

AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF
THE MUNICIPALITY OF SKENDERAJ
FOR THE YEAR ENDED 31 DECEMBER 2015

Prishtina, June 2016

Grant Thornton LLC has conducted the audit of the Annual Financial Statements of the Municipality of Skenderaj (the "Municipality") for the year ended December 31, 2015, on behalf of the Office of the Auditor General.

The Office of the Auditor General undertakes both Regularity and Performance Audits. The Acting General Auditor, is the head of the Office of the General Auditor which employs around 145 staff. The Auditor General and the Office of the Auditor General is independent and certifies around 90 Annual Financial Statements each year, while undertaking other forms of audits.

The OAG's mission is to "Contribute to sound financial management in public administration. We shall perform quality audits in line with internationally recognized public sector auditing standards and good European practices. We shall build confidence in the spending of public funds. We shall play an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability."

The reports produced by the Office of the Auditor General directly promote accountability as they provide a base for holding managers' of individual Budget Organizations to account.

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Executive Summary

Introduction

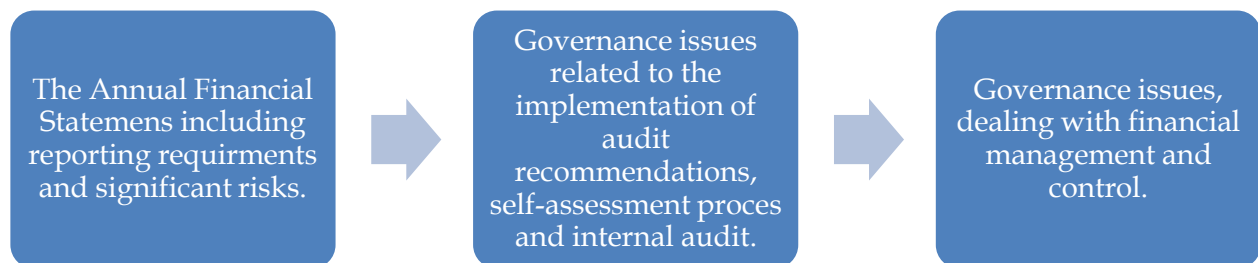
We, Grant Thornton LLC, have conducted the audit of the Annual Financial Statements of the Municipality of Skenderaj (the "Municipality") for the year ended December 31, 2015, on behalf of the Office of the Auditor General ("OAG").

This report summarizes the key findings from the audit of the 2015 Annual Financial Statements of the Municipality of Skenderaj disclosed in the Independent Auditors' Report issued by Grant Thornton LLC.

We would like to thank the Mayor of the Municipality and his team for their assistance during the audit process.

The examination of the 2015 financial statements was undertaken in accordance with International Standards of Supreme Audit Institutions (ISSAI). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements.

Our audit focus has been on:



The level of work undertaken by us to complete the 2015 audit is a direct reflection of the quality of the internal controls implemented by management.

