



Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

**AUDIT REPORT OF THE MUNICIPALITY OF ISTOG  
FOR THE FISCAL YEAR ENDED 31 DECEMBER 2018**

**Pristina, May 2019**

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

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

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

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

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Municipality of Istog 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 Edon Kabashi (team leader) and Ylber Sadiku and Hysen Restelica (team members) under the management of the Head of Audit Department Faruk Rrahmani.

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## Executive Summary

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

Our audit focus has been on:



The level of work undertaken to carry out the audit was determined depending on the quality of internal controls implemented by the Management of the Municipality of Istog. The National Audit Office acknowledges the Municipality Senior Management and Staff for cooperation during the audit process.

### Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

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

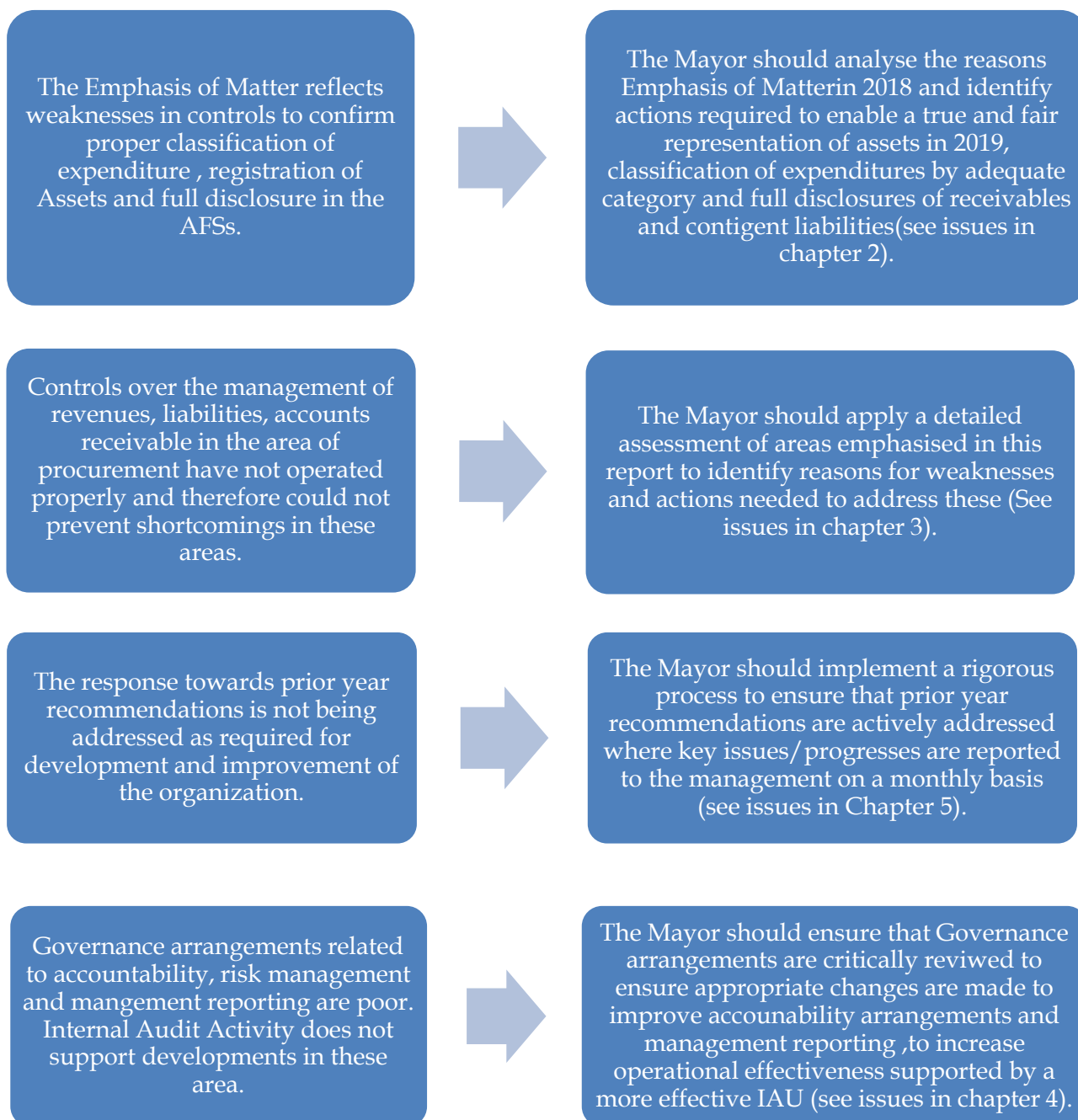
#### Emphasis of Matter

As an emphasis of the matter, we would like to mention the fact that in the category of capital investments, expenditures in the amount of €183,326 were budgeted and paid incorrectly, which by nature belong to the category of goods and services and subsidies and transfers. Also, receivables and assets in the Annual Financial Statements were underestimated, while contingent liabilities were not disclosed at all in the statements.

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

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

**Key Conclusions and Recommendations:**



**Response of the Mayor**

The Mayor has taken into account and agreed with most of audit findings and conclusions of the audit. For some of them were given some clarifications and comments, which can be found in Annex II.

# 1 Audit Scope and Methodology

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

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

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

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

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## 2 Annual Financial Statements and other External Reporting Obligations

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

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

### 2.1 Audit Opinion

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

We have audited the AFS of the Municipality of Istog for the year ended on 31st of December 2018, which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement and the Explanatory Notes of the Financial Statements.

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

#### **Basis for the opinion**

Our audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the AFS section of our report. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.

#### **Emphasis of Matter**

We draw your attention to the fact that:

- A part of the expenditures is budgeted spent incorrectly by inadequate categories. Municipality has incorrectly classified 23 payments as capital investments for projects in the amount of €183,326, which according to the Administrative Instruction 2005/08 belong to the category of goods and services in the amount of €158,657 and subsidies in the amount of €24,669;

- Municipal assets continue to be underestimated as a result of not registering 1,540 municipal plots and not registering purchased assets over €1,000 in KFMIS in the amount of €202,603. On the other hand, we have an overestimation of assets by €124,911 because they were registered as capital assets, while they did not meet the criteria for capital assets nor asset adjustments;
- Accounts receivable were underestimated by €196,101. Receivables for business taxes in the amount of €174,831, the charge on serving of alcoholic beverages in the amount of €8,380, and temporary rent in the amount of €2,890 were not disclosed in the AFS; and
- Contingent liabilities in the amount of €152,019 were not disclosed in the financial statements.

### **Key Audit Matters**

The Municipality is also exposed to contingent liabilities or disputes, and their value according to Municipality information is €152,019. If litigation is decided in favour of creditors, the municipality is expected to face budgetary loss in the following year.

