

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

Prishtina, June 2016

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

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

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

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

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Executive Summary

Introduction

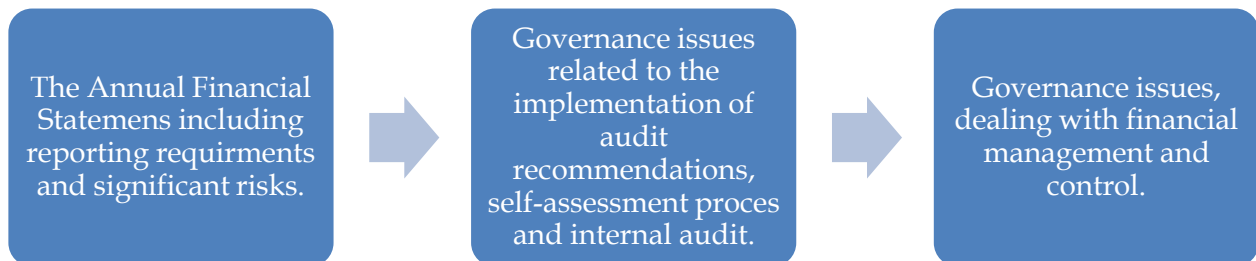
We, Grant Thornton LLC, have conducted the audit of the Annual Financial Statements of the Municipality of Kaçanik (the "Municipality") for the year ended December 31, 2015, on behalf of the Office of the Auditor General ("OAG").

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

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

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

Our audit focus has been on:



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

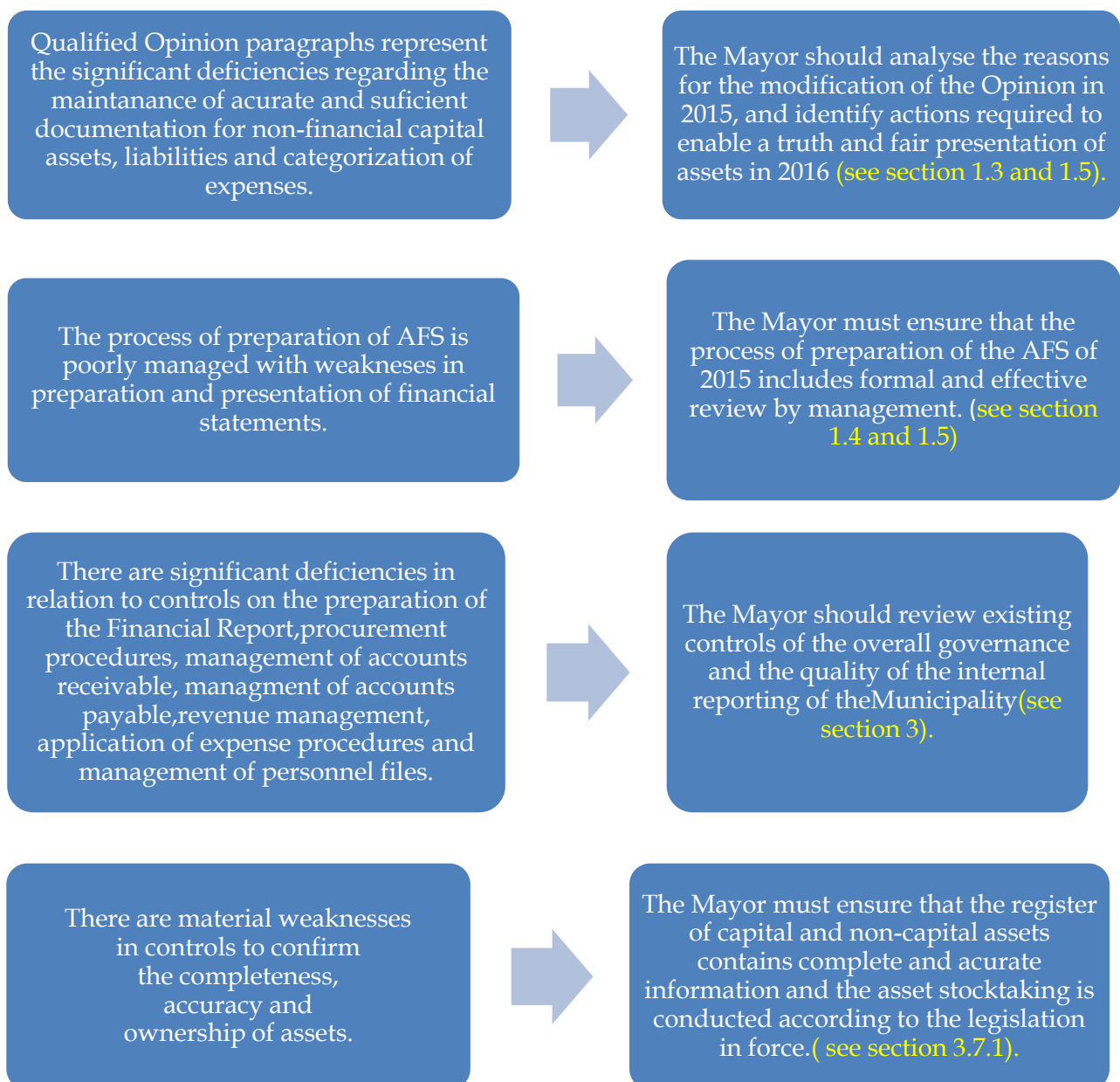
Opinion

Appendix II explains the different types of Opinions applied.

