



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

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AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF THE MUNICIPALITY OF
GLLOGOC FOR THE YEAR ENDED 31 DECEMBER 2012

Pristina, June 2013

The Office of the Auditor General (OAG) undertakes both Regularity and Performance Audits. The Auditor General Lage Olofsson, is the head of the OAG which employs around 140 staff. The Auditor General and the OAG shall be independent and certifies around 90 Annual Financial Statements each year, while undertaking other forms of audits.

Our 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 OAG directly promote accountability as they provide a base for holding managers’ of individual budget organisations to account.

The Auditor General has decided on the audit opinion and the report on the Annual Financial Statements of Glllogoc Municipality in consultation with the Assistant Auditor General, Qerkin Morina, supervising the audit.

The opinion and report issued are a result of the audit carried out under the management of the Audit Director Florim Beqiri supported by Xhevat Seferi (Team leader), Ejup Simnica, and Blerina Krasniqi.

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Executive Summary

Introduction

This report summarises the key matters arising from our audit of the 2012 Annual Financial Statements (AFS) of Gillogoc Municipality. I would like to thank the Mayor and his team for their assistance during the audit process.

Audit of AFS for 2012 was undertaken in accordance with International Audit Standards for Public Sector (ISSAIs) issued by INTOSAI. 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:

- Assessment if AFS present a true and fair view in all material aspects;
- Financial Management and Internal Audit, including budget management and execution; and
- Compliance procedures.

Opinion

The Auditor General (AG) reports his opinion to Parliament in the format set out in sub-heading 2.3 – Audit Opinion. Annex I explains the different types of Opinions applied by the OAG. The AG's Opinion includes an opinion as to the truth and fairness of the financial statements.

The AG's opinion is:

In our opinion the AFS present *a true and fair view* in all material aspects.

Article 12: The statement of cash revenues and payments, in column of payments from third parties, the Municipality had not presented any value, whereas according to our audit examination the value of these payments was €120,213; and

Article 13: Statement of budget execution, under inflow of cash, in column of final budget (KFMIS) the Municipality has presented the budgeted own source revenues in amount of €744,444 whereas it must be €868,358. So, there is a difference of €124,358. At outflow of cash the Municipality had presented the final budget of €10,352,000, whereas it must be €10,416,429. So there is a difference of €64,429. **(ISSAI 400: Qualified Opinion)**

Emphasis of Matter

We also would like to draw your attention to the fact that the registers and information presented under disclosures of assets and stock were not accurate.

Overall Conclusion

The level of work undertaken by the OAG to complete the 2012 audit is a direct reflection of the quality of the internal control environment. Our overall conclusion is that:

A number of improvements have been made by management during last year, in terms of financial control procedures and processes. However, it remains that improvements continue in order to ensure a consistent and comprehensive application of controls adequacy in all sectors of the Municipality. Weaknesses were identified as follows:

Audit recommendations aim the improvement of financial controls and other aspects of operational activities. We have reviewed the responses to the 2011 recommendations and their situation is summarized in Annex II. Our overall conclusion is that our recommendations have not been addressed in a satisfactory extent. In particular, they are not addressed in areas such as: preparation of AFS - the explanatory notes, the development of software for accounts receivable recordings, own source revenues and procurement. We conclude that the Municipality management must address all audit recommendations to avoid weaknesses that are being repeated for several years. In areas where recommendations are not addressed, we are bound to repeat them this year, with the request that they will be addressed within an optimum time.

We have discussed with municipal bodies the quality of the Municipality's financial control and audit findings in the context of AFS, financial management, control, managerial accountability and internal audit.

Our key recommendations to the Mayor are as follows:

Annual Financial Statements

- 2013 AFS preparation plan should formally address all compliance requirements related to AFS, with special emphasis on issues raised in Chapter 2.2 - the Quality and Accuracy of AFS.

Financial Management and Control

- Management should ensure that the revised action plan clearly sets out a timetable for addressing the recommendations with the staff members responsible identified - with initial focus on those of great importance.
- There should be more rigorous controls on identification of active businesses within the Municipality related to collection of uncollected taxes;
- Procurement controls need to be strengthened at all stages of the process;

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- Review the existing system related to infrastructure projects' design, by clearly defining the premeasures and precalculations and that no project is commenced without committing the needed budgetary funds;
 - Implement the charter of accounts on classification of expenditures by categories and that expenditures are paid from the respective categories; and
 - Development of an action plan with clear instructions and procedures for the collection of outstanding debts. The plan should include priorities, classification of debt by age, time schedule of actions to be taken and administrative measures (if necessary).