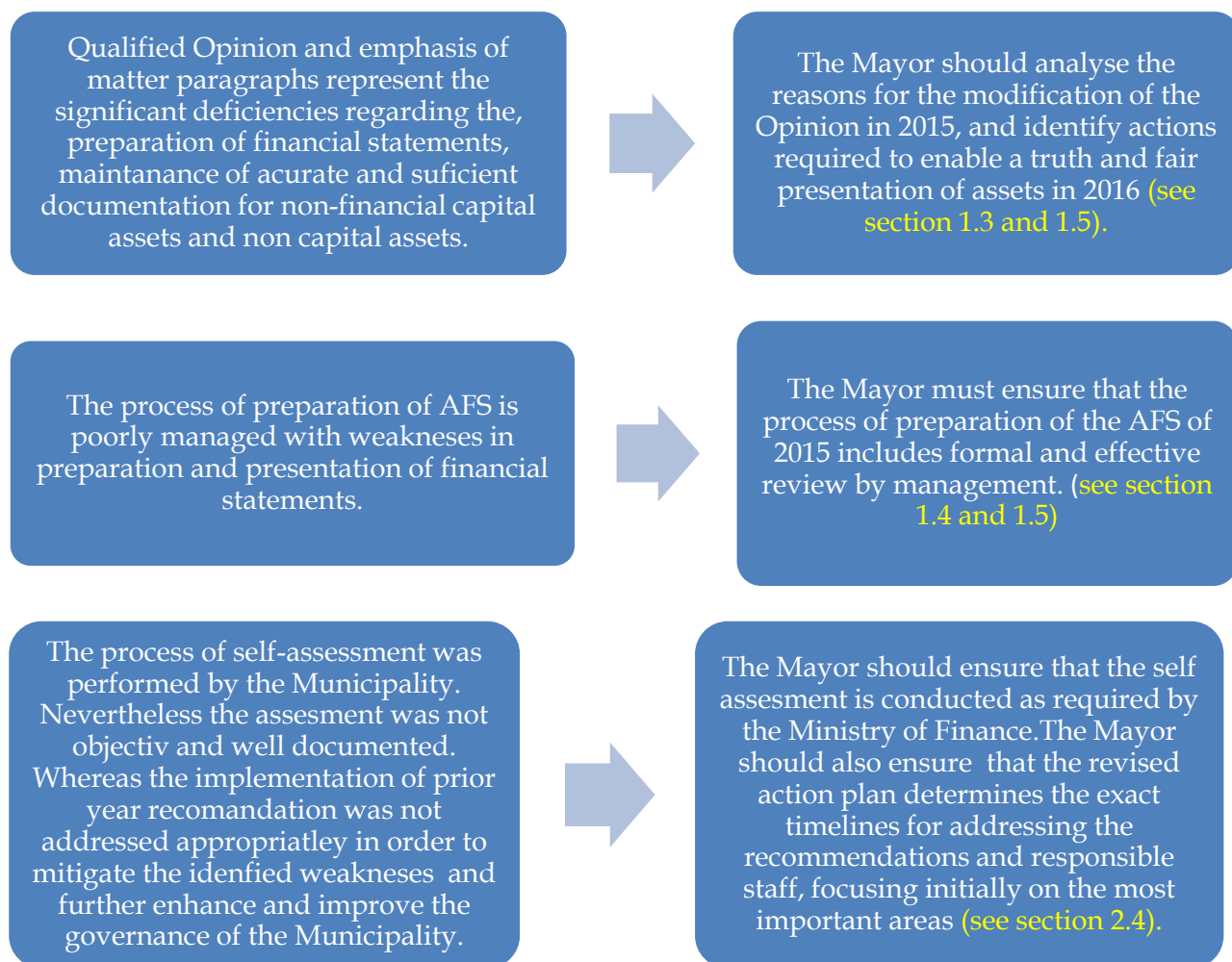
Opinion

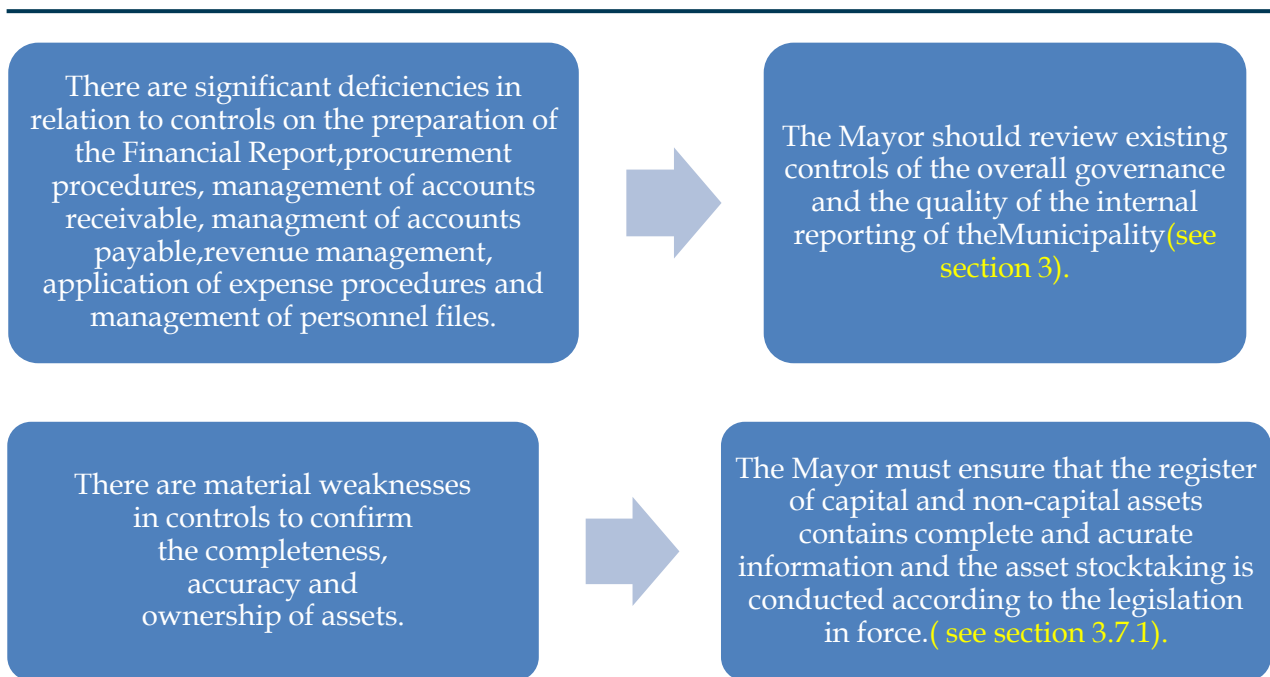
Appendix II explains the different types of Opinions applied.

Our audit opinion, presented on pages from 8 to 10 of this Report is qualified due to the scope limitation regarding the balance of non-financial capital assets over EUR 1,000, scope limitation regarding the balance of non- capital assets under EUR 1,000 and emphasis of matter paragraph regarding noncompliance with the requirements of Financial Regulation No. 01/2013/MF.

Overall Conclusion

Our key conclusions and recommendations are:





Mayor's Response – for 2015 audit

The detailed audit findings and conclusions in this report have been considered by the Mayor. The Mayor's responses where we have not reached a common position are detailed in Annex IV.

According to the Mayor's representations:

- He will discuss the audit report in the Municipal Assembly; and
- By the end of January 2017, he shall initiate discussions in the Municipal Assembly related to the implementation of the Action Plan regarding implementation of audit recommendations before the annual financial statements of 2016 have been submitted in the Ministry of Finance.

1 Annual Financial Statements and other External Reporting Obligations

1.1 Description

Our audit of the Annual Financial Statements (“AFS”) considers both compliance with the reporting framework and the accuracy of the information recorded in the financial statements. We also consider the Declaration made by the Chief Administrative Officer (CAO) and Chief Financial Officer (CFO) when the AFS are submitted to the Government.

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

1.2 Auditor Opinion

Independent Auditors' Report

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To the Mayor of the Municipality of Skenderaj

We have audited the accompanying financial statements of the Municipality of Skenderaj (the "Municipality"), which comprise the Statement of Cash Receipts and Payments and Statement of Budget Execution for the year ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS) for "Financial Reporting under Cash Basis of Accounting", and with Regulation MF -No. 03/2013 "On Annual Financial Statements of Budget Organizations 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI). Those 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

- i. Data related to non- financial capital assets worth over EUR 1,000 owned by the Municipality are disclosed in financial statements. However, there are many deficiencies and uncertainties which affect the Municipality's financial reporting of non- financial capital assets worth over EUR 1,000 as following:
- The asset register regarding the non-financial capital assets is not complete and valid. Furthermore the Municipality has not properly registered non- financial capital assets worth over EUR 1,000, in the Kosovo Financial Management Information System. In fixed assets register is recorded the amount of EUR 3,885 thousand referring to payments made by different government agency's' and donors in current and prior years which were not documented as required by the article 12 and 13 of regulation MF No.02/2013.
 - Moreover, the Municipality has not received a detailed official report from government agencies relating to investments they have made in the Municipality. Consequently we were unable to obtain reasonable assurance that all investments of the current year and previous years are recorded and presented appropriately in note 30 "Summary of non-financial capital assets worth over EUR 1,000 in possession of the Budget Organization" and that the investments in question are owned by the Municipality.
 - Moreover due to the deficiencies in the non-financial capital assets register for assets worth over EUR 1,000, we were not able to determine whether the depreciation calculated from the system and, respectively, net book value of the assets presented in the note is correct.
 - Furthermore the Municipality has not performed valuation of its non-financial assets during 2015 as required by the regulation MF No.02/2013 on management of non-financial assets by budget organizations.
 - The Municipality was not able to provide us with the stocktaking report as required by article 19 of the regulation MF no. 02/2013 on management of non-financial assets by budget organizations.

Due to the nature of the records and other deficiencies as described in the paragraphs above, we were not able to satisfy ourselves with the disclosures, existence, completeness, ownership and accuracy of the Municipality's non- financial capital assets worth over EUR 1,000 as of 31 December 2015.

- ii. In Note 31 of the annual financial statements are presented non - capital assets worth under EUR 1,000, in amount of EUR 1,289 thousand. The Municipality has not used the system "E-Pasuria" to record all of the non - capital assets under EUR 1,000. Therefore we were not able to reconcile the amount presented in this system with the amount presented in note 31 "Summary of non-capital assets under EUR 1,000 and a useful life more than one year". Furthermore, due to deficiencies in the asset register we were not able to recalculate depreciation for these assets and therefore we could not determine whether the net book value of these assets presented in the note 31 is correct.

Thus, we were not able to satisfy ourselves as to the existence, completeness and accuracy of non - capital assets worth under EUR 1,000.

Qualified opinion

In our opinion, except for the possible effects of the matters referred in paragraph i and ii in the Basis for Qualified Opinion paragraph, the Municipality's financial statements for the year ended December 31, 2015 have been prepared in all material respects, in accordance with IPSAS "Financial Reporting under the Cash Basis Accounting" and with Regulation MF - No. 03 / 2013 "On Annual Financial Statements of Budget Organizations".

Emphasis of mater

We draw attention to Note 28 "Statement of outstanding invoices (liabilities) of the Budget Organization" where invoices in the amount of EUR 195 thousand are most unpaid invoices for more than 30 days and this is not in compliance with the requirements of Financial Regulation No. 01/2013/MF "Public funds expenditure". Our opinion is not further qualified for this matter.

Other matter

The financial statements of the Municipality for the year ended December 31, 2014 were audit by other auditor, who expressed a qualified opinion with emphasis of matter paragraph on those financial statements on June 23, 2015, due to the disagreement regarding the presentation of revenues and grants in the statements of budget execution, scope limitation regarding the balance of non-financial capital assets over EUR 1,000, scope limitation regarding the balance of non- capital assets under EUR 1,000 and scope limitation regarding comparative balances for other receipts - payments from third parties and emphasis of matter paragraph regarding noncompliance with the requirements of Financial Regulation No. 01/2013/MF "Public funds expenditure".

Grant Thornton LLC

Pristina,
22 June 2016

1.3 Significant Risks to the Annual Financial Statements

Description

In our Audit Memorandum dated 10 December 2015, we identified significant risks to the Annual Financial Statements related to the completeness and ownership of assets. The above risk are materialized and resulted in the modified opinion. During the final audit conducted we have identified additional significant risk related to the preparation of financial statements presented in the financial statements which resulted in the modification of the opinion.

The risks of material misstatement that we identified relating to the completeness and ownership of assets and the preparation of the Annual Financial Statements occurred because no management action was taken to address the highlighted risks.

1.4 Compliance with AFS and other reporting requirements

The Municipality must comply with certain reporting framework and other reporting requirements. We have taken into consideration:

- Compliance with financial Regulation No. 03/2013;
- The requirements of LPFMA No. 03/L-048, (as amended),
- Deadline of submission of reports to the Ministry of Finance;
- Requirements for signature of AFS from CAO ("Mayor") and Chief Financial Officer;
- Requirements to prepare AFS in hard and electronic copies;
- Submission of quarterly reports to the Assembly of the Municipality and the Ministry of Finance;
- Financial Rule No. 02/2013/MF "On reporting of arrears by Budget Organizations";
- Operating Reports (performance indicators);
- Report on the proposed and undertaken actions for the findings and recommendations of the previous year External Auditor; and
- The submission of AFS in Albanian and Serbian language.