Our audit opinion, presented on pages from 9 to 11 of this Report is qualified due to the scope limitation regarding the balance of non-financial capital assets worth over EUR 1,000, scope limitation regarding categorization of expenses “ Statement of Unpaid invoices(liabilities) of budget organisation” in the emphasis of matter paragraph related to noncompliance of financial regulation requirement no MF-No-01/2013

Overall Conclusion

Our key conclusions and recommendations are:



Mayor's Response - for 2015 audit

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

According to the Mayor's representations:

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

1 Annual Financial Statements and other External Reporting Obligations

1.1 Description

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

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

1.2 Auditor Opinion

Independent Auditors' Report

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To the Mayor of the Municipality of Kaçanik

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS) for "Financial Reporting under Cash Basis of Accounting", and with Regulation MF -No. 03/2013 "On Annual Financial Statements of Budget Organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Basic Principles and Guidelines on Auditing of the International Organization of Supreme Audit Institutions (INTOSAI). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Basis for qualified opinion

- i. Data related to non- financial capital assets worth over EUR 1,000 owned by the Municipality are disclosed in financial statements. However, there are many deficiencies and uncertainties which affect the Municipality's financial reporting of non- financial capital assets worth over EUR 1,000 as following:
 - The asset register possessed by Municipality regarding the non-financial capital assets is not complete and valid. In fixed assets register of nonfinancial assets above EUR 1,000, are not included total purchases for the year 2015 as presented in note 12 “Capital Investments”. The Municipality has not prepared a detailed list of movements in 2015 and 2014 to ensure compliance of the information presented in the financial statements.
 - Moreover due to the deficiencies in the non-financial capital assets register for assets worth over EUR 1,000, we were not able to determine whether the depreciation calculated from the system and, respectively, net book value of the assets presented in the note is correct.
 - The Municipality has not performed stocktaking of assets above EUR 1,000 as required by the regulation. Therefore we were unable to obtain reasonable assurance whether any adjustments might be necessary.
 - Furthermore the Municipality has not performed valuation of its non-financial assets during 2015 as required by the regulation MF No.02/2013.

Furthermore, the Municipality has not received a detailed official report from government agencies relating to investments they have made in the Municipality, we were unable to obtain reasonable assurance that all investments of the current year and previous years are recorded and presented in note 31 “Summary of non- financial capital assets worth over EUR 1,000 in possession of the Budget Organization” and that the investments in question are owned by the Municipality.

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

- ii. We were not able to identify from the source documents made available to us whether the payments in amount of EUR 56 thousand performed based on court decision and direct from treasury were appropriately categorized in capital investments, as disclosed in Note 11.

Qualified opinion

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

Other matter

The financial statements of the Municipality for the year ended December 31, 2014 were audit by other auditor, which expressed a qualified opinion with emphasis of matter paragraph on those financial statements on June 23, 2015, due to the scope limitation regarding the balance of non-financial capital assets over EUR 1,000, scope limitation regarding the balance of non-capital assets under EUR 1,000, disagreement regarding noncompliance with regulation MF – no 03/2013 "On the Annual Financial Statements of Budget Organizations".

Grant Thornton LLC

Pristina,
22 June 2016

1.3 Significant Risks to the Annual Financial Statements

Description

In our Audit Memorandum dated 09 December 2015, we identified significant risks to the Annual Financial Statements related to the completeness and ownership of assets, third party payments, appropriate categorization of expenses, and presentation of liabilities. The above risk are materialized and resulted in the modified opinion. During the final audit conducted we have identified additional significant risk related to the preparation of financial statements and receivables balance presented in the financial statements which resulted in the modification of the opinion.

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

1.4 Compliance with AFS and other reporting requirements

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

- Compliance with financial Regulation No. 03/2014;
- The requirements of LPFMA No. 03/L-048, as amended by Law No. 03 / L-221, Law no. 04 / L-116 and Law no. 04 / L-194.;
- Deadline of submission of reports to the Ministry of Finance;
- Requirements for signature of AFS from CAO ("Mayor") and Chief Financial Officer;
- Requirements to prepare AFS in hard and electronic copies;
- Submission of quarterly reports to the Assembly of the Municipality and the Ministry of Finance;
- Financial Rule No. 02/2013/MF "On reporting of arrears by Budget Organizations";
- Operating Reports (performance indicators);
- Report on the proposed and undertaken actions for the findings and recommendations of the previous year External Auditor; and
- The submission of AFS in Albanian and Serbian language.

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

- The primary and reliable source of information for the preparation of financial statements is Free Balance, which is not used to record and report all disclosures that are not reported under

the Cash Basis of Accounting. These disclosures include revenues from fines, payments from third parties, receivables and unpaid and contingent liabilities;

The findings disclosed above show that the preparation of financial statements are not properly managed.

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

1.5 Recommendations

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

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

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

Recommendation 3 Medium priority - The Mayor of the Municipality must ensure that Municipality submits monthly reports related to outstanding liabilities as required by reporting regulation.

2 Governance

2.1 Introduction

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

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

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

2.2 Overall conclusion over governance

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

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

2.3 Prior Year Recommendations

Prior year audit report has resulted in 21 recommendations given. Although Municipality implemented the requirement to produce an action plan after receiving the 2014 OAG audit report we noticed that the recommendations were only partially implemented. In the action plan were presented the findings, management comments and the steps to be undertaken to implement the recommendations. It should be noted that the action plan is general and the process of implementation is not specified adequately. Furthermore there is no evidence of monitoring over implementation of the recommendations. It must be mentioned that the prior year audit report was discussed in the assembly. For a more complete description of the recommendations and how they are addressed, see Annex III.