Internal Audit System

- An action plan to address the IAU recommendations must be prepared, setting out clearly the deadlines and persons responsible for their implementation.

Management Response

The detailed audit findings in this report have been considered by management. Their responses are detailed in Annex III.

1 Audit Scope and Methodology

It is the responsibility of Glllogoc Municipality to prepare financial statements under the International Public Sector Accounting Standards (IPSAS) for 'Financial Reporting under the Cash Basis for Accounting'. The Office of the Auditor General is responsible for carrying out a Regularity Audit which involves the examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

Audit work undertaken reflected our audit risk assessment for Glllogoc Municipality. We have considered our understanding of the organisation, the extent to which management controls can be relied upon and the level of detailed testing required when determining the overall testing required to provide the necessary level of evidence to support the Auditor General's opinion.

The following sessions offer a detail summary of our audit findings with particular emphasis on observation and recommendations in every area of the review. The Management response on our findings can be found in Annex III. An evaluation of the Management response on recommendations given in 2011 can be found in Annex II.

We have included the significant and other, less significant findings arising from our audit. For completeness we have included issues identified at the month 9 audit where they remain relevant. Our findings are defined as:

Significant - major issues for the attention of those charged with governance and senior management which may have the potential to result in a material weakness in internal control ; and

Other - weaknesses identified in our audit where action will offer the potential for improvements to the efficiency and effectiveness of internal controls.

Our procedures included a review of the internal controls and accounting systems and procedures 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.

2 Annual Financial Statements

Our review of the AFS considers both compliance with the reporting framework and the quality and accuracy of the information recorded in the financial statements. We also consider the Declaration made by the CAO and Chief Financial Officer when the draft AFS are submitted to the Government.

The declaration regarding presentation of AFS incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the AFS. A few points in 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.

2.1 Compliance with the Reporting Framework

Overall Conclusion

The level of compliance with the reporting framework should be improved significantly. While some improvements have been implemented compared to 2011, the AFS for 2012 have not addressed completely our recommendations or comments on 9 months financial statements.

Description

AFS must comply with the reporting framework. We have noticed that:

- The financial statements were prepared within the timeline and submitted to the Ministry of Finance (MoF);
- The financial statements are signed by CAO (Mayor) and CFO;
- AFS were submitted in Albanian;
- AFS were prepared in hard and soft copy; and
- Municipality had prepared and submitted regular quarterly reports to the Minister of MoF during 2012.

However, we have raised several issues during the nine month audit related to reporting framework in our audit memo in December 2012. These issues were not adequately addressed by the management in aspect of AFS production. The raised issues are related

to the inclusion of necessary information in a few areas of accounts. We also have noticed that AFS were not prepared in Serbian language.

Recommendation

The Mayor should ensure that AFS are prepared in Serbian language too.

2.2 Quality and Accuracy of Information Presented in the Annual Financial Statements

Overall Conclusion

AFS were not prepared in accordance with the requirements of Financial Rule no. 07/2011, and IPSAS "Financial Reporting under the Cash Basis of Accounting". The AFS errors are presented below.

1. Issue - Annual Financial Statements – Priority Significant

Finding AFS do not include all information required related to third party payments (€120,713); inaccurate revenue presentation (€124,358 less) and differences in the final budget (€64,429 less). AFS were not prepared in Serbian language. There is no plan on AFS production in order to ensure that all necessary information is included in the AFS.

Risk Preparation of AFS in disaccordance with legal requirements results in incomplete and inaccurate AFS with the risk that statutory requirements are not fulfilled.

Recommendation 1 Mayor should ensure that the plan of AFS production for 2013 will address all compliance requirements related to AFS including the review of the OAG recommendations given in 2012 and comments given in the memo related to 2013 - 9 month statements.

2. Issue - Process of AFS preparation- Priority Significant

Finding Article 12: Statement of receipts and payments in cash, the Municipality had not disclosed the third party payments in amount of €120,713.

Article 13: budget execution statement - cash inflow in the final budget column (KFMIS), the Municipality presented budgeted own

source revenues of €744,000 whereas it should be €868,358. So there is a difference of €124,358.

Article 13: The cash outflow from the Treasury, the Municipality presented the final budget of €10,352,000 whereas it should be €10,416,429. So there is a difference of €64,429.