### **Responsibility of Management for AFS**

The Mayor of the Municipality is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Modified Cash based Accounting and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law number 03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

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

### **Auditor General's Responsibility for the Audit of the AFS**

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

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

An audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. The procedures selected depend on the auditor's judgment, including the

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assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the entity's circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

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## 2.2 Compliance with AFS and other reporting requirements

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

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
- Requirements of LPFMA no. 03/ L-048, (as amended and supplemented);
- Compliance with Financial Rule no.01/2013 and 02/2013;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures;
- Initial and Final Procurement Plan; and
- Regular Quarterly Reports for the Municipal Assembly.

In the context of the Financial Statements we have no issues to raise:

The Statement of receptions and petty cash payments and the Report on Budget Execution was not reconciled between the AFS and KFMIS records, as there was a difference of about €6,000.

The Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance can be considered to be incorrect given the fact that disclosures were incomplete. Our opinion is not modified for these matters.

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

## 2.3 Recommendations related to Annual Financial Statements

On the abovementioned issues we recommend:

**Recommendation C1** The Mayor should ensure that actions are undertaken to determine the causes of Emphasis of Matter. In the budgeting process all expenditures should be budgeted in accordance with treasury rules (cash-based accounting plan). Further on, all assets, including property, must be registered in the property registers. Further on, disclosures of accounts receivable and contingent liabilities should be presented in the AFS for 2019 fully and accurately.

The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be signed unless all necessary checks have been applied to the draft AFS.

## 3 Financial Management and Control

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

### Financial Management and Control Conclusion

The Municipality of Istog had spent 91% of the final budget for 2018, which implies a good performance at general level, but an unsatisfactory level was in capital investments. In the context of financial systems, revenue controls are generally appropriate and effectively implemented, however, additional mechanisms are needed in order to collect higher amounts of revenues and collection of receivables to a greater extent.

Furthermore, controls over a range of spending areas require further improvement to prevent misstatement of expenditures, recruitment of employees with short term contracts, disrespecting procurement rules, increased payments for court decisions, and delays in conclusion of capital projects.

Furthermore, the Municipality should take actions to improve management and full reporting of assets and liabilities, issues which are raised in the previous year's report.

### 3.1 Budget Planning and Execution

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

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

Description	Initial Budget	Final Budget <sup>1</sup>	2018 Outturn	2017 Outturn	2016 Outturn
<b>Sources of Funds</b>	<b>10,197,776</b>	<b>10,532,051</b>	<b>9,542,940</b>	<b>8,853,886</b>	<b>8,846,553</b>
Government Grant -Budget	9,016,861	8,894,563	8,568,226	7,734,102	7,865,277
Carried forward from previous year <sup>2</sup> -	0	307,748	135,406	333,027	145,246
Own Source Revenues <sup>3</sup>	1,180,915	1,180,915	704,794	751,223	721,525
Domestic Donations	0	29,367	15,060	35,534	24,334
External Donations	0	119,457	119,454	0	90,171

The final budget is higher than the initial budget by €1,262,994. This increase is a result of internal and external donations by €148,824, revenues carried forward from previous year in the amount of €307,748, and reduction by Government Decisions by €122,298.

In 2018 the BO has spent used 91% of the final budget in 2018 or €9,542,940, with an improvement of 1% compared to 2017 (90%).

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

Description	Initial Budget	Final Budget	2018 Outturn	2017 Outturn	2016 Outturn
<b>Spending of funds by economic categories</b>	<b>10,197,776</b>	<b>10,532,051</b>	<b>9,542,940</b>	<b>8,853,886</b>	<b>8,846,553</b>
Wages and Salaries	6,021,834	5,899,536	5,861,876	5,638,899	5,675,925
Goods and Services	1,037,272	1,042,767	904,245	764,047	782,425
Utilities	117,000	137,138	137,047	118,580	145,532
Subsidies and Transfers	223,813	258,970	251,784	262,018	201,391
Capital Investments	2,797,857	3,193,639	2,387,988	2,070,342	2,041,280

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries was reduced by €122,298 by Government Decision. Budget execution for this category was about 99%;
- The final budget for Goods and Services was increased by €5,495, Utilities for €20,138 and Subsidies and Transfers for €35,157. Increase of these categories resulted from carried forward

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

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

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

revenues. Execution of budget for Goods and Services was at 87%, Utilities at 100%, while in category Subsidies and Transfers at 97%; and

- The final budget for Capital Investments was increased by €395,872. The increase was due to the carried forward revenues in the amount of €246,957, donor grants of €148,825. Despite of this budget for Capital Investment were spent only 75%. Delays are related to some projects that began at the end of 2018.

#### Issue B1<sup>4</sup> – Low level of budget execution for capital investments

**Finding** A challenge for the Municipality remains low level of budget execution in the category of Capital Investments, at only 75%, which resulted in a surplus of €805,651 from the one that was budgeted. The low level of execution was mainly due to delays in the development of procurement procedures. This was also influenced by the fact that procurements for executive projects were delayed or cancelled altogether, affecting the start of procurement for capital projects.

Furthermore, a significant part of capital expenditures (75% of payments) was incurred in the last quarter year.

**Risk** Low budget execution reduces effectiveness of organization's annual plans. Due to the failure to fulfil the capital investments program will result in fewer implementation of projects, which will affect the quality of services to citizens.

**Recommendation B1** The Mayor should ensure that budget performance is systematically monitored on a monthly basis and that this review identifies and addresses barriers that hinder timely and planned level of budget execution. If initial budget planning is inaccurate, this should be fully reflected in the final budget position.

### 3.1.1 Revenues

Revenues generated by The Municipality of Istog totalled €933,592. These relate to revenues from property tax, revenues from construction licenses, revenues from rent, administrative fees, etc.

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

Description	Initial Budget	Final Budget	2018 Receipts	2017 Receipts	2016 <sup>5</sup> Receipts
Own source revenues	1,180,915	1,180,915	933,592	843,036	1,061,435

<sup>4</sup> Issue A and Recommendation A – implies new issues and recommendations.

Issue B and Recommendation B – implies repeating issues and recommendations.

Issue C and Recommendation C – implies issues and recommendations that are partially repeated.

<sup>5</sup> Receipts for 2016 include indirect revenues as well.

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Out of total planned revenues in the amount of €1,180,915, the municipality had managed to collect 79%. Municipality of Istog had indirect revenues in total amount of €165,193. Revenues were from traffic penalties of €117,229, court fines of €32,223 and by the forensic agency of €15,741.

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## Issue B2 – Inadequate management of leased municipal properties

**Finding** Regulation no. 23/2013 on the determination of the procedures for allocating to use and exchange of municipal real property, in Article 4, stipulates that the Municipality is obliged that in case of allocation for short-term use of the immovable property of municipality shall be done through the procedure of a public auction. Municipality of Istog has given out for rent 42 municipal properties. In 2018, the municipality has made slight progress in this regard as eight (8) parcels have been issued through public auctioning. However, we have noticed that:

- The management of leased property remains a challenge for the Municipality in the future as the fact that 41 tenants had outstanding debts, and 10 of them had not paid the rent since 2008 and continue to use the properties of the municipality; and
- In three out of the four tested samples we noticed that the contracts were expired<sup>6</sup> and no contracts were updated as the properties continued to be used by the tenants.