Recommendations

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

- Finding** Municipality has prepared action to plan to address recommendations from previous. However Municipality has still issues which needs to be managed and monitor implementation of recommendations.
- Risk** Insufficient implementation of prior year recommendations leads toward: incomplete assets register; non-compliance with the reporting requirements; Poor management of revenue due to lack of evidence and internal reporting; Lack of adequate information on the AFS; Limited benefit from the work of Internal Audit; Inadequate treatment of disclosure of accounts receivable; Inadequate treatment of debt disclosures.
- Recommendation 4** The Mayor has to revise Action Plan to address the recommendations of 2014. This plan must specify a reasonable time frame of implementation, responsible staff and mode of application, being initially focused on areas of high importance i.e. where material weaknesses were identified. Progress against the plan must be monitored directly by the Mayor.

2.4 The self-assessment checklist of MF

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

Issue 2 - The self-assessment checklist - Medium Priority

Finding

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

- **Control Environment**

The Municipality has assessed itself with grade 2.29 out of 3 in this component. From our review of questions we have identified that numerous answers were not appropriate and were not documented as it is required by the questionnaire.

- **Risk management**

The Municipality has assessed itself with grade 1.69 out of 3 in this component. From our review of questions we have identified that numerous answers were not documented as it is required by the questionnaire.

- **Control activity**

The Municipality has assessed itself with grade 2.25 out of 3 in this component. From our review of questions we have identified that numerous answers were not documented as it is required by the questionnaire.

- **Information and communication**

The Municipality has assessed itself with grade 2.55 out of 3 in this component. From our review of questions we have identified that numerous answers were not documented as it is required by the questionnaire.

- **Monitoring**

The Municipality has assessed itself with grade 1.78 out of 3 in this component. From our review of questions we have identified that numerous answers were not documented as it is required by the questionnaire.

Risk

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

Recommendation 5 **The Mayor should ensure that the self-assessment checklist is completed with objectivity and documented in order to identify the weaknesses and mitigated appropriately as required by the Ministry of Finance of the Republic of Kosovo**

2.5 Specific Governance issues

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

2.5.1 Accountability arrangements

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

Issue 3 - Accountability processes - High Priority

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

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

Recommendation 6 The Mayor should ensure that a review of the existing requirements of accountability and reporting of municipal departments and ensure improved arrangements to achieve specific targets within a year.

2.5.2 Risk Management

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

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

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

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

Recommendation 7 The Mayor should ensure that procedure and systems of risk management are established and operational. Furthermore the responsibility for risk management is delegated directly to a relevant director and provides monthly reporting on the implementation of the requirements in this field and the risks are being managed.

2.5.3 Management Reporting

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

Issue 5 -Weakness in Management Controls - High Priority

- Finding** The review that we have made to managerial controls implemented in the main municipal financial system has highlighted weaknesses in higher-level controls. As such, the governance arrangements require strengthening, in particular with regard to controls on: preparation of the Financial Report (nine month and annual), stocktaking, valuation and presentation of capital assets, procurement procedures, management of accounts receivable, accounts payable management, revenue management, application of expenditure procedures and management of personnel files.
- Risk** Poor quality of financial reporting to senior management reduces the ability of management to react in time and actively manage the activities of the Municipality, and undermines effective control budget.
- Recommendation 8** The Mayor should review existing measures of general governance and the quality of internal reporting of the Municipality. Unimplemented requirements need to be addressed by the end of 2016. The quality of the reporting and budgetary surveillance must be reviewed critically and systematically to ensure the achievement of the Municipality's objectives.

2.6 The Internal Audit System

The Internal Audit Unit consists of one head of internal audit, which planned 6 activities for 2015. Up to 31 December 2015 they presented to us 6 completed reviews. Although the internal audit unit is functional there is no visible impact of the internal audit work. The absence of functional Audit Committee has impacted the work and effectivity of internal audit system.

Issue 6 – Functioning of Audit Unit and Audit Committee of audit plan – High Priority

Finding Implementation and follow-up of findings and recommendations is not fully made. In addition, the Audit Committee members are not independent as required by administrative instruction 11/2010.

Risk The internal audit system is a key part of internal control and as such it should provide assurance on the effectiveness of internal controls. The absence of functional Audit Committee increases the risk of failure in the independence of the internal audit, hence affecting the internal controls. In addition, it does not allow for the functions usually covered by the Audit Committee to be performed with the appropriate independence.

Recommendation 9 The Mayor should ensure that Audit Committee has proper and enough human resources. Furthermore the Mayor must ensure that future activity of IA should be directed towards the development and implementation of audit strategy based on risk. Furthermore, in order the benefits to be visible, the Mayor should take measures to implement the IA finding within the Municipality.