AFS disclosures were neither made properly. Differences are presented below:

Note 30: The total of non-financial assets, the value of €2,505,000, is incomplete and inaccurate. According to the management, assets identification and registration is not yet complete due to dysfunction of assets officer and due to the fail of establishment of the evaluation and registering committee.

Note 31: The total of non-financial assets under €1,000 with one year use period were not presented at all, while the value of these assets in 2011 was €33,550;

Note 32: The total of stocks: the Municipality had not presented stocks at all, with the explanations that do not have a warehouse and do not have any stocks; and

Note 36 - Disclosure of initial and final budget appropriations: the Municipality had not disclosed the amount of €20,000 as cash inflow (revenue) from donors.

Risk

Incorrect AFS presentation leads to misunderstanding of the Municipality's financial position and shows a disorientating view with the possibility of a Qualified Opinion. Differences, all together, exceed the materiality level and reflect material misstatements of AFS. The Staff that prepared AFS, seem to have lack of necessary knowledge to produce AFS.

Recommendation 2 The Mayor should ensure that systematic plan of financial statements preparation incorporates the requirement to include complete and accurate values of accounts, by including all explanatory notes on financial statements. The Mayor needs to monitor the implementation of this requirement. Also, additional staff training should be considered.

2.3 Audit Opinion

In our opinion the AFS present *a true and fair view* in all material aspects.

Article 12: The statement of cash revenues and payments, in column of payments from third parties, the Municipality had not presented any value, whereas according to our audit examination the value of these payments was €120,213; and

Article 13: Statement of budget execution, under inflow of cash, in column of final budget (KFMIS) the Municipality has presented the budgeted own source revenues in amount of €744,444 whereas it must be €868,358. So, there is a difference of €124,358. At outflow of cash the Municipality had presented the final budget of €10,352,000, whereas it must be €10,416,429. So there is a difference of €64,429. **(ISSAI 400: Qualified Opinion)**

Emphasis of Matter

We also would like to draw your attention to the fact that the registers and information presented under disclosures of assets and stock were not accurate

3 Prior Year Recommendations

Overall Conclusion

Despite the fact that Municipality developed an action plan to address 2011 recommendations - a number of important issues remain to be addressed.

Description

Our audit report on the AFS for 2011 resulted in 10 (ten) key recommendations. Municipality has prepared an Action Plan, stating that all recommendations will be addressed within a specified period.

At the end of the audit for 2012, three (3) of them were fully addressed, five (5) were partly addressed, and two (2) were not addressed yet. For more complete description of the recommendations and how they were addressed, see Annex II of this report.

3. Issue - Addressing Prior Year Audit Recommendations - Priority Significant

Finding	Only a part of last year's recommendations were addressed. Three recommendations were fully addressed, and five were partly addressed, two are not yet implemented.
Risk	Failure to address recommendations increases the risk that internal control weaknesses in key financial systems result in repetition of weaknesses in continuous organizational inefficiency and in poor value for money in procurement practices and in performance related to revenues.
Recommendation 3	The Mayor should ensure that the revised action plan clearly sets a timetable for addressing the recommendations with staff members responsible identified - with initial focus on the most important ones.

4 Financial Management and Control

4.1 Introduction

Our audit approach is focused on understanding and evaluating the actions taken by management to secure effective financial management and control. 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.

4.2 Budget Planning and Execution

Overall Conclusion

Municipality executed €9,924,283 of overall budget of €10,416,429, or 95% of the total budget. This is a good performance compared with other municipalities, although, some of budget management aspects should be further reviewed.

Description

We have considered the source of budget funds for Municipality, expenditure of funds by economic categories and collected revenues. This is highlighted in the tables below:

Table1. Sources of budgetary Funds - outturn against the budget (in €)

Description	Initial Budget	Final Budget ¹	2012 Outturn	2011 Outturn	2010 Outturn
Sources of Funds	9,420,501	10,416,429	9,924,283	9,579,410	7,954,677
Government Grant - Budget	8,616,273	9,116,273	9,008,224	8,942,434	7,121,016
Carried forward from previous year-		411,806 ²	285,496	158,070	178,716
Own Source Revenues	804,228	868,358 ³	611,793	438,540	654,945
Domestic Donations					
External Donations	-	19,992	18,770	40,366	

As we can see, the Government grant in the final budget is higher for €995,928, due to budget increase for €500,000 (€29,000 for utilities and €471,000 for capital investment), revenues carried forward from 2011 of €411,806, revenues collected in 2012 of €64,130 and foreign donations of €19,992. The highlighted difference between the actual and planned own source revenues reflects the situation regarding business taxes, as shown in details below, while donations have experienced high decrease compared to previous years.