According to the management of the Municipality, the reason for this challenge is the fact that in some municipal properties there are claims that landowners are the persons that they consider the land as their property. Management's actions in eliminating these disputes were not sufficient to change the status of leased property management.

**Risk** Lack of controls and failure to apply adequate measures prevents the collection of lease revenues and increases the risk of aging claims. Also, operating with expired contracts deprives the municipality of the right to collect revenues and pursue legal proceedings in case of non-collection of debt on time.

**Recommendation B2** The Mayor should analyse the reasons behind inadequate management of municipal property and ensure that municipal immovable property is leased only when legal requirements are met in accordance with the rules. In addition, all possible options should be considered in an active manner, including legal means to ensure that agreed revenues are collected.

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<sup>6</sup> Contracts term was 1 year and they were for 2014, 2015 and 2016.

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### 3.1.2 Wages and Salaries

Wages and Salaries are paid through a centralized system. Controls operating at local municipality level relate to: controlling payments by signing payroll lists; verification of possible changes that may appear between the forms; budget review for this category and reconciliation with the Treasury.

The final budget for goods and services was €5,899,536. Out of them, €5,861,876 or 99% of the planned budget was spent.

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#### Issue C2 - Inadequate management in staff engagement under short-term contracts

**Finding** Financial Rule 01/2013 in Article 33 specifies that all persons in employment relationship are paid through the payroll. Law on Civil Service No. 03 / L-149 in Article 12 stipulates that appointments of a fixed term for a period of less than six months shall be made on the basis of contracts called "Special Services Agreement". During 2018, the municipality had engaged 35 engaged employees. Out of these, 30 were engaged with fixed-term employment contracts based on Law on Labour and 5 of them were made through the agreement for special services based on the Law on Civil Service. We have noted that:

- All persons engaged are paid from the category of goods and services even though they were engaged with fixed-term contracts, they are considered as being in regular employment relationship, and payment should be made from the category of Wages and Salaries; and
- There is a confusion with these contracts because for the same position of engagement sometimes was used the Law on Civil Service and at times the Law on Labour. It is also noted that the staff was mainly engaged for regular job positions.

According to municipal officials, the shortcomings identified are the result of the lack of budget for new staff for permanent programs and limited job approval from the Ministry of Finance (MF) in relation to the needs.

**Risk** Covering positions with short-term contract increases the risk of unplanned expenditures and may result with non-fulfilment of other set objectives.

**Recommendation C2** The Mayor should ensure that the practice of such engagements ceases for all regular job positions, for which the municipality has long-term needs, and to address needs during budget planning, by filing a request for additional staff, discussing and handling this issue with MoF. Such payments should be made from the category of Wages and Salaries.

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## Issue A 1 – Shortcomings in Personnel Management

**Finding** The Municipality had not yet completed the personnel files in accordance with Regulation no. 03/2011 on files and register for civil servants and files in the education and health sector. We have noted that:

- Files of civil servants, education and health employees lacked documents such as: birth certificate, citizenship certificate, certificate proving not under court proceedings, annual leave decision and other evidence required to be part of staff files; and
- The Directorate of Education had employed two persons in education department but did not publish the competition in one of the printed medias as required by Administrative Instruction 07/2017 (MLSW) in article 4, point 3, but published it on the web site of the municipality.

**Risk** Failure to update and complete files with the necessary documentation increases the risk of inadequate staff management and reflects irregularities and lack of information on employed staff.

**Recommendation A1** The Mayor should ensure that specific actions have been taken to improve the controls on personnel files so that all files are completed with the necessary documentation by the end of the year.

### 3.1.3 Goods and Services and Utilities

The final budget of Goods and Services was €1,179,905, out of which €1,041,292 or 88% were spent. Those mainly relate to Utilities, travel, telecommunication, purchase of equipment, fuel, registration and security services, maintenance, and official lunch. The findings in this category are related to misclassification and they are presented in the Emphasis of Matter.

#### Recommendations

We have no recommendations in this area.

### 3.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €258,970. Out of them, €251,784 or 97% of the planned budget was spent. Expenditures mainly relate to support for cultural, sports and current aid activities.

#### Recommendations

We have no recommendations in this area.

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### 3.1.5 Capital Investments

The final budget for capital investments was €3,193,639. Out of them, €2,387,988 or 75% of the planned budget was spent. They mainly relate to infrastructure adjustment costs, road construction, sewerage systems, sidewalks, maintenance of facilities, equipment and various improvements to capital assets.

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#### Issue A 2- Lack of Executive Project

**Finding** Article 20 point 10 of the Operational Guidelines for Public Procurement (OGPP) requires that the technical specifications for the work contract should include an executing project as a substantial part of itself.

We have identified that in 15 signed employment contracts the municipality had not drafted the executive project but had developed the procurement procedures by preparing only the estimated value and bill of quantities sheet. The lack of execution projects was mainly on the construction of roads, sidewalks, sewers and irrigation canalizations. According to officials this was due to delays in contracting services for drafting execution projects which were extended by numerous complaints from operators in the procurement procedure. Complaints in the procurement procedure resulted in the lack of a contract for drafting of the executive projects.

**Risk** Due to lack of executive projects and initiation of procedures for capital projects only with a bill of quantities increases the risk where during the project execution process may arise various obstacles, in terms of professional aspect as well as in delays of delivering works, or in increase of projects costs.

**Recommendation A2** The Mayor should ensure through procurement manager that all work-related procedures are not initiated prior to ensuring that there is an executive project. Beforehand preparations for a project will also have an impact on the drafting of clear specifications, but also to eliminate obstacles relating to delays and additional costs.

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**Issue A 3 – Exceeding of additional works and other shortcomings****Finding**

Annex contracts according to article 35 of the LPP<sup>7</sup> are allowed up to 10% of the value of the original contract. The original contract<sup>8</sup> for “Regulation of Ibrahim Rugova Memorial – Phase IV “was in the amount of €348,934. The Municipality had signed an annex contract in the amount of €92,456, which constituted 26.5% of the original contract. So, the amount was exceeded by €57,563, which was over 10% of allowed annex the contract. Also, in this procurement procedure we have identified some shortcomings such as:

- In the tender dossier of the winning EO, no subcontracting of works was foreseen. After the conclusion of the contract, respectively on dt. 15.10.2018, the winning EO has notified the Municipality of subcontracting a part of the contract, which is in contravention of the Tender Dossier - Section 4.2;
- The Municipality has not notified the PPRC within two (2) days from the date of the decision on the application of the negotiated procedure without publication, which is required by the article 20 of the LPP;
- There were delays in the execution of this contract by the fact that with the dynamic plan and special terms of the contract it was planned that the contract would be completed in December 2018. We have noticed that by the end of February 2019 the project was not completed yet and there was no approval for continuation of works or even application of penalties; and
- Execution of the contract - During the physical examination, we have identified that three positions were not executed according to the contracted manufacturer<sup>9</sup>: (Positions not executed according to the contracted manufacture are: B1 of €12,780, B2 of €760 and position C1 of €25,800). The contract manager had approved these changes with justification that according to him were of the same technical specifications.