3 Financial Management and Control

3.1 Introduction

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

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

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

3.2 Conclusion on Financial Management and Control

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

3.3 Budget Planning and Execution

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

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

Description	Initial Budget	Final Budget ¹	2015 Actual	2014 Actual	2013 Actual
Sources of funds:	6,858,434	7,245,910	6,942,159	6,545,962	5,557,324
Government Grant-Budget	6,162,677	6,382,764	6,363,848	6,040,636	4,992,436
Carried forward from previous year ²		152,163	143,851	119,390	132,000
Own Source Revenues ³	695,757	695,757	421,703	383,612	325,212
Domestic Donations		11,509	9,040	-	-
External Donations		3,717	3,717	2,324	107,676

Final Budget is higher than initial budget for EUR 387,476. This increase is a result of own source of revenues Carried forward from previous year in the amount of EUR 152,163, domestic donations in the amount of ER 11,509, external donations in the amount of 3,717 and the other part as a result of approved increase from Government. This increase has been applied after budget review and in accordance with Government decision.

In 2015, the Municipality has used 96% of the final budget or EUR 6,942,159 (2014: 95% or EUR 6,545,962). Realization of budget remains at a satisfactory level and below are given the explanations for the actual positions.

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

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

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

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

Description	Initial Budget	Final Budget	2015 Actual	2014 Actual	2013 Actual
Funds spent by economic category:	6,858,434	7,245,910	6,942,159	6,545,962	5,557,324
Wages and Salaries	4,550,000	4,711,887	4,711,887	4,315,980	3,733,084
Goods and Services	459,982	475,727	453,387	488,117	529,549
Utilities	141,000	139,000	123,890	118,209	112,518
Subsidies and Transfers	248,989	267,323	266,721	169,357	128,996
Capital Investments	1,458,463	1,651,973	1,386,274	1,454,299	1,053,177

The execution related to capital investment is presented at 84% although from the actual amount of EUR 1,386,274 the amount of EUR 55,572 relate to payments executed by court order. Consequentially, actual capital investments for the year ended 31 December 2015 are only EUR 1,330,702. Furthermore there are significant differences between planning of procurement for capital investment and realization of those investments. This is the main challenge which has to be addressed by the management.

Regarding realization of expenditures for the category Wages and Salaries, it can be seen that the budget was realized 100% in year 2015 (2014: 99%). This is expected since the projection of budget for salaries is quite accurate.

Regarding realization of expenditures for the category Goods and services, it can be seen that the realization of budget was 95% which is higher than prior year (2014: 84%). It should be stated that the government grant is expensed 99%.

The budget for Subsidies and transfers was expensed 100% (2014: 95%).

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

Description	Initial Budget	Final Budget	2015 Actual	2014 Actual	2013 Actual
Own source revenues	695,757	695,757	556,372	383,612	325,212

Regarding own source revenues, it can be seen that the percentage of realization is only 80% up to December 31, 2015 (2014: 85%). Own source revenue were used for subsidies and transfers 34% capital expenditure 28%, goods and services 12%, and salaries and wages 1%.

Realisation of the budget has been at the satisfied level, therefore we do not have finding in this issue.

3.4 Procurement

The amount of contracts signed through procurement procedures for the period ended 31 December 2015 was EUR 1,542 thousand. This includes Capital Investments and Goods and Services.

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

Our audit of procurement management identified the following issues:

Issue 7 - Systematic weaknesses in procurement - High Priority

Finding During the audit of procurement procedures we identified issues as following:

- The Municipality did not submit procurement plan to Central Procurement 60 days before beginning of the fiscal year as required by regulation no 04/L-042.
- Chief administrative officer did not designate a person to serve as authorising officer for the procurement activities during the year as required by law no 04/L-042.
- For the Selected procurement files we were not provided with management plan for the contracts as required by law no 04/L-042.
- In one procurement contract we identified that the project was not finished as foreseen by the contract for which the Municipality did not apply punishment fee as stipulated in the contract.
- In one case commitment of the funds were made before signing the contract.
- In one case we were not provided with appropriate evidence as required by procurement law "Notification for eliminated candidates and tenderers".

Risk As a result of weak procurement procedures, there is a risk of irregular payments can be made, delays in delivery of services, poor value for money expended, and contracts may not be implemented as per the required standards.

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

3.5 Non Procurement Expenditure

3.5.1 Other expenses

We tested on sample bases some categories of goods and services and utilities in order to determine the validity and accuracy of the expenses incurred.

Issue 8 – No sufficient appropriate documents – High priority

Finding Following issues have been identified based on our audit of capital expenses

- We were not provided with appropriate evidence of the procedures carried out by Caritas Luxembourg to support payment during 2015 in the amount of EUR 150 thousand.

Risk Inefficient or non-existing controls can lead payments to be made without proper documentation.

Recommendation 11 The Mayor should ensure that the Municipality takes further steps to improve controls over expenses and payments and strictly comply with the laws and local regulatory requirements.

3.5.2 Remunerations (Wages and Salaries)

Expenditures for Wages and Salaries are paid through the centralized government system (payroll). Controls that operate in local level relate with: a) authorization of payroll lists; b) verification of possible changes; and c) the budget review for this category and reconciliation with the Treasury. We have noted lack of documentation as described below.

Issue 9 – Personnel Data - Medium Priority

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

- In 10 Cases of nominations of civilian employees coefficient of salary were missing.
- In 9 cases determination grade was missing;
- In 2 cases were missing the qualification and other trainings;
- In 7 Cases medical examination of employees were missing.
- IN 2 Cases certification of education is missing;
- In 2 Cases certification from the court that the employee is not under investigation is missing;

- In 1 cases the date of expiry of employment contract was not renewed;

-
- Most of CPOs are not signed from civil servants.

Risk

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

Recommendation 12

The Mayor should ensure that the Municipality takes further steps to improve controls over personnel files in order that files are properly organized and completed and take measure regarding the signing of payroll lists.

