract managers and certifying officer apply effective controls over the process of spending public money to ensure that payments are made only according to the contracted prices and the work/supplies performed. In addition, for financial errors and identified changes, the municipality should ensure that the funds are returned to the municipal budget and the necessary approvals are made for contracts that have not yet been completed.
12	Capital Investments Ref.A4	The Mayor should provide additional controls so that contracts are signed only when there are funds that ensure their execution, regardless of whether their financing is from own source revenues or other financing funds.
13	Capital Investments	The Mayor should ensure that projects are not started without securing there is no property issues, adequate project specifications should be drafted and contract managers should formalize the process of postponing deadlines when they are

	Ref.B6	justified by the municipality. Penalties for unreasonable delays should also be applied.
14	Common Issues Ref.A5	The mayor should ensure that the requirements set out in the contract notice/tender dossier are adhered to, so that only operators who have met all the conditions are awarded with a contract.
15	Common Issues Ref.A6	The Mayor should ensure that the segregation of duties and responsibilities in procurement activities is done in accordance with the legal requirements of the procurement in order to avoid the possibility of conflict of duties
16	Capital and non-capital assets Ref.C4	The Mayor should ensure that the capital asset register is updated in accordance with the audit findings addressed above to ensure that all municipal assets are accurately identified and recorded in the relevant municipal asset registers. The Mayor should also ensure that the process of inventory and valuation of assets is carried out according to the requirements of Regulation 02/2013 on the management of non-financial assets by budget organizations.
17	Receivables Ref.B7	The mayor should ensure higher efficiency in the collection of accounts receivable. Designing and applying clear programmes and procedures on how to manage and collect them would help in this regard
18	Outstanding liabilities Ref.C5	The Mayor should provide for additional controls over execution of payments to eliminate delays in the payment of invoices
19	Internal audit Ref.A8	The Mayor should ensure that timely budget planning is done for the required positions and that the Internal Audit Unit will be staffed with sufficient staff according to the regulations in force.

This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.

Annex I: Explanation of the Different Types of Opinion Applied by NAO

(extract from ISSAI 200)

Form of opinion

147. The auditor should express **an unmodified opinion** if it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the opinion in the auditor's report in accordance with the section on "Determining the type of modification to the auditor's opinion".

148. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor should discuss the matter with the management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the audit opinion.

Modifications to the opinion in the auditor's report

151. The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or if the auditor was unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Auditors may issue three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.

Determining the type of modification to the auditor's opinion

152. The decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification – that is, whether the financial statements are materially misstated or, in the event that it was impossible to obtain sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

153. The auditor should express **a qualified opinion if**: (1) having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

154. The auditor should express **an adverse opinion if**, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

155. The auditor should **disclaim an opinion if**, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, the auditor concludes that the effects on the financial statements of any undetected misstatements could be both material and pervasive. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the audit scope that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 170519 provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex II: Letter of Confirmation



REPUBLIKA E KOSOVËS

KOMUNA E VUSHTRRISE

REPUBLIKA E KOSOVËS-REPUBLIKA KOSOVO-REPUBLIC OF KOSOVO ZYRA KOMBËTARE E AUDITIMIT NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE			
DOKUMENTI DOKUMENT Nr. i fletëve / Br. stranic: 27.05.2020			
Njësia Org. Org. Jedin. Org. Unit	Shif. klasif. Klasif. Kod Class. Code	Nr. Prot. Br. Prot. Prot. No.	Nr. i fletëve Br. Stranica No. Pages
09	42	685	1

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2019 dhe për zbatimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Komunës së Vushtrrisë për vitin e përfunduar më 31 dhjetor 2019 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimit, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tij.

z. Xhafer Tahiri.....

Kryetar i Komunës së Vushtrrisë

Data: 22.05.2020, Vushtrri,