Table 2. Spending of funds by economic categories - outturn against the budget (in €)

Description	Initial Budget	Final Budget	2012 Outturn	2011 Outturn	2010 Outturn
Spending of funds broken down by economic categories	9,420,501	10,416,429	9,924,283	9,579,410	7,954,677
Wages and Salaries	5,978,136	6,020,080	6,014,799	5,820,190	4,604,568
Goods and Services	796,979	851,179	794,448	767,971	754,871
Utilities	144,104	172,904	172,474	149,642	149,995
Subsidies and Transfers	127,774	175,774	169,784	118,949	97,391
Capital Investments	2,373,508	3,196,492	2,772,778	2,722,658	2,347,852

¹ Final Budget – Approved Budget by the Assembly that was later adjusted by Minister of Finances

² Own Source Revenues unspent in previous year and transferred in actual year

³ Planned Own Source Revenues

Budget is spent around 95% in the overall level, and can be considered as a very good budget performance. A stumble in achievement of budgetary objectives is noticed in Capital Investments, where due to project delays only 82% of the plan is executed.

Table3. Planned and collected of own source revenues (in €)

Description	Initial Budget	Final Budget	2012 Outturn	2011 Outturn	2010 Outturn
Own source revenues	804,228	868,358	868,358	837,277	771,311

As the table shows, in 2012, revenues recorded a slight increase compared to 2011. With the initial budget, Municipality planned a much lower amount but at the yearend there was collected over €64,000 more than planned at the beginning of the year.

4.3 Reporting Requirement

Overall Conclusion

Municipality met the requirements of the legislation in force and deadlines required. We assess positively the compliance with the reporting framework requirements.

Description

Gllgoc Municipality fulfilled all external reporting obligations, as shown below:

- Budget request to the MoF for financing capital projects;
- Quarterly reports and nine month financial statements in time;
- Operational (performance) reports;
- Draft and final procurement plan in time;
- Reports on debts submitted to the MoF;
- Reports on internal controls including self assessment report;
- Action Plan on implementing recommendations.

4.4 Revenues (including own source revenues)

Overall Conclusion on Revenues

Glogoc Municipality has a set of controls regarding revenues collection and their reporting. However there is a need for improvement in a number of areas related to revenues.

Serious challenge is the collection of debts remained uncollected from previous years from property tax, business activity tax, construction licences, as well as revenues from lease and use of municipal property. Taxpayers' debts are quite high and the Municipality failed to build a strategy for solving this problem.

Meanwhile, concerning construction license and legalizations, despite realization of the revenue collection plan from this type of tax, many challenges remain. Due to the lack of regulatory plans, still there is low number of construction licences issued compared to requests. Also, the legalization and technical approval of construction buildings is dilatory.

Description

Glogoc Municipality collects revenues from a variety of sources, including property taxes, business taxes, permits and leases. Smaller revenue sources include administrative fees. The collected revenues were in amount of €868,358. Compared to 2011, there is an increase of revenues of €31,081.

4. Issue - Collection of revenues from business activity tax – Priority Significant

Finding Municipality collected a total of €117,096 from 2012 business activity taxes compared with planned €131,500. Uncollected amounts from this type of tax, at the yearend, were €429,407 and management does not have the right approach towards this problem. According to officials non-collection of this tax is a result of a large number of bussines that are charged whereas the same ones are inactive or even closed businesses.

Risk Collection policies seem to be weak to ensure revenues maximization. Also operational controls are not effective. Delays in revenues collection result in failures of management’s decision-making for financing the projects from this source.

Recommendation 4 The Mayor should ensure that the revenues department continuously updates active businesses database in order to collect outstanding debts. Results should be monitored.

5. Issue - Property tax – Priority Significant

Finding Planned property tax Revenues were €172,000, but were collected €239,445, or excess of the plan for 39%. Exceeding the plan cannot be considered as an enviable performance, but assessed as an unrealistic plan, because uncollected debts at the yearend are €1,049,910.