3.5.3 Subsidies and Transfers

Subsidies and transfers during the year ended 31 December 2015 amount to EUR 267 thousand, where EUR 64 thousand are from government grant, EUR 9 thousand are from designated grants and EUR 194 thousand are from own source revenue. We do not have any findings in relation to subsidies and transfers.

3.6 Revenues (including own source revenues)

Own source revenues generated by the Municipality in 2015 amounted to EUR 556 thousand. This category includes revenues from tax on property, administrative and road taxes, construction permits, etc.

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

Issue 10 - Tax on Property - High Priority

Finding The Municipality did not verify 1/3 of the existing registered properties. Furthermore according to the Law on property tax 03 / L / 2014 article 13, paragraph 3 the Municipality shall review and follow the fair value of the property that is in its jurisdiction for every three to five years. No report has been prepared in the past five years for reviewing and following fair value of existing properties.

The Municipality has implemented partly restrictions for the payment of tax on property as required by Administrative Instruction No.07/2011 which forces withholding utility services to taxpayers who do not pay their dues.

Risk In the absence of surveys and verifications for 1/3 of the properties there is a risk of inaccurate and incomplete data related to the taxable property. As a result there is a risk that revenue from tax on property will decrease. Also, not conditioning the provision of services with payments of debt reduces the possibility for accepting debt.

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

Recommendation 13 We recommend the Mayor to take these steps:

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

To ensure that surveys and conditioning of provision of services are done as required with Administrative Instructions No. 03/2011 and No. 07/2011.

3.7 Assets and Liabilities

3.7.1 Capital and Non Capital Assets

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

Issue 11 - Register of capital assets - High Priority

Finding Register of capital assets above EUR 1,000 does not contain the respective date when the asset was placed in use, but only the year when the asset was purchased. Furthermore in the fixed assets register are not included total purchases of the year as presented in note 11 capital investments. Therefore we could not determine whether the depreciation calculated from the system and, respectively, net book value of assets presented in Note 30 is correct. There is a lack of ownership documents supporting non-financial capital assets worth above EUR 1,000.

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

Recommendation 14 The Mayor should ensure the following timely and accurate recording of all assets in the relevant registers in accordance with the requirements of regulation 02/2013. It also should ensure that capital assets register contains complete information, including the date when the asset was put in use, so that the calculation of depreciation can be performed accurately. As well as determine the ownership status.

Issue 12 - Stocktaking of capital assets - High Priority

Finding For the year ended in December 31, 2015 the Municipality has not performed the process of stocktaking as it is requested with the regulation No.02/2013. Hence we were unable to obtain reasonable assurance whether all fair value fixed assets are included in the financial statements.

Risk Not performing comprehensive stocktaking of the assets as required by the regulation, the Municipality results in not identifying the real factual situation of assets which may have been damaged or completely missing. This may result in keeping the assets in the financial statements that may not exist or have lower value than the one with which they are held in the financial statements.

Recommendation 15 The Mayor of the Municipality must ensure that the stocktaking of nonfinancial capital assets was conducted in accordance with the Regulation in force for non-financial assets of Budget Organizations and ensure that stocktaking is conducted on an annual basis.

Issue 13 - Lack of ownership documentation and information's for the investments made by third parties - High Priority

Finding The official transfer of ownership for a significant portion of assets financed by third parties this year and over the past years and presented in financial statements as "Payments from third parties" has not been finalized yet.

Risk Lack of supporting documentation for the non-capital assets owned by Budget Organizations can affect incorrect presentation of information in financial statements.

Recommendation 16 We recommend the Mayor of the Municipality to ensure that the Municipality is making maximum efforts for the obtainment of data from third parties, with particular emphasis on those parties known to have carried out significant investments in the municipality. The data obtained should be correctly presented in the asset register of the Municipality. Best practice would require that on an annual basis reconciliation of data is made between third parties and the Municipality for investments in the Municipality for the respective year.

3.7.2 Cash (and cash equivalents when applicable)

Issue 14 - Cash deposits - High Priority

Finding

We have identified that cash in regional offices of the municipality are not always deposited in the bank in a daily basis from revenue offices according to Financial Rule 03/2010 Article 11 - Collection of revenues- based on which at the end of the day the money collected in the cash-boxes of Budget Organizations shall, through the collecting agency be deposited in bank in total for each type of revenue accompanied by a summarizing invoice containing the "Uniref" and verification number. Lack of regular cash deposits at bank by the Municipality may result in misappropriations of cash and unidentified errors in reporting cash balances and in addition, such practice is not in compliance with the requirements of legislation in force.

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

3.7.3 Receivables

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

Issue 15 - Ageing of Receivables - High Priority

Finding Municipality did not take all necessary actions to collect accounts receivable and did not perform analysis age structure.

Risk Lack of appropriate controls on revenue collection and age structure information of accounts receivable impact negatively on revenue collection, consequently impact the funds that Municipality generates to its expenses and investments. These deficiencies interfere identification of problems, monitoring and concentration of proper sources in revenue collection, and presentation of fair amounts in AFS that are expected to collect.

Recommendation 18 The Mayor should ensure that Municipality undertake and implement detailed action plan on collecting old debts.

3.7.4 Debts

The balance of unpaid debts to suppliers as at the end of 2015 was EUR 69 thousand. These liabilities are carried forward to be paid in 2016.