From our audit we noted that from the above requirements, the Municipality is not in compliance with the requirements of Financial Rule No. 02/2013/MF "On reporting of arrears by Budget Organizations", and some aspects of the Annual Financial Statements, as follows:

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- Note 28 “Statement of Outstanding Invoices (Liabilities) of Budget Organization” includes the liabilities in amount of EUR 27 thousand which are dated after 31 December 2015.
 - In the Note 29 “Contingent liabilities” were not presented all litigations as at 31 December 2015.
 - The primary and reliable source of information for the preparation of financial statements is Free Balance, which is not used to record and report all disclosures that are not reported under the Cash Basis of Accounting. These disclosures include revenues from fines, payments from third parties, receivables and unpaid and contingent liabilities;

Considering what was disclosed above and in the audit opinion, the Declaration made by the Mayor and Chief financial Officer when submitting the Annual Financial Statements to the Government, can be considered incorrect due to the material weaknesses identified and other issues as disclosed throughout this report.

1.5 Recommendations

The recommendation include all issue raised under subheading “Annual Financial Statements and other External Reporting Obligations”

Recommendation 1 High priority - The Mayor should ensure that an analysis has been made to determine the reasons for the qualified audit opinion and emphasis of matter paragraph. Action must be taken to address material weaknesses in a systematic and pragmatic order to mitigate those weaknesses as disclosed in the basis for qualified opinion paragraph.

Recommendation 2 High priority - The Mayor should take appropriate action to ensure full regulatory compliance of the process of preparation of annual financial statements (AFS). The Declaration made by the Mayor and Chief Financial Officer when the AFS are submitted to the Government should only be signed after a comprehensive management review has been undertaken on the content and accuracy of the AFS.

2 Governance

2.1 Introduction

Effective governance arrangements are essential for the Municipality to manage successfully the challenges it faces and ensure providing better services to the benefit of taxpayers and other service users.

A key tool in support of effective governance is the implementation of audit recommendations as it shows that the management is trying to develop existing processes and controls. Furthermore the self-assessment checklist which should be completed by the municipality provides a framework for the development of enhanced governance arrangements.

We also consider areas of governance arrangements requiring significant improvements such as risk assessment, the Internal Audit system and financial management and control processes.

2.2 Overall conclusion over governance

Our audit approach is focused on understanding and assessment of actions taken by management to ensure effective and accountable governance and financial management and control. We assess whether the controls are well designed, are implemented according to plan or function effectively. To do this requires the assessment of structures, processes and lines of accountability presented by management. We also consider specific issues such as self-assessment application FMC and risk assessment. The part for financial management and control is presented under section 3 of this report.

We consider that the municipality needs improvement in addressing the prior year recommendations, completion of the self-assessment checklist, risk management processes and improve the management reporting and the effectiveness of the internal audit system.

2.3 Prior Year Recommendations

Prior year audit report has resulted in 18 recommendations given. Although Municipality implemented the requirement to produce an action plan after receiving the 2014 OAG audit report we noticed that the recommendations were only partially implemented. In the action plan were presented the findings, management comments and the steps to be undertaken to implement the recommendations. It should be noted that the action plan is general and the process of implementation is not specified adequately. Furthermore there is no evidence of monitoring over implementation of the recommendations. It must be mentioned that the prior year audit report was not discussed in the assembly. For a more complete description of the recommendations and how they are addressed, see Annex III.

Recommendations

Issue 1 – Implementation of recommendations from the previous year - High Priority

Finding	As disclosed in annex III, only a part of prior year's recommendations have been implemented because the Municipality did not follow any formal process to manage and monitor the implementation of the recommendations.
Risk	Insufficient implementation of prior year recommendations leads toward: incomplete assets register; non-compliance with the reporting requirements; Poor management of revenue due to lack of evidence and internal reporting; Lack of adequate information on the AFS; Limited benefit from the work of Internal Audit; Inadequate treatment of disclosure of accounts receivable; Inadequate treatment of debt disclosures.
Recommendation 3	The Mayor should revise the Action Plan to address the recommendations of 2014. This plan should specify a reasonable time frame of implementation, responsible staff and mode of application, being initially focused on areas of high importance i.e. where material weaknesses were identified. Progress against the plan should be monitored directly by the Mayor.

2.4 The self-assessment checklist of MF

The Ministry of Finance has drafted a detailed list of self-assessment for budgetary organizations to support effective governance arrangement. The municipality has completed the self-assessment checklist for the year ended 31 December 2015. The Ministry of Finance has emphasised that the legal framework for financial management and control has entered into force lately and that certain aspects of FMC constitute innovation in Kosovo and a high self-assessment score, which means that no improvement of the system is necessary, would be unrealistic. Furthermore, the Ministry of Finance emphasis, that questioner should be completed truthfully and answers should be objective and documented.

Issue 2 – The self-assessment checklist - High Priority

Finding

We have examined numerous answers to the questions of five key components of the self-assessment questionnaire; Control environment, Risk management, control activity, information and communication and monitoring. From our examination the following issued have been identified:

Control Environment

The Municipality has assessed itself with grade 2.76 out of 3 in this component. From our review of questions we have identified that numerous answers were not appropriate and were not documented as it is required by the questionnaire.

Risk management

The Municipality has assessed itself with grade 2.08 out of 3 in this component. From our review of questions we have identified that numerous answers were not appropriate and not documented as it is required by the questionnaire.

Control activity

The Municipality has assessed itself with grade 2.64 out of 3 in this component. From our review of questions we have identified that numerous answers were not appropriate and not documented as it is required by the questionnaire.

Information and communication

The Municipality has assessed itself with grade 2.64 out of 3 in this component. From our review of questions we have identified that numerous answers were not appropriate and not documented as it is required by the questionnaire.

Monitoring

The Municipality has assessed itself with grade 2.44 out of 3 in this component. From our review of questions we have identified that numerous

answers were not appropriate and not documented as it is required by the questionnaire.

Risk Weak governance arrangements diminish strategic and operational processes and reduce the quality of services provided to citizens through inefficient and ineffective activities.

Recommendation 4 The Mayor should ensure that the self-assessment checklist is completed with objectivity and documented in order to identify the weaknesses and mitigated appropriately as required by the Ministry of Finance of the Republic of Kosovo.

2.5 Specific Governance issues

Our work in specific areas of governance is based on our audit planning, taking into account the legal environment within which municipalities operate and the challenges it faces.

2.5.1 Accountability arrangements

The municipality has formal accountability and reporting processes, although they lack in efficiency and effectiveness.

Issue 3 – Accountability processes – High Priority

Finding The Municipalities formal accountability and reporting processes need to enhance and improve.

Risk Lack of accountability and reporting processes may result in reduced effectiveness of financial management within the municipality. Furthermore this results in weakness in the budget building and execution and reduces the ability of management to respond to the financial challenges in time.

Recommendation 5 The Mayor should ensure that a review of the existing requirements of accountability and reporting of municipal departments and ensure improved arrangements to achieve specific targets within a year.

2.5.2 Risk Management

All budget organizations are expected to implement the risk assessment as required by the regulations and guidelines.

Issue 4 – The inapplicable requirements for risk management – High Priority

Finding The Municipalities procedures and systems of risk management were not yet operational.

Risk Risk management involves determining ahead of time just what might happen that you don't want to happen. Thus, lack of effective risk management will reduce the quality of service to citizens because of internal and external issues that have influence are not addressed in a timely manner.

Recommendation 6 The Mayor should ensure that procedure and systems of risk management are established and operational. Furthermore the responsibility for risk management is delegated directly to a relevant director and provides monthly reporting on the implementation of the requirements in this field and the risks are being managed.

2.5.3 Management Reporting

Management has implemented a series of internal controls to ensure that financial systems function properly. It is important that they include the right to the management reporting to enable an effective and timely response to operational problems identified.