Risk Planning not based on risk analysis, is likely to result in an insufficient degree of collection, accumulation and prolonging of debts from year to year. As the only tax source, the property tax has a direct impact on the achievement of municipal budget objectives.

Recommendation 5 The Mayor should initiate a reassessment process, where all accounts will be analyzed in terms of age, significant amounts, realistic collection possibilities and the exercise of administrative measures (if necessary).

6. Issue - Revenues from premises lease – Priority Significant

Finding	Municipality does not have adequate accounting records for the 2012 lease debts. Lease revenue plan was €23,617, while the amount collected was €10,961, or 46% of the initial plan.
Risk	An incomplete summary of charges and payments for all premises' users can result in lease underpayment.
Recommendation 6	The Mayor should apply a registration process of all municipality properties and their associated charges, and that lease revenues collection is monitored in monthly bases.

7. Issue - Lack of Software System for revenue recording – Priority Other

Finding	Except for property tax revenues, the Municipality does not possess other software for recording and reporting revenues. Data recorded in the existing manner is poorly managed. Almost in all cases in all accounting data, except for collections, there are no records of balances carried forward from the previous year.
Risk	Actual revenues information may be inaccurate or incomplete and may be timely unavailable to support management decision-making. Existing revenue information collection manual systems may be subject to manipulation.
Recommendation 7	The Mayor should ensure that a proper registration system is put in place to support revenues collection and recording. If installing a particular program is impossible, the existing manual system (Excel) should be improved.

4.5 Expenditures

Overall Conclusion on Expenditures

Different levels of control formally exist, but these have not functioned properly on the application of procurement procedures and contract management, therefore additional improvement measures should be taken in this area.

4.5.1 Procurement

Description

We have reviewed whether all conducted procurements were included in the final procurement plan. We have also analyzed whether capital investment projects have been included in the PIP and in medium term expenditure framework. We appreciate that no significant issues related to this category were found to be raised in this report.

We have examined 10 samples of Capital Investments in amount of €2,190,978, where procurement procedures were undertaken. From Goods and Services category we have examined 12 contracts in amount of €75,069 and we have tested 9 payments in the amount of €24,172.

Except cases identified in the following, the procurement procedures were in accordance with legal applicable rules.

8. Issue - Entering into liabilities without sufficient budgeted funds - Priority Significant

Finding Municipality entered into liabilities over budgeted appropriations. Contract No. 344-3859 "Paving of the transit road Kroi i Mbretit and bridge construction", in amount of €1,519,302 for LOT 1 and €442,425 for LOT2, was signed without sufficient budget. For this project €440,000 were budgeted and only €400,000 were committed. Budget deficit for this project was €1,521,727. For this reason, the execution of works was aborted.

Risk Entry into liabilities without budgeted funds may take the Municipality in unexpected financial difficulties and put the Municipality in legal contests for failure to execute the contracts.

Recommendation 8 The Mayor should make the budget planning on real bases of planned receipts and revenues and this should be monitored by the Mayor in order to ensure that Municipality does not enter into contractual obligations without sufficient budget appropriations.

9. Issue - Lack of eligible bids - Priority Other

Finding Contracts for the fuel supply for heating, with premium price €0.08/litre, where total of payments made were €63,432, two operators submitted their tender dossiers. Only one operator had submitted eligible documentation and bid, while the other had

submitted an ineligible bid. It had not fulfilled the requirement for staff contracts and supplies schedule in days.

The contract for coal supply for heating, in amount of €40,712, we have seen that four (4) companies had bid. The winning company had not fulfilled three (3) of the contract announce requirements: copy of VAT certificate, staff contracts and supply time was 45 days whereas in requirement this was maximum of 35 days.

In the contract for the premises security in amount of €2,948/month, we have identified that for this tender had applied two companies and none of them was eligible. The company that won the tender did not meet one of the tender requirements: the requirement for staff contracts, submitting contracts signed only by employees but not by the employer as well.

The contract for transport of students of primary and lower secondary education, LOT 1 in amount of €624,96/month and LOT2 in amount of €387,96/month, we have identified that three companies had bid in two (2) Lots. Two (2) awarded companies, one for the Lot1 and the other Lot2, had not met one of the contract announce requirements that is the staff contracts.

Risk

Awarding contracts to operators that don't comply with legal public procurement requirements increase the risk of damaging competition and transparency of the process with the risk of not receiving the goods/services for spent money. This can cause unreasonable financial damage to the Municipality.