Issue 16 - Unpaid debts - High Priority

Finding The Municipality did not perform its payment obligations within 30 days as required by Regulation 01-2013 "Public Funds Expenditure. Invoices totalling EUR 7 thousand presented on financial statements represent unpaid invoices for more than 30 days.

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

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

Annex I: Audit approach and methodology

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

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

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

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

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

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

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

Our findings are defined as:

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

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

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

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

Annex II: Explanation of different types of opinions applied

(Extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

154. The auditor should express an **adverse opinion** if, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are

both material and pervasive to the financial statements.

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex III: Prior Year Recommendations

Recommendation No.	Audit Component	Recommendations given	Implemented	Addressed but not implemented	Not addressed
Recommendation 1	Investments made by other government agencies	The Mayor of the Municipality should analyse the deficiencies described above which form one of the points for the qualification of the opinion and identify appropriate action to address the weaknesses of controls in order to enable a fair presentation of property in 2015.			Not addressed
Recommendation 2	Non-financial capital assets (worth over EUR 1,000)	We recommend the Mayor to ensure that the Municipality constantly records and presents in its financial statements all assets, as well as reconciles information from all sources involved in the financing of assets			Not addressed
Recommendation 3	Investments made by third parties	We recommend the Mayor to ensure that the Municipality is making maximum efforts for the obtainment of data from third parties, with particular emphasis on those parties known to have carried out significant Investments in the municipality. The data obtained should be correctly presented in the asset register of the municipality. Best practice would require that on an annual basis reconciliation of data is made between third parties and the municipality for investments in the municipality for the year			Not addressed
Recommendation 4	Preparation of Annual Financial Statements	The Municipality Mayor must ensure that the process of preparation of the AFS fully addresses the requirements of Regulation 03/2013. The statement made by the Mayor and Chief Financial Officer, when the draft annual financial statements submitted to the Government must be signed only after a comprehensive review of the management regarding the content and accuracy of AFS. All other reporting requirements must be met		Although the municipality has made improvements in the presentation of the annual financial statements, they are still not in fully compliance with Regulation MF-No.03 / 2013.	

Recommendation No.	Audit Component	Recommendations given	Implemented	Addressed but not implemented	Not addressed
Recommendation 5	Compliance with Annual Financial Statements	Municipality Mayor must ensure that the process of preparation of the AFS Fully addresses the requirements of the regulation no 03/2013. The statement made by the Mayor and Chief Financial Officer, when the draft of AFS submitted to the Government should be signed only after a comprehensive review of the management regarding the content and accuracy of AFS. All other reporting requirements must be met.		Although the municipality has made improvements in the presentation of the annual financial statements, they are still not in full compliance with Regulation MF-No.03 / 2013.	
Recommendation 6	Prior Year Recommendations	The mayor should provide an action plan, revised to address the remaining recommendations of 2013 and these of year 2014. This plan must specify a reasonable time frame of implementation, responsible staff and mode of application, being initially focused on areas of great importance and where significant weaknesses were identified. Progress against the plan must be monitored directly by the Mayor		The municipality has partially addressed prior year recommendations	
Recommendation 7	Managerial controls	The Mayor must review the existing measures of the general government and the quality of internal reporting of the municipality. Unimplemented requirements need to be addressed by the end of 2015. The quality of the reporting and budgetary surveillance must be reviewed critically and systematically to ensure the achievement of the objectives of the municipality.		Partially implemented	

Recommendation No.	Audit Component	Recommendations given	Implemented	Addressed but not implemented	Not addressed
Recommendation 8	Budget Execution	The Mayor should ensure that implementation of budget to be increased in the budget lines where the implementation is under 90% and that the funds of the current year to be spent in the current year.		Partially implemented. For 2015 there is a better realization of revenues compared with the previous year	
Recommendation 9	Revenues (including own source revenues)	The mayor should systematically monitor budget performance on a monthly basis and to identify and address barriers for the planning levels of budget execution. If the initial budget assumptions are incorrect, it should be fully reflected in the final budget position.		Addressed but not implemented	
Recommendation 10	Procurement	The Mayor of Municipality should ensure that there will be a review of audit findings in which processes are not applied effectively, and to determine why the failures occurred in them. Right actions/processes needed to be implemented to ensure that such failures will not occur in the future			Not addressed
Recommendation 11	Non Procurement Expenditure	The Mayor shall ensure that it does not repeat such practice of advances and progress of this agreement shall be monitored exceptionally. Appropriate procedures should be implemented to ensure that similar faults are not repeated in the future			Not addressed
Recommendation 12	Commitment	The mayor should ensure that for each purchase request initially to have committed funds in order the Municipality does not enter into obligations without providing sufficient funds			Not addressed