Issue 5 -Weakness in Management Controls - High Priority

Finding	The review that we have made to managerial controls implemented in the main municipal financial system has highlighted weaknesses in higher-level controls. As such, the governance arrangements require strengthening, in particular with regard to controls on: preparation of the Financial Report (nine month and annual), stocktaking, valuation and presentation of capital assets, procurement procedures, management of accounts receivable, accounts payable management, revenue management, application of expenditure procedures and management of personnel files.
Risk	Poor quality of financial reporting to senior management reduces the ability of management to react in time and actively manage the activities of the Municipality, and undermines effective control budget.
Recommendation 7	The Mayor should review existing measures of general governance and the quality of internal reporting of the Municipality. Unimplemented requirements need to be addressed by the end of 2016. The quality of the reporting and budgetary surveillance must be reviewed critically and systematically to ensure the achievement of the Municipality's objectives.

2.6 The Internal Audit System

The Internal Audit Unit consists of one auditor which planed 4 activities for 2015. Up to 31 December 2015 the auditor presented to us 4 completed reviews and 1 ad hoc review. We must add that in two reports the period covered by the internal auditor is for the year ended 31 December 2014 and the first quarter of 2015, respectively. Although the internal audit unit exists the performance is low..

Issue 6 – Functioning of Audit Unit – High Priorities

Finding Internal Audit Unit consists of an auditor who is also director of the unit. Existing internal audit department lacks of necessary human resources within the Internal Audit Department. According to the Administrative Instruction 23/2009, Budget Organizations with a larger budget than EUR 5,000 thousand have to involve at least three auditors within the Internal Audit Department. The composition of audit department has impacted the work of audit unit which has performed only 4 activities during 2015.

Risk The internal audit system is a key part of internal control and as such it should provide assurance on the effectiveness of internal controls. Lack of capacity in the Internal Audit Department reduces the security it offers in connection with the operation of financial systems which may result in financial loss for the Municipality.

Recommendation 8 The Mayor should ensure that Internal Audit Department has appropriate and sufficient human resources. Furthermore the Mayor must ensure that future activity of IA should be directed towards the development and implementation of audit strategy based on risk. Furthermore, in order the benefits to be visible, the Mayor should take measures to implement the IA finding within the Municipality.

3 Financial Management and Control

3.1 Introduction

Our audit approach is focused on understanding and assessment of actions taken by management to ensure effective financial management and control. We assess whether the controls are well designed, are implemented according to plan or function effectively. To do this requires the assessment of structures, processes and lines of accountability presented by management. We consider specific issues such as self-assessment application FMC and risk assessment.

We have focused our review of financial management and control in our year-end audit on processes and systems such as;

- Budget management and execution
- Procurement procedures,
- Own source revenue management,
- Receivables management,
- Payable management
- Non - capital assets management,
- Human resources,

3.2 Conclusion on Financial Management and Control

During our audit we have identified weaknesses in managerial controls implemented in the system of governance of the Municipality. As such, the financial management and control require strengthening, in particular with regard to controls on: preparation of the Financial Statements (nine month and annual), completeness, accuracy and ownership of capital assets, procurement procedures and planning, management of accounts receivable and payable, revenue management, application of expenditure procedures and management of personnel files.

3.3 Budget Planning and Execution

We have considered the sources of budgetary funds for the Municipality, spending of those funds by economic categories and revenues collected as presented in the following tables:

Table 1 Source of budgetary funds - actual versus budget (in EUR)

Description	Initial Budget	Final Budget ¹	2015 Actual	2014 Actual	2013 Actual
Sources of funds:	11,090,999	11,636,860	11,235,296	11,279,619	11,252,000
Government Grant-Budget	10,342,884	10,617,393	10,548,574	10,379,831	10,278,000
Carried forward from previous year ²	-	251,361	250,467	216,423	-
Own Source Revenues ³	748,115	748,155	419,732	597,287	634,000
Domestic Donations	-	8,950	8,449	8,000	-
External Donations	-	11,001	8,074	78,078	340,000

Final Budget is higher than initial budget for EUR 545,861. Most of the increase is a result own source of revenues Carried forward from previous year in the amount of EUR 251,361. Also, the Government Grant has increased for EUR 274,549, after budget review and in accordance with Government decision.

In 2015, the Municipality has used 97% of the final budget or EUR 11,235,296 (2014: 96% or EUR 11,279,619). Realization of budget remains at a satisfactory level and below are given the explanations for the actual positions.

¹ Final Budget – budget approved by the Assembly and continuously adjusted by the Ministry of Finance.

² Own source revenues of the Municipality not spent in the previous year and transferred to the current year

³ Receipts used from the Municipality for financing its own budget.

Table 2. Funds expended by economic category - actual versus budget (in EUR)

Description	Initial Budget	Final Budget	2015 Actual	2014 Actual	2013 Actual
Funds spent by economic category:	11,090,999	11,636,860	11,235,296	11,279,619	11,252,000
Wages and Salaries	7,091,581	7,366,130	7,244,135	6,890,821	5,927,000
Goods and Services	932,838	958,094	870,692	921,811	1,170,000
Utilities	212,540	212,540	210,757	169,063	191,000
Subsidies and Transfers	219,736	221,936	203,787	217,656	159,000
Capital Investments	2,634,304	2,878,160	2,705,925	3,080,268	3,805,000

The execution related to capital investment is presented at 94% which is satisfactory realization of budget for this category. The Municipality has invested heavily in road infrastructure where approximately 70% of the capital investments budget is invested in this category.

Furthermore there are differences between planning of procurement for capital investment and realization of those investments. This is the main challenge which has to be addressed by the management.

Regarding realization of expenditures for the category Wages and Salaries, it can be seen that the budget was realized 98% in year 2015 (2014: 99%). This is expected since the projection of budget for salaries is quite accurate.

Regarding realization of expenditures for the category Goods and services, it can be seen that the realization of budget was 91% which is higher than prior year (2014: 88%). It should be stated that the government grant for this category is expensed 98%.

The budget for Subsidies and transfers was expensed 92% (2014:98%).

Table 3. Own source revenues of Municipality of Skenderaj - actual versus budget (in EUR)

Description	Initial Budget	Final Budget	2015 Actual	2014 Actual	2013 Actual
Own source revenues	748,155	748,155	702,249	848,566	693,000

Regarding own source revenues, it can be seen that the percentage of realization is 94% up to December 31, 2015 or less for EUR 146,317 compared to 2014. The trend of the revenues collections should be increased year on year taking into consideration the Municipality's capabilities. Own source revenue were used for capital expenditure 17%, goods and services 23%, subsidies and transfers 18% and salaries and wages 3%, whereas 40% of the amount was carried forward in year 2016.

Issue 7 - Budget planning - High Priority

Finding	The Municipality should put more effort on planning and increasing the collection of own source revenue. Furthermore there are differences between planning of procurement for capital investment and realization of those investments. This is the main challenge which has to be addressed by the management.
Risk	Inadequate budget planning regarding the own source revenues and deviation in planning of procurement for capital investments and realizations will result in a failure to meet organizational objectives.
Recommendation 9	The Mayor of the Municipality should aim to increase the budget performance in relation to own source revenue and affective planning for capital investments.

3.4 Procurement

The amount of contracts signed through procurement procedures for the period ended 31 December 2015 was EUR 6,483 thousand. This includes Capital Investments and Goods and Services. Most of contracts for capital investments are for a three year period.

There are some aspects of the procurement process on which controls are not effectively implemented. We have identified cases where procurements performed during the year were not aligned with the procurement plan.