**Risk**

Exceeding the value of additional works and other identified procurement shortcomings in this project up to the execution of works increases the risk that the project will not be completed at the required quality and will deviate from the initial project.

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<sup>7</sup> Law on Public Procurement no. 04 / L-042 with Amendments and Supplements s to Laws No. 04 / L-237; no. 05 / L-068 and 05 / L-092.

<sup>8</sup> The contract is a co-financing between the Municipality and the Agency for the Management of Memorial Complexes.

<sup>9</sup> The positions were foreseen to be of Japanese manufacturers by installed/set of Chinese manufacturers

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**Recommendation A3** The Mayor should ensure that the allowed 10% of additional works is not exceeded in any case from the initial contract, and in case of additional works the procurement manager should adhere to all procurement rules. In addition, should be established an accountability system in cases of changes of items (producers), and delays have occurred in unapproved works. A continuous monitoring over the management of procurement processes is indispensable by the management in cases of complex projects.

#### **Issue A 4 – Non-compliance with terms set in tender dossier**

**Finding** In the tender dossier for “Construction of the Roadway Zhakova - Hajrizaj Quarter” were defined the criteria to be met by the bidders regarding the fulfilment of the of technical and professional capacity requirements.

We found that the site manager assigned by the operator had a notarized diploma in 2016, while according to the notification for contract it required to be notarized after the date of the contract notice. Also, the winner did not have the notarized licenses for the asphalt base production and the Stone Crashing Plant licensed by the Commission for Mines and Minerals, nor the agreement with the operator for the use of the asphalt base and stone crushers, the requirements of the tender dossier. This situation was due to the negligence of the Bid Evaluation Commission.

**Risk** Shortcomings in the management of procurement process in general and the evaluation of bids in particular may result in contracts awarded to ineligible operators, by increasing the risk of shortcomings in the execution of contracts.

**Recommendation A4** The Mayor should ensure that management of procurements includes the evaluation process in full compliance with established criteria, and bidders that are not in compliance with requirements of the Tender Dossier are not awarded with contracts. In addition to apply the accountability system in case works are not performed under legal requirements.

### **Issue B3 – Payments carried out without sufficient evidence**

#### **Finding**

We found that two payments were made without being provided with sufficient evidence of service delivery. Payments in the amount of €4,343 for “Maintenance of Public Lighting “and payment of €10,225 for “Maintenance of Public Premises” were executed based on the report prepared by the contract manager for the works performed according to which the company has maintained the maintenance of lighting in public spaces in different areas of the municipality, but it does not indicate exactly which streets have been completed.

This was due to an inadequate practice created by contract managers, where their reports do not provide sufficient details regarding the time and place of performance of the works/services.

#### **Risk**

Carrying out payments without evidence or failure to define the receipt of goods/services poses a risk of carrying out payments for supplies that are not in line with the terms of the contract. This may result in budget loss.

**Recommendation B3** The Mayor should strengthen controls over the processing of payments to ensure that payments are carried out only after receiving sufficient evidence on delivered works/services.

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## Issue A 5- Adjustments to Estimated Values of non-framework Contracts

**Finding** Adjustment of quantities are allowed in framework contracts. In seven (7)<sup>10</sup> non-framework contracts we have identified that the quantities in some positions have been changed by increasing/reducing the contracted quantity by more than 10%, not changing the total contract price. According to contract managers the changes have occurred mainly due to community requirements. Approvals for these changes were not taken by the CAO but only from the Budget Authorizing Officer.

We should highlight that project managers were not aware of the regulatory requirements for public procurement regarding the change of contracts.

**Risk** Changing the contracted bill of quantities without the approval of the procurement office and the CAO, reveals weaknesses in the controls exercised by the senior management, and poses a risk where due to changes in the quantities of the contract may not have been selected the cheapest bid.

**Recommendation A5** The Mayor should ensure that Project Managers are familiar with public procurement requirements, and is reported on any deviance from terms and conditions of the contract, and that any change in the terms of the contract before or during the implementation period will only take place after the approval of the procurement office and CAO.

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

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

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<sup>10</sup> "Expansion of infrastructure intended for mountain tourism" of €146,687.5; "Construction of roads in Vrelle", from €59,761; "Construction of the roads in Banja", from €45,399; "Waste elimination from public spaces" €16,590; "Asphalting of roads in Gurakoc" of 35,889.5 and "Asphalting of Sadri Lata - Zallq road" from €35,985.5; "Installation of cobble stones in sidewalks Gurakoc - Zallq" from €34,695

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**Issue A 6 – Payments executed by Treasury for court decisions/enforcement procedure****Finding**

Article 39 of the LPFMA sets that the CFO of the budget organization is responsible to ensure that each valid invoice is paid within 30 calendar days upon receiving the invoice or payment request.

We have identified that the Treasury had executed court fees in the amount of €162,922 (where €2,088 was a return). Of which the main debt was €141,845 and the court's (procedural) costs were €21,077. Further on, payment from treasury has led to use of funds from inadequate economic categories.

We tested two payments in the amount of €119,441, of which the main debt was €116,016, while the court expenses (execution) were €3,425. According to the municipality, these were debts carried forward from the previous year, but we have noted that these two invoices were not included in the outstanding liabilities in the 2017 financial statements. The municipal lawyer did not contest these two cases in order not to cause additional costs for the municipality because the claims of the creditors were fair.

**Risk**

Delays in payments and lack of reporting of all liabilities in financial statements and monthly reports resulted in execution of payments by enforcement orders, thus creating additional costs for the budget of municipality and often in misstatement of expenditures. Payments executed in this manner risk funds of planned projects.

**Recommendation A6** The Mayor should establish an effective system in which all outstanding invoices are reported and paid within the legal deadlines, to avoid the possibility of additional costs. Further on, should increase the attention related to the manner of management of the process on receipt and registering of invoices.

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**Issue C 3 – Signing of Contracts in absence of sufficient funds (commitment) available****Finding**

LPFMA No. 03/L-221, Article 36.1 states that: Prior to the initiation of a procurement process that is intended to result in the imposition of an obligation in the current fiscal year, the Budget Organization shall record all commitment appropriations allocated to KFMIS in accordance with FMC rules.