Recommendation 13	Personnel Data	We recommend the Mayor to take measures in connection with a systematic review of personnel files, to ensure that all documentation necessary are included in the file. To ensure that the Municipality reports and archives complete data related to wages and salaries and observe the requirements for approval of payments and maintain complete personnel files			Not addressed
Recommendation 14	Calculation of maternity leave deduction	The mayor should ensure that this issue will be further in consideration by the payroll administration, in order to don't allow the damage of the municipality budget. The mayor should address this issue to the MPA to make the change in base salary in accordance with government decisions and changes to be reflected in the payroll system of pre university education.	Implemented		
Recommendation 15	Register of capital assets	We recommend the Mayor to include additional resources for the transfer of ownership of non-financial assets in ownership of the municipality. The mayor should ensure that the officer of non-financial assets to exercise his duty initially and to do recording of assets in the Free Balance. Also, the Mayor shall ensure to establish a committee for inventory and assessment of non-financial capital asset of the Municipality and to ensure that in ongoing way the Municipality records and presents in its financial statements all assets, and reconcile information from the all the resources involved in financing assets. We recommend the Mayor to include additional resources for the transfer of ownership of non-financial assets owned by the municipality			Not addressed
Recommendation 16	Stocktaking of capital assets	The Municipality Major must ensure that the stocktaking and valuation of non-financial assets to be conducted in accordance with the Regulation in force for non-financial assets of budgetary organizations and ensure that stocktaking be conducted on an annual basis.			Not addressed

Recommendation 17	Disclosure of non-capital assets under EUR 1,000	The Major must ensure that the Municipality maintains accurate and complete information's in relation to non-capital assets in "E-pasuria" system and to ensure that they are depreciated according to the regulation in force. Also to be identification of all none capital assets under EUR 1,000, to set the tag numbers and any movement of property to be associated with the respective documents.	Implemented		
Recommendation 18	Handling of cash	The Mayor should ensure that such cases are not repeated and to undertake measures that spending money to be in full in compliance with regulations in force.			Not addressed
Recommendation 19	Handling of receivables	We recommend the Mayor to ensure that the Municipality takes further steps to improve controls and that acts in compliance with laws and local regulatory requirements regarding the collection of revenues			Not addressed
Recommendation 20	Handling of debts	The mayor should ensure that the Municipality will take further steps and to develop action plans to carry out the payments within the required period. The mayor should ensure that the municipality does not make expenses, enters into contractual agreements, and makes procurements without the commitment of funds for the respective case.			Not addressed
Recommendation 21	Internal Audit System	To achieve maximum benefits from the work of the IAU, the Mayor shall ensure to approve soon the relevant statutes and appoints an Audit Committee and to operate effectively through regular meetings, in support of the challenges as well as plans and results of the IAU. President should engage at least three auditors since the municipal budget is above EUR 5,000,000. Also, the Mayor shall ensure that management has a timetable to Follow the recommendations of the IAU and to address these recommendations.		Even though statuetes are approved, Municipality did not still engaged three auditors.	

Annex IV: Management Response to 2015 Audit Findings

Findings	Agreed yes/no	Comments from the Municipality in case of disagreement	Auditors viewpoint
Recommendation 1:			
Recommendation 2:			
Finding 1:	No	The municipality has developed an action plan for implementing the recommendations of the previous year. The plan included specifically timelines and responsibilities for implementing the recommendations of the previous year, and we consider that most of the recommendations were implemented	Finding Remain
Finding 2:	No	Finding Found 2 up to 5, dealing with the completion of the Self assessment questionnaire completed for NJHQ - MF Online form. None of 4 components (Checklist self-assessment processes of accountability, lack of requirements for risk management and weaknesses in management control, were not specified or documented by you, we invoked at least to identify any of them: but by lack of authenticity you couldn't assure that you indeed have audited self-assessment report..	Finding Remain
Finding 3:	No	Finding Found 2 up to 5, dealing with the completion of the Self assessment questionnaire completed for NJHQ - MF Online form. . None of 4 components (Checklist self-assessment processes of accountability, lack of requirements for risk management and weaknesses in management control, were not specified or documented by you, we invoked at least to identify any of them: but by lack of authenticity you couldnt assure that you indeed have audited self-assessment report.	Finding Remain

Finding 4:	No	<p>Finding Found 2 up to 5, dealing with the completion of the Self assessment questionnaire completed for NJHQ - MF Online form.</p> <p>None of 4 components (Checklist self-assessment processes of accountability, lack of requirements for risk management and weaknesses in management control, were not specified or documented by you, we invoked at least to identify any of them: but by lack of authenticity you couldnt assure that you indeed have audited self-assessment report</p>	Finding Remain
Finding 5:	No	<p>Finding Found 2 up to 5, dealing with the completion of the Self-assessment questionnaire completed for NJHQ - MF Online form.</p> <p>None of 4 components (Checklist self-assessment processes of accountability, lack of requirements for risk management and weaknesses in management control, were not specified or documented by you, we invoked at least to identify any of them: but by lack of authenticity you couldn't assure that you indeed have audited self-assessment report.</p>	Finding Remain

Finding 6:	No	<p>Although management does not offer me plan for implementing the recommendations, monitoring the implementation of recommendations is done in the period of IV reporting, where the 46 recommendations given in 6 audit reports, 14 recommendations have been fully implemented, 5 are partially implemented and 27 are not applied (31.janary 2015). Evidence. Forms for monitoring the implementation of recommendations from current folder.</p> <p>The internal Audit Unit in our municipality consists only of one auditor and not by two auditors, as described in the draft report. NJA has conducted audits as had been planned.</p> <p>NJAB has approved the statute of NJAB by senior management and audit committee.</p> <p>SSP senior management (president) has established an audit committee under Article 3 of the Administrative Instruction 11/2010. The committee has three members, the chairman and a member of KA are from civil society. (Appendix decision to appoint the members of the AC and the statute of NJAB).</p> <p>The Audit Committee during 2015, has held a meeting (the minutes of the meeting)</p>	Finding Remain
Finding 7:	No	<p>With the Draft Audit Report for 2015 on points. 3.4 Procurement inform you that:</p> <p>Final -Planning is surrendered pursuant to the Law no. 04 / L-042 Article 8, paragraph 2.</p> <p>-Fine Under LPP applied for the delays without reason by OE and Project Menegjerit notice; in this case the delay was justified by the Project Manager.</p> <p>Commitment of funds is made upon initiation of procedures and before signing the contract, but in the case of annual contracts for supplies made commitments upon request.</p>	Finding Remain