Our audit of procurement management identified the following issues:

Issue 8 – Systematic weaknesses in procurement – High Priority

Finding	During the audit of procurement procedures we identified issues as following: - In thirteen procurement files, Statement of Needs and Determination of Availability of Funds was not filled appropriately. The completion of SNDAF is required by section 9 of the Law on Public Procurement No. 04/L-042. - In ten procurement cases in total amount of EUR 2,333 thousand we have noticed that , the commitments of funds were made less than contracts signed amount and were made after signing the contract .This is not in compliance with the Public Procurement Law 04 / L - 042 and Financial Rule No. 01/2013 Ministry of Finance - Expenditure of Public Funds. - In five cases of procurement procedures in total value of EUR 2,240 thousand the tender execution insurance policy does not cover the entire period of contract. - In one procurement case in amount of EUR 465 thousand we have noted that, funds are not committed. - In one procurement case in amount of EUR 398 thousand we have noted that the invoices issued from the EO in total amount of EUR 50 thousand are without fiscal number, and no address of the seller. This is not in accordance with the AI no.15/2010 . - The Municipality has signed an memorandum with Ministry of Environment and Spatial Planning where the Ministry commits to finance the amount up to EUR 600 thousand. Although the contract for construction was signed less than the preceding amount the Municipality paid the amount of EUR 20 thousand to the Economic Operator which based on the memorandum should have been paid by Ministry.
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- In two procurement cases, in total value of contracts signed of EUR 18 thousand, we noted that is not respected the article 36 paragraph 6 of the Public Procurement Law 04 / L - 042 which states that: "the date by which price quotations must be received shall be no less than five (5) days from the date of the dispatch of the written request for price quotations".
 - In one procurement case in amount of EUR 40 thousand, we noted that is not respected the article 9 paragraph 2 of the Public Procurement Law 04 / L - 042 which states that: "if the objects of the procurement activity have not been included in the contracting authority's final procurement forecast provided to the Central Procurement Authority (CPA) pursuant to paragraph 2 Article 8 of the Public Procurement , the Mayor (CAO) shall provide a copy of the concerned SNDAF to the CPA at least five (5) days before the Authorizing Officer authorizes the Procurement Officer the initiation of the concerned procurement activity".
 - In one procurement case in amount of EUR 20 thousand we have identified that the tender execution insurance is not in the amount 10% of contract signed as it specified in article 63 ,paragraph 2 of the Public Procurement Law 04/L-42.
 - In one procurement case in amount of EUR 505 thousand we have noted that the agreement has no date of signature and the date of maturity is not specified.
 - In one procurement case in amount of EUR 45 thousand we have noted that in SNDAF in article 3 " Review" is not signed by the Chief Financial Officer ,this is not in accordance with the Public Procurement Law 04 / L - 042.
 - In one procurement case in amount of EUR 45 thousand we have noticed a discrepancy between invoice, dispatch note and goods receiving report for the invoice in the amount of EUR 4 thousand. Additionally, in the invoice with the amount of EUR 8 thousand the dispatch note is missing.
 - In two cases of procurement procedures that constitute the total value of EUR 16 thousand we have identified that the guarantee of work as it mention in contracts , was missing.
 - In one procurement case in amount of EUR 10 thousand we have noticed that economic operator has invoiced some products and services which are not in the list of offer of dossier of tender.
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Risk As a consequence of the lack of effective controls on the procurement procedures and non-commitment of funds under the requirements of the law, may led to the failure of making payments or disbursing irregular payments, delays in the delivery of services, and the contracts cannot be implemented according to the required standard.

Recommendation 10 The Mayor has to identify the root causes of the deficiencies and take appropriate action to ensure procurement requirements are fully implemented.

3.5 Non Procurement Expenditure

3.5.1 Other expenses

From the sample tested we did not identify deficiencies in categories goods and services and utilities. We have no recommendations for this section.

3.5.2 Remunerations (Wages and Salaries)

Expenditures for Wages and Salaries are paid through the centralized government system (payroll). Controls that operate in local level relate with: a) authorization of payroll lists; b) verification of possible changes; and c) the budget review for this category and reconciliation with the Treasury. The sample selected for testing is composed from: Administration 8 files, Health 3 files and education 19 files. We have noted lack of documentation as described below.

Issue 9 – Personnel Data - Medium Priority

Finding During audit of HR, we identified that personnel files are not maintained as required by Regulation No. 03/2011 “On civil servant files and central register” and best practises. In particular following has been identified;

- In 21 cases the cover letter in the file was missing,
- In 17 cases court investigation reports were missing;
- In 10 cases files of medical examination are missing;
- In 19 cases evaluation of application is missing;
- In 19 cases work evaluations are missing;
- In 10 cases annual leave forms are missing;
- In 19 cases decision for appointments as regular employees are missing,
- In 7 cases contracts were not signed by employees.
- The majority of payroll lists were not signed by employees.

During our testing of recruitment process we identified the following non compliances;

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- In three cases of recruitment process, the decision of selected applicant is signed before the passing time for appeals for unsuccessful candidates which is not according to the article 43 of the Administrative Regulation No. 02/2010 on Recruitment Procedures in Civil Services
 - In two cases the selected candidates in certain positions have not full field the work experience criteria which were required by the public announcement of the Municipality.

Risk

Lack of documentation in the personnel files and lack of signatures/approvals required represents departure from the laws and regulations in force. Also inadequate procedures and incomplete documentation regarding the recruitment process could lead to hiring unskilled employees for the respective positions.

Recommendation 11 The Mayor should ensure that the Municipality takes further steps to improve controls over personnel files and hiring process in order that files are properly organized and completed and hiring process is done in accordance with relevant regulation and take measure regarding the signing of payroll lists

3.5.3 Subsidies and Transfers

Subsidies and transfers during the year ended 31 December 2015 amount to EUR 204 thousand, where EUR 76 thousand are from government grant and EUR 126 thousand are from own source revenue and EUR 2 thousand from donations. We have no recommendation in this section.

3.6 Revenues (including own source revenues)

Own source revenues generated by the Municipality in 2015 amounted to EUR 700 thousand. This category includes revenues from tax on property, administrative and road taxes, construction permits, etc.

Municipality has a range of controls for collection and reporting of some of its revenues. However, there is a need for improvement in some processes in order to ensuring the accuracy and completeness of revenues collection.

Issue 10 - Tax on Property, rent revenue and other revenues - High Priority

Finding

The Municipality did not verify 1/3 of the existing registered properties. Furthermore according to the Law on property tax 03 / L / 2014 article 13, paragraph 3 the Municipality shall review and follow the fair value of the property that is in its jurisdiction for every three to five years. One report was prepared by the Municipality in previous years but the report is not comprehensive and in accordance with AI. No. 04/2011.

An automated billing system exists only for tax on property. For other categories of revenues for which the billing system is required, it is not applied. Instead only cash collections from such revenue streams are recorded.

The Municipality owns software for recording and billing of services for types of income such as revenues from taxes for businesses, the fees of which are not integrated into the system but are entered manually. Furthermore, data that can be generated are not detailed for the debts of each period but only give the total amount expected to be receivable by not having an analysis of debts to the municipality.

We have identified that the sub ledger of the receivables for rent are not maintained appropriately.

We noted that in the Municipality's regulation for fees and taxes is specified that "if payment of rent is not paid in due time obliged party will be charged with an interest of 0.2%", according to the Administrative Instruction municipality has no right to charge interest and penalties.

The revenues invoiced for business tax and rents during the year 2015 are EUR 64 thousand whereas the balance of receivables as at 31 December is EUR 389 thousand. The collection for the period is only 20 thousand or 8.9% of total receivables.

We identified a difference of EUR 3 thousand between own source revenues presented in the financial statements and the statement extracted from the Free Balance.

Risk

Without sufficient, detailed and accurate records of debtors and reports on collections, the Municipality is unable to prepare a reliable and accurate budget, neither report an accurate collection ratio, nor follow up the collection of the own source revenues on a timely basis. Furthermore, low level of collection of revenues will impact the investing capacity of the Municipality.

Inadequate and insufficient controls related to revenues and the related software and billing system increase the risk of altering of figures and misuse of information. Such a system could lead to incomplete billing and incomplete revenues.

In the absence of comprehensive verifications for 1/3 of the properties there is a risk of inaccurate and incomplete data related to the taxable property. As a result there is a risk that revenue from tax on property will decrease.

Recommendation 12 We recommend the Mayor to take these steps:

To improve the billing and accounting systems in order to ensure safe, efficient and effective controls on the billing and the revenue. Improvement of the procedures related to such systems would enable the management to monitor and manage significant risks, and to ensure that decisions related to budgeting, planning and collection of revenues are properly carried out. To ensure that surveys and verifications are comprehensive and well documented.