The “Building Public Lighting in Banjë” contract of €56,811 had committed funds of €25,509, while the planned financial resources for this project in the 2018 budget were €50,000 and there were no funds planned for 2019. According to municipal officials, partial commitment of funds has been done because project funding is planned to be performed from own source revenues, and the funds will be committed depending on collection of revenues. Also, in five contracts of goods and services the commitment of funds was not complete prior to the signing of the contract.

Lack of commitments or lower commitment than the contracted value at the time of signing contracts has exposed the municipality to a risk of entering into liabilities beyond the amount of allocated funds, and results in prolonged execution of planned projects.

**Recommendation C3** The Mayor should provide additional controls so that contracts are signed only when there are funds available that ensure their execution, regardless of the fact whether their funding is done from own source revenues or other sources of funding.

### 3.1.7 Capital and non-capital assets

According to the KFMIS accounting register, the net value of assets (over €1,000) is €17,448,394, while the presented value of non-capital assets (under €1,000) is €249,000.

**Issue A 7- Shortcomings in the accounting registers of assets**

**Finding** Asset Management is regulated by Regulation no. 02/2013. In asset management we have identified the following shortcomings:

- In 6 cases we found that the value of €324,696 was recorded according to the total value of the contracts/payments that were made and not according to the value of separate projects. This action is in violation of Section 6.1 of Regulation No. 02/2013. Payments are mainly for road asphaltting and expansion of infrastructure intended for mountain tourism;
- Assets under €1,000 for the Health and Education sector were not included in the E-asset register; and
- The value of €3,930 for “Construction of Emergency Ladder” was recorded as a new item, although it was a property improvement and had to increase the value of the facility in which this investment was made. This registration is not in accordance with Section 15.2 of the Regulation no. 02/2013.

This situation was mainly due to the lack of sufficient knowledge of the Asset Officer with the requirements of Regulation of the Ministry of Finance and failure to update the registry on time.

**Risk** Due to lack of accurate and complete records there is lack of information for the management regarding the assets owned by the Municipality and results in overestimation or underestimation of assets in the annual financial statements. This may lead to the emphasis of matter in the audit opinion.

**Recommendation A7** The Mayor should ensure effective assets management so that assets register presents a real situation on assets, and is not overstated or understated. Further on, adequate training should be provided for the asset officer so that his/her competence is at the right level, to avoid all uncertainties during assets identification and management.



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**Issue B4 - Delays in carrying out inventory and valuation of non-financial assets**

**Finding** Article 24 of the Regulation 02/2013 on Asset Management requires that only upon reconciliation of inventory and valuation with asset condition is made, the value of the Assets is presented in the AFS.

- The Municipality had established inventory/evaluation committee at the end of the year but, this process was not fully completed as the health sector while we were performing the audit at the end of February 2019 did not carry out inventory. So, inventory was incomplete and, in some directories, where it had ended there were many deficiencies. While asset valuation had not yet been completed while we were performing the audit; and
- The Municipality did not have approved Internal Instructions related to the inventory and valuation of non-financial assets as required by Articles 19.5.3 and 21.5.3 of Regulation No. 02/2013.

This was due to negligence and lack of staff knowledge assigned to carry out inventory/valuation of non-financial assets and the lack of approved internal Instructions related to this process.

**Risk** Incorrect engagement to update the assets register reflects lack of accurate and complete information on owned assets. This increases the risk for misuse, loss, or alienation of assets, and at the same time results with incorrect presentation of their status in the AFS.

**Recommendation B4** The Mayor should ensure that the commission has completed the inventorying report before the preparation of the AFS. The report should include comparisons of physical condition of assets with registers, and if there are differences, they should be presented in assets register and in the accounting register.

## 3.2 Receivables

Municipality of Istog has presented accounts receivable in total amount of €1,069,080 that relate to property tax €1,049,880 and construction permits €19,200, while were not presented in disclosures of annual financial statements of 2018 business fees in the amount of €174,831, fees for servicing of alcoholic beverages €8,380, and temporary municipal leases in the amount of €12,890. The real value of receivables was €1,265,181.

**Issue A 8 – Continuous increase of accounts receivable**

**Finding** Municipality of Istog has no operational plan for collecting receivables and has not taken any action to collect these debts through enforcement agents. The trend of receivables is constantly increasing year-by-year whereas compared to the previous year, debts increased by about 7%. The largest increase occurred in property tax. The reasons for the increase of receivables are influenced by the failure of the Municipality to process cases to the enforcement agencies, even though some attempts have been made to raise collection of receivables from the rents through warnings.

**Risk** Due to lack of collection of revenues are risked many capital projects as a result of insufficient funds. Lack of control and failure to apply adequate measures prevents collection and increases the risk of aging of claims.

**Recommendation A8** The Mayor should ensure an action plan for debt collection. Initially, legal action should be taken through enforcement agents, and to undertake measures against leaseholders that have debt, by taking buildings and land back that they are using, and lease it out to other parties, in accordance with public auction procedures.

### 3.3 Outstanding liabilities

The statement of liabilities not paid to suppliers at the end of 2018 was €142,421, presented in financial statements. These liabilities are carried forward to be paid in 2019. However, this only reflects part of the budgetary challenge faced by the Municipality.

## Issue B5 - Lack of reporting and delays in payment of Outstanding Liabilities

**Finding** Article 5.2 of the Financial Rule no. 02/2013 on the reporting of outstanding liabilities of budget organizations states: "All budget organizations are obliged to report to the Ministry of Finance - Treasury their outstanding liabilities. Reporting under this financial rule is done through monthly reports. We found that during 2018 the Municipality did not report outstanding liabilities through monthly reports in the Ministry of Finance-Treasury.

Article 39 of the Law on Public Financial Management determines the deadline for payment within 30 days upon receipt of the invoice. We have identified two cases in the amount of €15,438<sup>11</sup> for which municipality has delayed payments from 129 to 145 days, in the payments of liabilities to the suppliers.

This situation resulted from the negligence of the officer responsible for reporting outstanding liabilities and due to the lack of clear formal procedures for managing the process of receiving, registering and reporting Invoices.

**Risk** Failure to report regularly on all liabilities in monthly reports presents inaccurate disclosure of liabilities, and together with payment delays may lead to the increase of liabilities and create budget implications for the following fiscal year.

**Recommendation B5** The Mayor should ensure that all payments are carried out within 30 days from the receipt of invoice. Further on, to establish an effective system under which all outstanding invoices are accurately and completely reported on a monthly basis to the MoF, and to disclose them correctly in the AFS, at the end of each year.

## 4 Good Governance

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

A key tool supporting effective governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. The level of compliance with FMC requirements by Budget Organizations is monitored by the

<sup>11</sup> Invoice dated 28.12.2017 for Asphaltting of Selman Tahirsylaj road from €14,715; and invoice dated. 11.10.2017 for Official Lunch of €723.

self-assessment checklists completed by all BOs, which are submitted at the end of the year to the Ministry of Finance.