Finding 8:	No	<p>Regarding the lack of supporting documentation for the payment of € 150,000 we explain that the signed international agreements between the two governments are obliged to apply.</p> <p>The economic classification of this expenditure as it relates to health facilities, we think that it's okay and that it can not be registered as advance for investments.</p>	Finding Remain
Finding 9:	No	<p>This conclusion is not right because you do not have audited only civil servants files. You have audited the files of categories that are not civil servants as well, political staff, and records of health and education system. Therefore, we ask your defined by the findings on which folder you have identified with the purpose of verification and completion, as well as the comments and arguments.</p> <p>To all decision point coefficient wages are marked. Coefficient of wages can not be marked only the decisions of political appointments which have a coefficient of certain wages by Government decision. (Auditors audited political staff files)</p> <p>-To define in which cases because in the administration political staff folder has been audited (political staff decisions have not degrees). Although the issue of civil service job classification is still in process. Contracts have become appointed by decisions in 2012 and are certain coefficients for the process of classification and grading to job still in process and proposals, are followed in MAP, and is expected to take a final decision by the Government.</p> <p>- Define which folders (administration, education, health) there might not be trainings for different purposes.</p> <p>-Health folder examination under Regulation No.02 / 2010 is the only specific requirement for certain positions.</p> <p>-Define in which folders</p> <p>-there is no civil servant who does not have appointment by decision.</p>	Finding Remain

Finding 10:	No	<p>We agree with the finding that the Municipality has not verified 1/3 of existing properties registered and that the municipality should review the fair value of the property every three to five years.</p> <p>However, concerning the verification of 1/3 of registered properties we conclude that the municipality can not achieve this goal because of the insufficient number of staff in the Office of Property Tax. Despite this municipality has achieved during 2015 has conducted a total of 159 new registrations and 179 appointment by decision.</p> <p>Regarding the payment of the TP constraints. According to UA 07/2011, the Municipality has implemented this directive. We ask you for the authenticity of the finding because in many other cases PFV'2015 Audit findings were without appropriate documentation required by the municipality.</p> <p>The conclusion that except the billing system for property tax there is no other system for other categories of revenues does not stand because municipality has such a system Called 'Soft Budget' 'through which billing is performed for each category of revenue. (Evidence: UniRef and bills).</p>	Finding Remain
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Finding 11:	Partially	<p>The date of acceptance of registering property we think is the date of putting in to function, and that date is located on the property ID registered in SIMFK in analytical shape for each property separately.</p> <p>All realized capital investments in 2015 were recorded in SIMFK which can be seen through the number of purchase request. It is difficult to distinguish whether the continuing projects have been registered in SIMFK for the previous years.</p> <p>Judicial decisions derived from the economic category of capital expenditures are not recorded as assets or assets of the municipality.</p> <p>The special code as economic category exists of expenditure and that the decisions of the courts 34000-code.</p> <p>Budget organization for enforcement of judicial fledged Treasury proposed to be realized by the same economic code.</p>	Finding Remain
Finding 12:	No	<p>There is a report of the commission on inventory of assets over € 1,000 (Copy of Report 01. NO. 16-40140 / 2015)</p> <p>We agree that not all of the assets are registered in the SIMFK, but compared with 2014 when there were registered 52 thousand euro itself this year we have managed to record gross assets up to nearly 48 million euros.</p> <p>Depreciation is carried out automatically in the SIMF, therefore, the assumption that depreciated amount from registered assets is not reliable does not stand.</p> <p>We ask that the findings be modified and given a little more balanced assessment.</p>	
Finding 13:	Partially	<p>Disclosure note investments made by third parties presented in Note 6 amount of 1,400,396 euros has been made under the CPO signed from central institutions who have committed investments during 2015 in Kaçanik. (Copies of CPO's).</p>	Finding Remain

Finding 14:	No	<p>The daily deposit cash under 10 euros collected directly from the daily turnover is done on a weekly basis, due to a reduction in spending of banking provision for every day.</p> <p>Cash is collected in the villages and in the inability to bring cash every day in the municipality they are collected and deposited into the bank account once a week (on Fridays)</p>	Finding Remain
Finding 15:	No	<p>Property tax based on the law on release, MF has drafted the final list of trade debtor and that list is in your disposal.</p> <p>Also the receivables based on the usage of public property are based on the list to which you have also.</p> <p>Regarding the receivables balance based business you have the list generated by the internal accounting of OB. (A copy of the report generated from internal accounting program 'Soft Budget</p>	Finding Remain
Finding 16:	Partially	<p>Based on the amount of the municipal budget, outstanding liabilities for 2015 we think are minimal.</p> <p>While exceeding the legal limits of payment of obligations within 30 days, due to insolvency occurred and that there have been times when there should have been supplied with goods or services despite the lack of funds, due to the emergency nature.</p> <p>The municipality has made for monthly reporting obligations outstanding reports as required by regulation MF-No. 02/2013. (Proof copies of the reports reported)</p>	

Annex V: Annual Financial Statements

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