Recommendation 9 The Mayor should discuss with procurement officials about the damages caused by avoiding the appropriate procurement procedures and should take measures that procurement procedures are carried out in full compliance with Law on Public Procurement.

10. Issue - Classifying expenditures in inadequate economic categories – Priority Other

Finding

We have reviewed and analyzed the classification of Municipality spendings and have found that the payment of students' transportation services is made and classified in incorrect economic code for Capital Investment 33200 - Capital transfers to non-public entities. The amount of €11,243 was supposed to be paid from the Economic Code 13460-Contracting services.

A payment in the amount of €30,000 for the construction of greenhouses for farmers is classified and paid incorrectly in the economic code 31900 for Capital Investment - Other Capital. These are subsidy payments, which should have been planned and paid from the budget category of Subsidies and Transfers - economic code 22200- Payments for individual beneficiaries.

Risk

Recording of expenditures in inadequate economic codes increases the risk of accounts misrepresentation.

Recommendation 10 The Mayor should ensure the compliance with the charter of accounts on expenditures classification within the respective categories and that expenditure payments are made from relevant category.

4.5.2 Remunerations (Wages and Salaries)

Description

Wages and Salaries are paid through a centralized system (payroll). Controls that operate at the local municipal level are related to: payment system authorization, verification of possible changes and internal reconciliations.

The approved budget for Wages and Salaries category for 2012 was €6,020,080 and €6,014,799 was spent. We have tested 21 samples and have not encountered any significant irregularities to report.

4.5.3 Subsidies and Transfers

Description

The appropriated budget for Subsidies and Transfers for 2012 was €175,774 and €169,784 or near 97% was spent. To test the regularity of this category, we have selected three samples in amount of €25,892.

Our tests have not identified irregularities of significant importance to be reported.

4.6 Assets

Overall Conclusion on Assets

Municipality made significant progress in assets registration compared with the previous year. In 2011, the value of assets presented in AFS was €893,000, while in AFS for 2012 the assets value was €2,505,000. However, management should establish committee to assess all assets owned by the Municipality.

4.6.1 Capital and non capital assets

Description

Based on AI 21/09, Municipality should establish an assets evaluation committee and the committee for stock-taking in annual basis. Municipality made real efforts to record its assets in the accounting records compared with the previous year. In 2011, the value of assets over €1,000 was €893,000 whereas in 2012 was €2,505,000. Related to assets under €1,000 the Municipality had not presented any value whereas in 2011 the value of this type of assets was €33,500. There was no material stocks presented either.

4.6.2 Handling of receivables

Description

Accounts receivable are amounts expected to be collected by the Municipality. These mainly relate to property tax and business tax.

11. Issue - Collection of receivables - Priority Significant

Finding	According to AFS and Municipality records, at the end of 2012, the amount of accounts receivable was €1,523,870. We have noticed that the amount of municipal accounts receivable since 2002 until now had grown continuously. At the end of 2012 the receivables for property tax were €1,049,910. Receivables for business tax at the end of 2012 were €429,870; receivable for lease of premises were €34,680; and receivable for construction licences in amount of €9,410.
Risk	Lack of a clear management's strategy to adequately handle these accounts, increases the risk that these receivables get matured and become uncollected. Not collection of tax presents a risk to hinder collection of tax in coming years making more difficult the achievement of municipality's development plans.
Recommendation 11	The Mayor should prepare an action plan where clear instructions for the revenues collection are introduced. He should take measures to increase the collection of receivables, by establishing a process which ensures that receivables are recorded just after invoicing. Also, the receivables registry must be updated according to payment of these receivables. Training of tax collecting officials should be organised and more frequent visits to taxpayers must be made, with the aim of raising the revenues level.

4.7 Handling of debts

Overall Conclusion regarding Handling of Debts

Municipality has not managed to handle and manage debts properly.

Description

Municipality reported in accordance with the requirements of the Financial Rule (05/2011) on outstanding debts reporting.

Statement of outstanding liabilities to suppliers at the end of 2012 was €97,130, while in 2011 its total is €76,103. These liabilities are transferred for payment in 2013. The Municipality also reported contingent liabilities in amount of €180,760, while those in 2011 were €36,000.

5 Internal Audit System

Overall conclusion on Internal audit system

Internal Audit Unit consists of an auditor and an IAU director. They performed well by reporting in various areas and helping senior management to have an overview on the functioning of controls and operational activities in the Municipality. However, further action are needed relating to recommendations.