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

## Overall Governance Conclusion

There is a number of governance weaknesses within the Municipality of Istog particularly related to accountability, risk management and the quality of management reporting. An effective response to audit recommendations and the operation of a high-quality internal audit unit are not in place.

All Municipalities are obliged to prepare and submit organisation level strategic plans such as: Urban Plans, Spatial Plans, and Emergency Operations Plans. The Municipality of Istog has these strategic plans: Local Economic Development Strategy for the Municipality of Istog 2017-2021, Development Plan of the Municipality of Istog 2018-2026 and Municipal Waste Management Plan 2016-2021.

However, the Municipality still does not have the “Municipal Zonal Mapping” but only the decision on its drafting on 04.06.2016 has been taken, and so far, its drafting has not taken place.

### 4.1 Internal Audit System

The Internal Audit Unit (IAU) operates with an auditor in the position of director. To carry out an effective audit requires a comprehensive work program that reflects the financial and other risks of the audited entity and provides sufficient assurance on the effectiveness of internal control. The impact of Internal Audit reports should be judged by the importance given to management by addressing the recommendations as well as by the support provided by an effective Audit Committee.

IAU has drafted its Strategic and Annual Work Plan and the Audit Committee (KA) also held three meetings during 2018. Of the four audits planned, three were completed. The audits covered: asset management, revenues and expenses to the director of public services and the procurement office.

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**Issue B6 - Limited functioning of IAU and AC**

**Finding** There are a number of weaknesses in the current IAU operations, such as:

- The audited units did not draft plans to implement the IAU recommendations and this resulted in a low level of implementation of the recommendations given. Out of 20 recommendations given, seven were implemented, eight were in the process of implementation, while the rest was not yet implemented. This reflects the lack management focus to ensure that recommendations are implemented by the municipality on time; and
- The Audit Committee held three (3) meetings where the reports of IAU and CAO were discussed. However, AC was not sufficiently effective in fulfilling its mandate to oversee the results of IAUs and to provide input for implementation of internal and external audit recommendations by management.

**Risk** Failure to implement recommendations reduces the efficiency and impact of internal audit services in improving overall governance.

**Recommendation B6** The Mayor, in cooperation with AC and IAU, should take specific actions to draft an action plan for implementation of the recommendations, and take all actions against the administrative units to which recommendations are addressed, so that they have a maximum commitment in taking improvement measures in areas where weaknesses have been identified.

## 4.2 Management Reporting, Accountability and Risk Management

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

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

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**Issue B7 - Weakness in managerial controls and risk management**

**Finding** Our review of managerial controls implemented in the municipal's main financial system has highlighted poor financial reporting on expenditures and revenues as well as incomplete service delivery analysis. Although accountability and communication lines were functional through regular weekly meetings, the current reporting format does not provide a basis for effective internal controls since written reporting to senior management is made only on demand and not on a regular basis.

Municipality of Istog did not compile the risk register according to FMC requirements, where it would identify the expected risks against set objectives, determine their management manner and the units responsible for taking the necessary actions. This has happened due to the negligence and poor communication in the organization.

**Risk** Poor accountability requirements and poor quality financial reporting reduce the effectiveness of financial management. This results in weaknesses in the budget process and reduces management's ability to timely respond to financial challenges. It also reduces the effect of budget controls and increases the risk of improper spending. In addition, this may also result in the provision of low-quality services.

**Recommendation B7** The Mayor should ensure that a review is carried out to determine the form of financial and operational reporting at senior management. Further on, in order to reduce the impact of risks to acceptable levels, the organization should develop the risks register with all appropriate measures/actions to put under control potential threats against set objectives.

## 5 Progress in implementing recommendations

Our Audit Report on the 2017 AFS of the Municipality of Istog resulted in 16 key recommendations. The Municipality of Istog prepared an Action Plan stating how all recommendations will be implemented. However, sufficient actions have not been taken since the action plan has not been fully implemented and the same shortcomings continue to be repeated in several areas.

At the end of our 2018 audit, only five recommendation have been implemented completely, three were in process and seven have not been addressed yet. As well one recommendation was closed. For a more detailed description of the recommendations and how they are addressed, see Table 4 (or Table of Recommendations).

Table 4 Summary of prior year recommendations and of 2018

No	Audit area	Recommendations of 2017	Actions taken	Status
1	AFS	<p>The Mayor should ensure that an analysis is undertaken to determine the causes of emphasis of matter, and that are undertaken specific actions to address underlying causes in a systematic manner to remove errors in classification expenditures and assets disclosures. All expenditures should be budgeted and recorded in in line with the accounting plan. Furthermore, all assets, including properties and non-financial assets should be recorded in assets registers. Furthermore, the Mayor should ensure that effective processes are in place to confirm that the 2018 AFS production plan formally addresses all compliance issues related to the AFS and includes Management review of the draft AFS with specific focus on high risk areas and/or areas where errors have been identified in previous years. The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be signed unless all necessary checks have been applied to the draft AFS.</p>	<p>The Municipality has taken measures regarding the addressing of municipal property, has entered into a contract with an operator that will control the municipal property by determining the financial value of these properties but there are still no actions related to registration, and the registration of assets in the E-Asset is yet not complete. We were not provided with any specific reasons regarding this issue but poor classification of expenditures remains a challenge. Other challenges have arisen in this matter.</p>	<p>Recommendation Partially Implemented</p>
2	Budget Planning and Execution	<p>The Mayor should ensure that budget performance is systematically monitored on a monthly basis and that this review identifies and addresses barriers that hinder timely and planned level of budget execution. If initial budget planning is inaccurate, this should be fully reflected in the final budget position.</p>	<p>The same situation continues.</p>	<p>Recommendation not implemented</p>



3	Revenues	The Mayor should ensure that verification of immovable properties for the purpose of property tax is done in accordance with rules, so that potential changes are integrated into existing property database. An increase of property registration will result in more municipal revenues and better budget performance.	Management had taken appropriate actions to implement the recommendation.	Recommendation Implemented
4	Revenues	The Mayor should analyse the reasons behind inadequate management of municipal property and ensure that municipal immovable property is used only when legal requirements are met in accordance with the rules. In addition, all possible options should be considered in an active manner, including legal means to ensure that agreed revenues are collected.	There has been less action taken related to auctions but the situation remains almost unchanged as a problem.	Recommendation not Implemented
5	Wages and Salaries	The Mayor should ensure that they take measures to discontinue the practice of concluding contracts without recruitment procedures, and their duration should be done in accordance with relevant legislation. If there is a need for additional employees in the Municipality (regular positions) to ensure that in the budget of the following years in the category of wages and salaries are included all salaries of necessary employees, and that all payments for their salaries go through the payroll system. In addition, payments for special service agreements are to be carried out only after securing sufficient evidence on provision of services.	Recruitment procedures were developed and there was sufficient evidence for service delivery. Remains the challenge of the duration of the contracts and the transfer of payments through the payroll system.	Recommendation Partially Implemented
6	Capital Investments	The Mayor should enhance controls to ensure that the Municipality has sufficient funds prior to entering into contractual obligations, and requirements for Bill of Quantities should be specified according to the needs and in accordance with procurement rules.	We have not identified similar cases during our testing.	Recommendation Implemented
7	Capital Investments	The Mayor should ensure that additional controls on the development of procurement	We have not identified similar	Recommendation