3.7 Assets and Liabilities

3.7.1 Capital and Non Capital Assets

Although the Municipality has taken steps to improve reporting for its assets, some uncertainties and material weaknesses in relation to the assets of the Municipality still exist and the prior year's recommendations are only partially implemented.

Issue 11 - Register of capital assets - High Priority

Finding Register of capital assets above EUR 1,000 does not contain the respective date when the asset was purchased and placed in use. We could not determine whether the depreciation calculated from the system and, respectively, net book value of assets presented in Note 30 is correct. Furthermore in fixed assets register is recorded the amount of EUR 3,885 thousand referring to payments made by third parties in current and prior years which were not documented as required by the article 12 and 13 of regulation MF No.02/2013. Moreover there is a lack of ownership documents supporting non-financial capital assets above EUR 1,000.

Risk The Municipality does not have complete and accurate records on its assets. This may lead to assets being misappropriated and not being identified as such on a timely basis.

Recommendation 13 The Mayor should ensure the following timely and accurate recording of all assets in the relevant registers in accordance with the requirements of regulation 02/2013. It also should ensure that capital assets register contains complete information, including the date when the asset was purchased and put in use, so that the calculation of depreciation can be performed accurately. As well as maintain sufficient appropriate documents and determine the ownership status.

Issue 12 - Stocktaking of capital assets - High Priority

Finding For year ended December 31, 2015 the Municipality has not performed the process of stocktaking of its assets above 1,000 euros as required with the Regulation MF No. 02/2013 "On management of non-financial assets by Budget Organizations", which requires that the "Budget Organizations must check at least once a year the non-financial assets to verify and assess the factual situation of non-financial assets".

Risk	Not performing stocktaking of the assets as required by the regulation, the Municipality results in not identifying the real factual situation of assets which may have been damaged or completely missing. This may result in keeping the assets in the financial statements that may not exist or have lower value than the one with which they are held in the financial statements.
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Recommendation 14	The Mayor of the Municipality must ensure that the stocktaking of nonfinancial capital assets is conducted in accordance with the Regulation in force for non-financial assets of Budget Organizations and ensure that stocktaking is conducted on an annual basis.
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Issue 13 - Disclosure of non-capital assets under EUR 1,000 - High Priority

Finding	In Note 31 of the annual financial statements are presented non - capital assets under EUR 1,000, in amount of EUR 1,289 thousand. The Municipality has not used the system "E-Pasuria" to record all of the non - capital assets under EUR 1,000. Therefore we were not able to reconcile the amount presented in this system with the amount presented in note 31 "Summary of non-capital assets under EUR 1,000 and a useful life more than one year".
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Furth more due to the lack of supporting information for non-capital assets, we are unable to quantify the effect of the depreciation for the whole balance of non-capital assets.

Risk	Lack of supporting documentation for the non-capital assets owned by Budget Organizations can affect incorrect presentation of information in financial statements. This may result in non-presentation of non-capital assets in the financial statements at their fair value or on presenting of assets that can be damaged or do not exist. Also, the presentation of non-capital assets in gross value is not in accordance with the Regulation in force for non-financial assets of Budget Organizations.
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Recommendation 15	The Mayor of the Municipality must ensure that the Municipality maintains accurate and complete information in relation to non-capital assets and ensure that they are depreciated according to the regulation in force.
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Issue 14 - Lack of ownership documentation and information's for the investments made by third parties - High Priority

Finding	The official transfer of ownership for a significant portion of assets financed by third parties this year and over the past years and presented in financial statements as "Payments from third parties" has not been finalized yet.
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Risk	Lack of supporting documentation for the non-capital assets owned by Budget Organizations can affect incorrect presentation of information in financial statements.
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Recommendation 16 We recommend the Mayor of the Municipality to ensure that the Municipality is making maximum efforts for the obtainment of data from third parties, with particular emphasis on those parties known to have carried out significant investments in the municipality. The data obtained should be correctly presented in the asset register of the Municipality. Best practice would require that on an annual basis reconciliation of data is made between third parties and the Municipality for investments in the Municipality for the respective year.

3.7.2 Cash and cash equivalents

Issue 15 – Cash deposits – High Priority

Finding The money collected in the offices of the municipalities in the villages are kept in cash box and every week are deposited in the main municipality cash box and after that the main cashier deposits the money into the bank. This practise is not in accordance with the article 11 of the regulation 03/2010 which specifies that “Collection of revenues-at the end of the day the money collected in the cash-boxes of Budget Organizations shall, through the collecting agency be deposited in bank in total for each type of revenue accompanied by a summarizing invoice containing the “Uniref” and verification number.

Risk Lack of regular cash deposits at bank by the Municipality may result in misappropriations of cash and unidentified errors in reporting cash balances and in addition, such practice is not in compliance with the requirements of legislation in force.

Recommendation 17 We recommend the Mayor ensure that daily cash deposits and controls are performed as required by the legislation in force.

3.7.3 Receivables

The Municipality does not have in place a robust process for identifying, recording and monitoring of invoices issued for its taxes.

Issue 16 – Aging of Receivables - High Priority

Finding The Municipality has not taken the necessary actions to collect these amounts and no aging analysis is performed. Almost 90% of property tax receivables are related to years earlier than 2015.

Risk Lack of sufficient controls over the collection of revenues and lack of the receivables aging analysis, have an adverse impact on the collection of revenues and as a consequence, on the funds generated by the Municipality to finance its expenses and investments. Such deficiencies impair the ability to identify issues, to monitor and allocate appropriate resources for the collection of revenues, and to report accurate and complete amounts of collectible amounts receivable in the Annual Financial Statements.

Recommendation 18 The Mayor of the Municipality must ensure that the Municipality takes further actions and make a detailed plan to collect old debts.

3.7.4 Debts

The balance of unpaid debts to suppliers as at the end of 2015 was EUR 195 thousand. These liabilities are carried forward to be paid in 2016.

Issue 17 - Unpaid debts - High Priority

Finding The Municipality did not perform its payment obligations within 30 days as required by Regulation 01-2013 "Public Funds Expenditure. Invoices totalling EUR 195 thousand presented on financial statements represent unpaid invoices for more than 30 days. Furthermore we identified the amount of EUR 27 thousands of liabilities incurred subsequent to year end and presented as unpaid liabilities as at 31 December 2015.

Risk As a result of delayed payments and lack of complete information, the ability of the Municipality to anticipate and manage liquidity needs may be impaired, and the Municipality may incur additional costs of interests and penalties, required by third parties.

Recommendation 19 The Mayor should ensure that the Municipality will take further steps and develop action plans to execute the payments within the required period.

Annex I: Audit approach and methodology

Responsibilities of Auditors and those charged with governance are given in detail in the Opinion set out in Chapter 1.2 of this report.

While the key result of our work is the audit opinion, the report reflects the entirety of our work with special focus on governance issues including Financial Management and Control. The latter relies on our extensive program compliance audit based on risk.

Executive Summary aims to highlight key audit findings and key actions for which the Minister must ensure that they are taken to address identified weaknesses management / control.

Detailed Report offers an extensive summary of our audit finding with emphasis on determining the cause of audit findings and makes appropriate recommendations to address them. For completeness we have included issues identified at the interim audit where they remain relevant. Our findings are defined as:

We have considered the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support our audit opinion. Management activity also determines the focus of our compliance audit and good governance audit which do not directly impact on the opinion.

Our audit approach to governance is focused on evaluating the actions taken by management to secure effective financial management and control and the results of this action in efficiently delivering high quality operational outputs. For individual financial systems we seek to identify the level at which actual controls operate. This may, for example, be monitoring activity undertaken by senior management or lower level operational controls. We consider whether controls are well designed, have been implemented as planned and operate effectively. This requires an assessment of structures, processes and accountability lines introduced by management including the role undertaken by Internal Audit and Audit Committees as well as inbuilt system controls.

The following sections provide more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review. An assessment of how the Management has addressed recommendations made in the report on 2014 may be found in Annex III.

Our findings are defined as:

High Priority - issues which may result in a material weakness in internal control and where action will offer the potential for improvements to the efficiency and effectiveness of internal controls, and issues that may have an impact on losses and/or committed revenue; and

Medium Priority - issues which may not result in a material weakness but represent significant deficiencies where action will also offer the potential for improvements to the efficiency and effectiveness of internal controls.