Description

In 2012, IAU planned and conducted six regular audits, which covered 2012. The audits were conducted in the field of: (a) budget and finance, (b) own source revenues, (c) assets management, (d) audit of personnel files, (e) procurement office and budget expenditures audit, and (f) management of Municipality vehicles. Also, the IAU carried out an audit outside the plan, concerning the implementation of recommendations made in 2012.

12. Issue - Lack of an Action Plan - Priority Significant

Finding	During our audit we found that management had no action plan to address the IAU recommendations.
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Risk	Not addressing identified weaknesses could result in inadequate internal controls/continuous weakness in the areas reviewed by the IAU.
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Recommendation 12	The Mayor should draft an action plan, which should be implemented in order to address the IAU recommendations. The plan must specify the time and the officials responsible for carrying out these actions.
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6 Overall conclusion

Our overall conclusion reflects our review of controls related to AFS, Financial Management and Control and Internal Audit System.

The level of compliance with the reporting framework could be improved. While some improvements have been implemented since 2011, the financial statements for 2012 have not fully addressed our recommendations or comments made on 9 month accounts. Financial statements in several accounts are misstated and several accounts are missing appropriate disclosures. Responsible staff for drafting the statements apparently has insufficient knowledge to design statements in accordance with the reporting requirements. Municipal management should consider the attendance of additional training in this area.

We found that only three of the recommendations given in 2011 were fully addressed, while most of them were partly or not taken into consideration at all. We believe that the Municipality's management must demonstrate a serious commitment to address the recommendations. Non-addressing of recommendations resulted in repetition of the same shortcomings and recommendations in this year too. A low level of addressing is noticed even related to internal audit recommendations.

Glllogoc Municipality has a set of controls regarding the collection and reporting of revenues. However, there is a need for improvement in a number of certain areas because the receivables exceed 1.5 million euro, out of which over a million belong to the property tax. It is not clear how the Municipality does not maintain complete records on leases and on monthly contractors' payments. Therefore, management should develop clear policies and should strengthen controls over revenues, considering that a number of projects are financed by these resources.

Procurement procedures are also accompanied with significant shortcomings. Selection of operators without fulfilling several administrative requirements has led to the entry into contracts with ineligible operators. The Municipality entered into major contracts without commitment of funds. This had led to cessation of a project's work due to lack of 1.5 million EUR.

The Municipality, by recording in the wrong codes, had not followed the procedures for recording expenditures in appropriate economic codes. This affected a disorientating presentation of expenditures.

Good progress has been made in the assets registrations process, where over 1.6 million of assets amount were recorded compared to 2011. However, the presentation of the assets value of only 2.5 million is far from the realistic value of assets in Municipality's possession. However, we encourage the continuation of this process.

Annex I: Explanation of the different types of opinion applied by the OAG

(extract from ISSAI 400)

9. An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse (paragraph 14) or a disclaimer (paragraph 15) of opinion.

10. An unqualified opinion is given when the auditor is satisfied in all material respects that:

- a) the financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
- b) the statements comply with statutory requirements and relevant regulations;
- c) the view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- d) there is adequate disclosure of all material matters relevant to the financial statements.

11. **Emphasis of Matter.** In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references which are meant as "emphasis of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

12. An auditor may **not be able to express an unqualified opinion** when any of the following circumstances exist and, in the auditor's judgement, their effect is or may be material to the financial statements:

- a) there has been limitation on the scope of the audit;
- b) the auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or
- c)]there is uncertainty affecting the financial statements.

13. **Qualified Opinion.** Where the auditor disagrees with or is uncertain about one or more particular items in the financial statements which are material but not fundamental to an understanding of the statements, a qualified opinion should be given. The wording of the opinion normally indicates a satisfactory outcome to the audit subject to a clear and concise statement of the matters of disagreement or uncertainty giving rise to the qualified opinion. It helps the users of the statements if the financial effect of the uncertainty or disagreement is quantified by the auditor although this is not always practicable or relevant.

14. **Adverse Opinion.** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.