		activities. Initially the criteria set out must be clear, and then the Bid Evaluation Committee should make an objective assessment in accordance with them.	cases during our testing.	Implemented
8	Capital Investments	The Mayor should ensure application of additional controls over the implementation of procedure for confiscation of performance security, in cases defined under the rules and the Operational Guidelines for Public Procurement.	We have not identified similar cases during our testing.	Recommendation Implemented
9	Capital Investments	The Mayor should ensure that the Municipality enters into contractual obligations in accordance with annual budgeted funds, and according to the rules. Adequate controls should operate prior to signing contracts, especially at the end-year period.	There are cases when there were not enough commitments for the contract and it was signed at the end of the year. However, we have not identified similar cases that underline that there is progress made in this regard.	Recommendation Partially Implemented
10	Common Issues on Goods and Services and Capital Investments	The Mayor should ensure that during the development of procurement activities are established respective committees on case-by-case basis with the decision of the Chief Administrative Officer, in accordance with the Rules and Operational Guidelines of Public Procurement.	We have not identified similar cases during our testing.	Recommendation Implemented
11	Common Issues on Goods and Services and Capital Investments	The Mayor should strengthen controls over the processing of payments to ensure that payments are carried out only after receiving sufficient evidence on delivered works/services.	There are still cases even during 2018 where the payment was executed in the absence sufficient evidence.	Recommendation not Implemented
12	Capital and Non-Capital Assets	The Mayor should ensure that the committee completes the inventorying report before the preparation of AFS. The report should include comparisons of assets physical condition with registers, and	This year too, the inventory and valuation of non-financial assets was not	Recommendation not Implemented

		if there are differences, they should be presented in assets register and in the accounting register.	completed on time.	
13	Outstanding Liabilities	The Mayor should ensure that all payments are carried out within 30 days from the receipt of invoices. Furthermore, to establish an effective system under which all outstanding invoices are accurately and thoroughly reported on a monthly basis to the MoF, and to disclose them correctly in the AFS at every end of the year.	No implementation has begun but the need for implementation is present.	Recommendation not Implemented
14	Progress in implementing recommendations	The Mayor should ensure that implementation of the Action Plan is constantly monitored and reported monthly or quarterly on the progress made in this regard. Recommendations that are not implemented according to the timeframe should be revised within a short period by the Mayor, and take proactive actions against obstacles encountered upon implementation.	Recommendation Closed.	Closed Recommendation
15	Good Governance - Internal Audit System	The Mayor, in cooperation with AC and IAU, should take specific actions to draft an action plan for implementation of recommendations and take all actions against administrative units to which recommendations are addressed, so that they show maximum commitment in taking corrective measures in areas where weaknesses have been identified.	The situation in this section remains the same.	Recommendation not Implemented
16	Good Governance - Reporting	The Mayor should ensure that a review has been carried through to determine the form of financial and operational reporting to senior management. Furthermore, in order to reduce the impact of risks to acceptable levels, the Organization should draft a risk register with all appropriate measures/actions to put the exposed threats under control.	The situation in this section remains the same.	Recommendation not Implemented

No	Audit Area	Recommendations given in 2018
1	AFS - Ref. C1	<p>The Mayor should ensure actions are undertaken to determine the causes of Emphasis of Matter. In the budgeting process all expenditures should be budgeted in accordance with treasury rules (cash-based accounting plan). Further on, all assets, including property, must be registered in the property registers. Further on, disclosures of accounts receivable and contingent liabilities should be presented in the AFS for 2019 fully and accurately.</p> <p>The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be signed unless all necessary checks have been applied to the draft AFS.</p>
2	Budget Planning and Execution Ref.B1	<p>The Mayor should ensure that budget performance is systematically monitored on a monthly basis and that this review identifies and addresses barriers that hinder timely and planned level of budget execution. If initial budget planning is inaccurate, this should be fully reflected in the final budget position.</p>
3	Revenues Ref. B2	<p>The Mayor should analyse the reasons behind inadequate management of municipal property and ensure that municipal immovable property is used only when legal requirements are met in accordance with the rules. In addition, all possible options should be considered in an active manner, including legal means to ensure that agreed revenues are collected.</p>
4	Wages and Salaries Ref. C2	<p>The Mayor should ensure ceasing of the practice of recruitments for all regular job positions for which the municipality has a long-term need, and to address needs during budget planning, by filing the request for additional staff, discussing and handling this issue with MoF. Such payments should be made from the category of Wages and Salaries.</p>
5	Wages and Salaries Ref. A1	<p>The Mayor should ensure that specific actions have been taken to improve the controls on personnel files so that all files are completed with the necessary documentation by the end of the year.</p>
6	Capital Investments Ref. A2	<p>The Mayor should ensure through the procurement manager that all work-related procedures are not initiated prior to ensure presence of the executing project. Proper preparations for a project will also have an impact on the drafting of clear specifications, but will also eliminate obstacles such as delays and additional costs.</p>

7	Capital Investments Ref. A3	The Mayor should ensure that the allowed 10% of additional works is not exceeded in any case from initial contract, and in the case additional works are performed the procurement manager must adhere to all procurement rules. Further on, an accountability system should be established contract position are changed (producers), and delays have occurred in unapproved works. A continuous management monitoring of procurement process management is indispensable in case of complex projects.
8	Capital Investments Ref. A4	The Mayor should ensure that procurement management including the evaluation process is performed in full compliance with established criteria and bidders that are not in compliance with the requirements of the tender dossier are not awarded with the contract. In addition to apply the accountability system in case work is not performed to the legal requirements.
9	Capital Investments Ref. B3	The Mayor should strengthen controls in the payment process, to ensure that payments are made only upon provision of sufficient evidence for the performance of contracted works/services.
10	Capital Investments Ref. A5	The Mayor should ensure that Project Managers are familiar with public procurement requirements, and it is reported for any nonconformity from the terms and conditions of the contract, and that any change in the terms of the contract before or during the implementation period will only take place upon approval of the procurement office and CAO.
11	Common Issues for GS and CI Ref. A6	The Mayor should establish an effective system in which all unpaid invoices are reported and paid within legal deadlines, to avoid the possibility of additional costs. Further on, should increase attention related to the manner of management process in receiving and registering of invoices.
12	Common Issues for GS and CI Ref. C3	The Mayor should provide additional controls so that contracts are signed only when there are funds available to ensure their execution, regardless of the fact that their funding is performed from own source revenues or other funding sources.
13	Capital and Non-Capital Assets Ref. A7	The Mayor should ensure effective asset management in order for the Asset Register to present the real asset situation, for the value of assets is not overstated or understated. Further on, adequate training should be provided for the Asset Officer in order to have proper competence, to avoid all the uncertainties during asset identification and management.
14	Capital and Non-Capital Assets Ref. B4	The Mayor should ensure that the committee completes the inventorying report before preparation of AFS. The report should include comparisons of assets physical condition with registers, and if there are differences, they should be presented in assets register and in the accounting register.
15	Accounts Receivable Ref. A8	The Mayor should provide an action plan for debt collection. Initially, legal action should be taken through the enforcement agents, and to undertake measures against rent debtors, to take their buildings and the land that they are using and give it out for use to other persons, in accordance with the public auction procedures.