Findings considered low priority will be reported separately to finance staff.

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

Annex II: Explanation of different types of opinions applied

(Extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

159. If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor's judgment, 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 III: Prior Year Recommendations

Recommendation No.	Audit Component	Given Recommendations	Implemented	Addressed but not implemented	Not Addressed
Recommendation 1	Investments made by other government agencies.	The Mayor should analyze the reasons for the deficiencies described above which form one of the points for the qualified opinion and identify appropriate actions to address these weaknesses in controls in order to enable a fair presentation in 2015.		Addressed but not implemented	
Recommendation 2	Third party payments.	Although our audit procedures did not experienced any finding about the presentation of payments by third parties, we recommend that the Mayor ensures that the Municipality continuously records and presents in its financial statements all possible payments from third parties, and draws information from all sources involved in the financing of assets. Also we recommend that the Mayor ensures that the Municipality is making great efforts to provide the data by third parties, with particular emphasis on those parties known to have carried out significant investments in the Municipality. The data provided should be presented to the Municipality's register of assets. Best practice would require that on an annual basis reconciliation of data is made between third parties and the Municipality for investments made in the Municipality for the year.		Addressed but not implemented	
Recommendation 3	Preparation of Annual Financial Statements	The Mayor should ensure that the process of preparation of the Annual Financial Statement addresses in complete the weaknesses identified in the Nine Month Financial Statements and the requirements of Regulation MF -No. 03/2013. The statement made by the Mayor of the Municipality and Chief Financial Officer, when the draft annual financial statements are submitted to the Government, must be signed only after a comprehensive review of the management regarding the content and accuracy of Annual Financial Statement is made. All other reporting requirements must be met.		Addressed but not implemented	

Recommendation No.	Audit Component	Given Recommendations	Implemented	Addressed but not implemented	Not Addressed
Recommendation 4	Compliance with Annual Financial Statement	The Mayor of the Municipality must ensure that the process of preparation of the Annual Financial Statement fully addresses the requirements of the Regulation MF -No. 03/2013. The statement made by the Mayor and Chief Financial Officer, when the draft annual financial statements is submitted to the Government must be signed only after a comprehensive review of the management is done regarding the content and accuracy of the statements.		Addressed but not implemented	
Recommendation 5	Prior Year Audit Recommendations	The Mayor should provide a revised plan of action, to address the remaining recommendations of 2013 and those of 2014. This plan must specify a reasonable time frame of implementation, responsible officers and application manner, being initially focused on areas of great importance and where significant weaknesses were identified. Progress against the plan must be monitored directly by the Mayor of the Municipality.		Addressed but not implemented	
Recommendation 6	Managerial controls	The Mayor should review existing measures of general governance and the quality of internal reporting of the Municipality. Unimplemented requirements need to be addressed by the end of 2015. The quality of the reporting and budgetary surveillance must be reviewed critically and systematically to ensure the achievement of the objectives of the Municipality.		Addressed but not implemented	
Recommendation 7	Integration of fees in the system	The Mayor has to ensure that the fees for all the services that provide the Municipality are entered automatically and the access to modify the fees should be allowed just for the Director of the Department or other responsible employees.			Not addressed not implemented
Recommendation 8	Tax on Property	We recommend to the Mayor of the Municipality to ensure that surveys and conditioning of provision of services are performed as required with the Administrative Guidance No. 03/2011.		The Municipality started to not provide any municipal services without verification that the party has paid part of the	

Recommendation No.	Audit Component	Given Recommendations	Implemented	Addressed but not implemented	Not Addressed
				property tax obligations, but the Municipality has not finished all surveys as required by Administrative Guidance.	
Recommendation 9	Expenditure Procurement-	The Mayor of the Municipality must ensure that there will be a review of audit findings in which processes are not applied effectively, and to determine the reason for the failures encountered in them. Actions/improvement in the processes are needed to be implemented to ensure that such deficiencies will not occur in the future.			Not addressed not implemented
Recommendation 10	Remunerations (Wages and Salaries)	The Mayor of the Municipality must undertake a systematic review of personnel files to ensure that all necessary documentation is included within a specified period of time.			Not addressed not implemented
Recommendation 11	Calculation of deduction for maternity leave	The Municipality Major must ensure that this issue will be further considered by the administration of payroll, in order not to allow the damage of the Municipality budget. The Municipality Major must address this issue to the MPA to make the change in base salary in accordance with government decisions and ensure that these changes are reflected in the payroll system of the pre-university education.	Implemented		
Recommendation 12	Subsidies and Transfers	The Mayor of the Municipality should ensure that all the expenses of the Municipality should be documented in the accurate manner.	Implemented		
Recommendation 13	Stocktaking of capital assets	The Mayor of the Municipality must ensure that the stocktaking of non-financial assets will be conducted in accordance with the Regulation in force for non-financial assets of Budget Organizations and ensure that stocktaking will be held on an annual basis.		Addressed but not implemented	

Recommendation No.	Audit Component	Given Recommendations	Implemented	Addressed but not implemented	Not Addressed
Recommendation 14	Register of capital assets	The Mayor must ensure that the register of capital assets should contain all necessary information such as the date and year of purchase, the date when the asset is placed in use in order to be able calculate the depreciation. Moreover the Mayor should ensure that all capital assets recorded are accurate and complete.		Addressed but not implemented	
Recommendation 15	Disclosure of non-capital assets under EUR 1000	The Mayor must ensure that the register of capital assets should contain all necessary information such as the date and year of purchase, the date when the asset is placed in use in order to be able calculate the depreciation. Moreover the Mayor should ensure that all capital assets recorded are accurate and complete.		Addressed but not implemented	
Recommendation 16	Aging of Receivables	The Mayor of the Municipality must ensure that the Municipality takes further actions to improve controls on revenue collection. The priority of the collection should be focused towards old debts. Municipal Office in collaboration with the Department of Tax on Property should ensure that to the tax payers are delivered warnings for the payment of taxes as required by the Administrative Instruction No. 08/2011 "On the collection of tax on property" or even to reach agreement with the taxpayer for payments of tax in installments.		Addressed but not implemented	
Recommendation 17	Handling of debt	The Mayor of the Municipality must ensure that the Municipality will take further steps and develop action plans to execute the payments within the required period.			Not addressed not implemented
Recommendation 18	Internal Audit System	The Mayor should ensure sufficient human resources for this unit and establish an action plan to be implemented to ensure that resulting advices are being addressed. Fulfillment of planned audit activities should be monitored on a regular basis and to take proactive action, so that deviations are addressed in a timely manner.			Not addressed not implemented

Annex IV: Management Response to 2015 Audit Findings

Findings	Agree yes/no	Comments form Municipality in case of disagreements	Auditor's viewpoint
Reccomendation 1:	Partially	For audit opinion of prior year was done a detailed analyss, the Municipality has taken actions related with the findings described by the auditor, but the Municipality preliminary was not fully agreed with these finding..	Auditor findings remain
Reccomendation 2:	No	It has full regulatory compliance of the Financial Statements of 2015, and has been a comprehensive review of the managements about their accuracy and content.	Auditor findings remain
Finding 1:	No	The Municipality has formulated an action plan for elemination of recommendations from prior year through a process of countinuous monitoring, and it has eliminated almost all audit recommendations of 2014. The plan contains the implementation timetable, responsible persons and the manner of implementation. The plan was submitted to the OAG and also a copy was available even for you .	Auditor findings remain
Finding 2:	No	The Municipality has completed self-asesment questionnaire very carfully and was responded as it has served its function.	Auditor findings remain
Finding 3:	No	All department directors report on a weekly basis and they immediatly intervene to prevent risk.	Auditor findings remain
Finding 4:	No	Risk Management is delegated to each director.	Auditor findings remain
Finding 5:	No	Financial Statement, are regulary prepared based on effective Financial Rule 06/2011 that is for nine months reporting, the Municipality aslo prepared quarterly reports as it is required by Article 45.4 of LPFMA.	Auditor findings remain
Finding 6:	Yes	In the future we will operate according to the reccomentadion.	