15. **Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

16. It is customary for SAIs to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

Annex II: Prior year recommendations

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
1. Financial statements	When compiling AFS, all required information will be fulfilled with complete information and will be explained with explanatory notes.			X
2. Own source revenues	Officers in charge keep accurate records for all leaseholders; evidences of children exluded from payment in kindergarten; users of public property; and construction permissions; and To strengthen inspection measures to identify constructions without licence and appeal to citizens to apply for construction licence and pay respective taxes.		Partially	
3. Procurement	Initiated projects to be finalized according to the dynamic plan provided by operator and application of penalties when implementation fails;		Partially	

	Establishing of an appropriate control system on procurement activities; and Received invoices to be procured, recorded and reported in AFS			
4. Subsidies and transfers	The regulation on subsidies is completed, including clear conditions and criteria for granting subsidies; and No subsidy is given without previous request approved and reviewed and that expenditures are explained according to the reporting from the beneficiary	Yes		
5. Handling of receivables	Development of the software applied by office of finance making it able to produce accurate and full information on all accounts receivables			No
6. Handling of capital and non-capital assets	Appointment of an officer that will carry out registration of assets and establishing of special commissions on registration, assessment and inventory of assets; and An assets register is in place		Partially	
7. Handling of	Financial department keeps full and	Yes		

debts	accurate records and registers all executed and unexecuted invoices to avoid possibility of paying them more than once			
8. Internal Control System	Further strengthening of processes and controls on identified matters such as control failures, especially over assets registration, project management, subsidies and reporting		Partly	
9. Internal Audit System	Appropriate actions in addressing all recommendations drawn from internal audit reports are taken; and Internal auditor is recruited fully in compliance with applicable laws	Yes		
10. Overall conclusion on the management of Municipality	Discussions are made with the Board of Directors on all weaknesses and shortcomings of financial management identified in this report in order to strengthen internal controls		Partly	

Annex III: Management Response to OAG Findings

Findings	Agree (yes/no)	Comments from the institution in the case of disagreement	OAG view
Finding 1: AFS had not included all required information related to third part payments (€120,713); wrong presentation of revenues (€124,713 less); and differences in final budget (€64,429 less). AFS were not prepared in Serbian language. There is no plan for preparation of AFS in order to ensure that all required information have been included in AFS.	No	AFS for 2012 have been prepared according to Rule 07/2011, LPFMA and Treasury instruction, where AFS for 2012 included all OAG findings and comments made in 9 months statements. As for the difference, presented by your side, in the final budget in amount of €64,429 we have requested an explanation from the Treasury through our letter 01-031-6348 of date 23.05.2013 and we got the answer that the same amount is as increase of OSR which was handled on 06.03.2013. Evidence: The letter sent to Treasury and the document from KFMIS.	AFS were prepared based on KFMIS data and those we supposed to be updated and corrected within the KFMIS corrections. The Municipality had the opportunity to update, complete and correct the AFS until 27 March 2013. The finding remains unchanged and the given recommendation should be addressed in preparation of AFS for 2013.

Finding 2: Article 12, Statement of receipts and payments in cash: The Municipality had not presented third part payments in amount of €120,713. Article 13, Statement of budget execution – inflow of cash: in final budget column the Municipality had presented the budgeted own source revenues in amount of €744,000 whereas it should be €868,358. So there is a difference in amount of €124,358. Article 13, Cash outflow: the Municipality had presented the final budget of €10,352,000 whereas it should be €10,416,429. So there is a difference in amount of €64,429.	No	According to the Treasury Rule 07/2011, Article 8, point 4 states that the direct payments have been executed by donors out of TSA (Treasury Single Account). Payment from other budget organizations that have been made directly to the furnitor for which we have not have direct payments and we have not dealt with procurement or payments. We have informed you in written form about this that we have not had sufficient information to present in AFS. Basis for AFS preparation, as known, is KFMIS report. Presentation of these evidences shall have impact in giving positive opinion. In the statement of budget execution in final budget column we had €744,065.83 and in the report of date 22.01.2013 we have this situation, and even in the KFMIS report of 17.05.2013 we have the same situation because these are direct revenues and allocated, and we have explained at the end of table that because of this the realization of	The OAG response remains the same as under the finding no.1 and the recommendation should be addressed during preparation of AFS for 2013.
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		revenues is €868,000. Proof: AI 07/2011 and Form of AFS preparation form Treasury (The training). Evidence: FreeBalance reports. The deadline of AFS preparation is 31.01.2013 so we have been based on first month KFMIS reports and according to this report we have the amount of €10,352,000, whereas for the the Treasury adjustments in later periods, according to the same rule, we have no right to change it. Evidence: FreeBalance report of date 15.01.2013. We have given comments and evidences related to this in recommendation no. 1.	
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