16	Outstanding Liabilities Ref. B5	The Mayor should ensure that all payments are carried out within 30 days from the receipt of invoices. Further on, to establish an effective system under which all outstanding invoices are accurately and thoroughly reported on a monthly basis to the MoF, and to disclose them correctly in the AFS, at the end of each year.
17	Internal Audit System Ref. B6	The Mayor, in cooperation with AC and IAU, should take specific actions to draft an action plan for implementation of the recommendations, and take all actions against the administrative units of the addressed recommendations, to have a maximum commitment in taking improvement measures in areas where weaknesses have been identified.
18	Management Reporting, Accountability and Risk Management Ref. B7	The Mayor should ensure that a review is carried out to determine the form of financial and operational reporting at senior management. Further on, in order to reduce the impact of risks to acceptable levels, the organization should develop risk registers with all appropriate measures/actions to put under control potential threats against set objectives.

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

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## 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.

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*Determining the type of modification to the auditor's opinion*

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

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

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

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

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

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705<sup>19</sup> provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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*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: Comments of BO regarding findings in the report

Fin din g/iss ue	Agree yes/n o	Comments of the Municipality in case of disagreement	NAO's views
Issue A2		Contracting Authority - Procurement Office has processed the procurement activity DRAFTING OF PROJECTS FOR INFRASTRUCTURE (contract notice dated 07.03.2018). Due to delays from complaints by competing EOs and based on the official paper 01 NR. 344/2018, dated 27.06.2018, of the Chief Administrative Officer - where is requested from the procurement office to proceed with procurement activities without implementing projects as up to this date the procurement office has not proceeded with procurement activities without implementing projects, although the requests were many by requesting units.	In the comment of the Municipality is not denied the findings but are given reasons why the event occurred, which we also have sufficiently clarified in the draft. However, this explanation does not change the condition that the contracts were entered into without executive projects as ascertained in issue 2. Therefore our recommendation remains unchanged.
Issue A4		After the clarifications requested by the EO, the CA has enabled that diplomas can be notarised but to provide at least the payroll list, which list was missing.	The evidence provided to us does not change the finding if anything it supplements it. Therefore our recommendation remains unchanged.
Issue A5		There are no comments, only some parts of the procurement guideline relating to the transfer of responsibility to the project manager, about the finding.	In the response of PPRC it is emphasised that changes of positions and quantities of framework contracts may be done with the consent of parties, but after receiving the approval from the CAO. In our case we do not have an approval from the CAO. Therefore, our recommendation remains unchanged.

Issue B3:		<p>The procurement office, after signing the contract, and after the appointment of the project manager by the CAO, contract management - besides the power to change or terminate will be transferred from the Procurement Department to the Project Manager. Thus, this finding is not linked to the procurement office but to contracts managers.</p>	<p>In the comment of the Municipality is not denied the finding, but are provided some explanations that are not relevant because they do not oppose the findings. Therefore, our recommendation remains unchanged.</p>
Issue C3:		<p>Regarding this issue, we attach as an annex an answer from PPRC. Question 23. In the case of framework contracts are we obligated to make the complete commitment of funds planned for that procurement activity?</p>	<p>In the comment of the Municipality are provided some clarifications regarding the commitment for framework contracts, while the contract handled in the draft audit has nothing to do with the framework contract, but with non-framework contracts. Therefore, our recommendation remains unchanged.</p>
Issue A3:		<p>In this case we do not have additional work. So we are dealing with unforeseen works -unforeseen works where was expressed competition without publication of a notice restricted negotiated procedure, with appointment of the committee by the Mayor's Office for comparison and evaluation.</p> <ul style="list-style-type: none"> <li>-Contracted company for subcontractor has notified stakeholders.</li> <li>- For delays in implementation of contracts there are not any as the beginning and the end of dynamics is sanctioned in the contract notice and in the plan for management of the contract, the dynamic plan of the contractor was not a requirement of the CA in the secondary legislation, nor a requirement for evaluation.</li> </ul>	<ul style="list-style-type: none"> <li>- In the title of the contract it is clearly noticeable that we are dealing with an annex contract, which refers to a basic contract and relates to unforeseen works. Exceeding is evident as stressed in the draft report. Also, the procedure used is negotiated procedure under Article 35 of Law 04/L-042 item 35.2.4 (i) which relates to annex contracts.</li> <li>- Notice for works to be subcontracted should be done during bidding, and not after the conclusion of the contract.</li> <li>- In specific terms and conditions of the contract is stipulated the deadline for implementation of the contract. Based on this deadline, delays in implementation are evident. Therefore, our recommendation remains unchanged.</li> </ul>

## Annex III: Letter of Confirmation



### LETËR E KONFIRMIMIT

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

**Për: Zyrën Kombëtare të Auditimit**

Të nderuar,

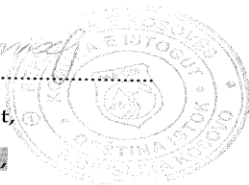
Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit/Pasqyrave Financiare të Komunës së Istogut, për vitin e përfunduar më 31 dhjetor 2018 (në tekstin e mëtejme "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; (përpos disa sqarimeve dhe deshmive nga Zyra e Prokurimit Publik)si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

z. Haki Rugova .....

Kryetar i Komunës së Istogut,

Data: 18.Prill.2019, Prishtinë,



## LETTER OF CONFIRMATION

To: National Audit Office

Honoured,

We hereby confirm that:

- We have received the draft audit report of the National Audit Office on the 2018 Annual Financial Statements of the Municipality of Istog, hereinafter referred to as the Report;
- Agree on the findings and recommendations and I have no comment on the content of the Report; and
- Within 30 days from receiving the final report, I will submit the action plan on implementation of recommendations including the deadlines and responsible staff for their implementation.

Haki Rugova

Mayor of Municipality of Istog

Date: 18 April. 2019