Findings	Agree yes/no	Comments form Municipality in case of disagreements	Auditor's viewpoint
Finding 7:	Partially	It is very optimistic plan by Ministry of Finance that obligates Municipality to plan own source revenues in excess of their capabilities has result with reduction of the revenues for financing of capital projects.	Auditor findings remain
Finding 8:		On page 25 the first rank it is stated that there was no statement of needs and determination of fund, this is a technical issue, because no tender may be published without planning of projects that means budgetary codes, and all these projects were also involved in planning that was sent to FSA in Pristina and these projects are voted by members of Assembly of Municipality, which is as a rule, and I think when the budget is approved is not tightly important whether it is committed on the first day or later, important is that was planned. In the second rank, it noted that the commitment of funds has been less than the amount of the contract signed, under the law of public procurement 04/L042, it is allowed to develop framework contract in the period 2 or 3 years old but always should be planned the budget for every year for the developed projects. We as a Municipality in many cases have agreements of memorandums with Ministries to co-finance, and in agreement it is noted the percentage of financing for each year and there is no violation as regards the commitment of funds. In 5 cases it is noted that the tender execution security does not cover the period of contract. In these 5 cases security of execution of tender 10% exist for one year with possibility of extension again for next year and we as a contracting authority does not allow any payment to be done without insurance. But it doesn't mean that for this offense because the performance security has been and still might be accomplished even for the period 1 year and two years old. In one case of procurement in amount of EUR 465,000 you have noted that there is no commitment of funds, in these case we don't know for which project do you mean, because is missing identification number of the procurement, and also is missing in all cases that were reviewed by the auditor, and this makes difficult to perform our job and to response with my comments as an officer of procurement in charge. But regarding to the commitment of funds it's not true that there was no commitment of funds, because we can not develop any project without procurement procedure, without being planned in the budget, without budget code and without being approved by Assembly of Municipality and by members of Assembly of Municipality, it is the rule that	Auditor findings remain

Findings	Agree yes/no	Comments form Municipality in case of disagreements	Auditor's viewpoint
		should follow under these procedures. In one case of procurement in the amount of EUR 389,000 it is noted that there have been irregular invoices as procurement officer. I as procurement officer i dont't understand what is iregular invoice. But in a meeting that you have been with officials of the Office of Auditor and with the Director of Finance it was noted even this point. The clarification of auditors has been that in the payment by economic operator NN "Bislimi" the fiscal number was missing, so I as responsible officer of procurement I've explained: the Free Balance officer makes extraction of purchase, and important is the number of business, and without number of business we can not do the purchasse order and without fiscal number we can do it. The fiscal number is important for Ministry of Economy and Finance, so for that you should analyse if it is righ to be noted this comment or no. In one case of procurement you have noted that the Municipality has signed a memorandum with the Ministry of Finance in the amount of EUR 600, 000. The municipality has not signed with the Ministry of Finance Memomarandum but MESP has signed Memorandum for the "Construction of sewage in Runik" .This Memorandum that was signed between MESP and the Municipality in this Agreement has been the participation of the Municipality by 12% project .We have participated as the only Municipality in amount of EUR 20,000. Meanwhile part reptilioid has undertaken MHPH in the amount of EUR 600 000 and during the procurement phase we have selected the EO which was the best price, in terms of line and has fulfilled all the conditions and criteria required and with price of EUR 526,000. We as a procurement office procedures, developed and created competition which have offered 8 OE, OE has been selected as a lowest price from other competitive. I do not understand what Auditor wanted to say about this project for amount of payment EUR 20,000, in Memorandum also noted very well that the Municipality should participate in this project, I don't understand that what comment is this or if it is mistake by your part. In two procurement cases to the quotation of prices, it is noted that the quotation of prices, should not be less than five days .Clarification for these two cases were not included, so the arrival of the requirements from two departments and the statement of needs and determining of the the availability of funds, we have begun procurement procedure and have sent to the CPA and we have received approval and have begun the	

Findings	Agree yes/no	Comments form Municipality in case of disagreements	Auditor's viewpoint
		procedure of quotation prices, which could issue an error by the required deadline. In a case of procurement in the amount of EUR 40,000 to supply official vehicles for the Municipality it offers clarifications that this provision has been the annual planning and the budget, which can be seen from you in procurement planning for 2015 it means that Planning of Procurement is published in CPA website and Planning and Procurement you have physically received by the Procurement, where on the second page with no. 29 it shows that is supply with vehicles for the Municipality. In a case of procurement in the amount of EUR 20,000, you explained that there was no tender execution insurance is not in the value of 10% of contract and I clarify: I don't know that there was no provision of execution in this case. In a case of procurement in the amount of EUR 5,500 you have noted that agreement do not have the signature date and the date of expiration, I can not understand do you mean because you have not mentioned no. of procurement and there is shortage of information from the description of the report. In a case of procurement in the amount of EUR 45,000 you have noticed a discrepancy between the invoice, shipment list and report on receipt of goods There can be any technical error because otherwise no invoice or goods can be paid without going through commissions for receipt of goods and without commission decision after receiving the goods. In two cases of procurement procedures involving a total value of EUR 16,000 you have noticed that is missing Guarantee of work performed as stated in the Contract and I clarify: For the reason of voluminous work that I have in the office has become the mistake, be in these two cases we have technical committees receipted and that are showing that the work is carried out in a professional and accountable by the economic operator. In a case of procurement in the amount of EUR 10,000 euros you have mentioned that EO has provided a service product that are not in the list of file tender offerers. I notice that in this case on the basis of procurement procedures that I have developed for maintenance of above computers, printers it was with open procedures, and in one case we had price quotation for computers and the same operator has won also this tender and may be causes such a product of service in this case where the price of this product has been in	

Findings	Agree yes/no	Comments form Municipality in case of disagreements	Auditor's viewpoint
		the amount of 6 euro. In a case of procurement in the amount of EUR 45,000 you have noticed that in the Declaration of Needs and Availability of Funds, Section 3 the review is not signed by the Financial Chief Officer I clarify: This is a release that does not affect the procedure in the future will not be happen.	
Finding 9:	Yes	We are acting according with recommendation	
Finding 10:	Partially	The municipality has reviewed and follow fair value of the properties that are under its jurisdiction every three to five years. The report in the past years was prepared by Municipality for determining the value of real property to be in accordance with Administrative Instruction No. 04/2011. In this budget year the Municipality has planned purchase of a suouftver for Accounting of Own Souce Revenues for all departments.	Auditor findings remain
Finding 11:	No	Municipality recorded assets over EUR 1,000 with all the data that the system requires "Free Balace", and records from other parties are recorded based in requests of the Municipality parties and are located in the system as it required by Article no. 12 and 13 of Regulation No. 02/2013.	Auditor findings remain
Finding 12:	Partially	The municipality has made regular annual inventory acting and for this has made the process of Municipality commission for physical counting of Municipality property.	Auditor findings remain
Finding 13:	Partially	The municipality has not used the system "E-Pasuria" but has used an alternative system for recording assets under EUR 1,000 and the team has provided information about them and their reconciliations which do not have any objections to them!	Auditor findings remain
Finding 14:	Partially	The municipality regularly makes efforts for the provision of data by other parties (III-I)to perfor investment for the Municipality interest and so far have provided only supporting documentation for the registration of property in the system. But the transfer of ownership has not happened yet, but these assets are recorded as follows investments as required by Regulation No. 02/2013 Article 12 and 13 of its.	Auditor findings remain

Findings	Agree yes/no	Comments form Municipality in case of disagreements	Auditor's viewpoint
Finding 15:	No	Funds submitted regularly to the bank as it is foreseen by the legislation and in force even with Municipality procedures.	Auditor findings remain
Finding 16:	Partially	The Municipality is respecting the law deadline for release, and after this deadline will be undertaken legal measures for all old debtors, going even through personal bailiffs as a last measure.	Auditor findings remain
Finding 17:	Partially	Municipality in the future will fully act in accordance with the recommendation.	Auditor findings remain

Annex V: Annual Financial Statements

*The Municipality has not prepared financial statements in the English language. The financial statements attached are in Albanian language.
