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AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF THE MUNICIPALITY OF
SKENDERAJ
FOR THE YEAR ENDED 31 DECEMBER 2014

Prishtina, June 2015

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

Deloitte Kosova sh.p.k. has conducted the audit of the Annual Financial Statements of the Municipality of Skenderaj ("the Municipality") for the year ended December 31, 2014, on behalf of the Office of the Auditor General.

The Office of the Auditor General undertakes both Regularity and Performance Audits. The Acting Auditor General, is the head of the Office of the Auditor General, which employs around 145 staff. The Auditor General and the Office of the Auditor General shall be independent and certify 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 organisations to account.

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Executive Summary

Introduction

Deloitte Kosova sh.p.k has conducted the audit of the Annual Financial Statements of the Municipality of Skenderajt ("the Municipality") for the year ended December 31, 2014, on behalf of the Office of the Auditor General ("OAG").

This report summarizes the key findings from our audit of the 2014 Annual Financial Statements of the Municipality of Skenderajt for the year 2014 - which determines the Opinion given by Deloitte Kosova sh.p.k. We would like to thank the Mayor of the Municipality and his team for their assistance during the audit process.

The examination of the 2014 financial statements was undertaken in accordance with the internationally recognized Basic Principles and Guidelines on Auditing of the International Organization of Supreme Audit Institutions (ISSAIs). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The approach taken is set out in our Audit Planning Memorandum dated 4 November 2014.

Our audit focus has been on:



The level of the work undertaken by Deloitte Kosova sh.p.k to complete the 2014 audit is a direct reflection of the quality of the internal controls implemented by management.

Opinion

Appendix I explains the different types of Opinions applied.

The Auditor Opinion is:

In our opinion, the Yearly Financial Statements present fairly in all material respects, excluding issues presented below:

1. The Statement of Budget Execution includes own source revenues and unused grants carried forward from the previous year in the amount of EUR 216,505 and EUR 22,000 respectively, which is not in accordance with the requirements of the Regulation MF - No. 03/2013 "On the Annual Financial Statements of Budget Organizations".
2. Comparative values for 2013 for other receipts - payments from third parties in the Statement of Cash Receipts and Payments are about EUR 1,968,000 higher than the values shown in the audit report of 2013. Given these inconsistencies between the two reports, we were not able to determine which balance is correct..
3. Given that the Municipality has not received a regular detailed official report from the 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 30 "Summary of non-capital assets over EUR 1,000 in possession of a Budget Organization" and that the investments in question are owned by the Municipality.
Furthermore, due to deficiencies in the non-financial capital assets register for assets above 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 corr.
4. The Municipality has not calculated depreciation for the assets under EUR 1,000 and therefore we could not determine whether the net book value of these assets presented in the note 31 "Summary of non-capital assets under EUR 1,000 and a useful life more than one year" is correct.

Emphasis of matter

We draw attention to Note 28 "Statement of outstanding debt for the Budget Organization" where invoices with a total value of EUR 111,630 (36% of total outstanding debts) represents unpaid invoice for more than 30 days, which is not in accordance with the requirements of Financial Regulation No. 01/2013/MF "Public funds expenditure".

Also within the total liabilities the Municipality erroneously included invoices in the amount of EUR 92,610, the date of receipt of which is after December 31, 2014. Our opinion is not qualified for these issues.

Other matter

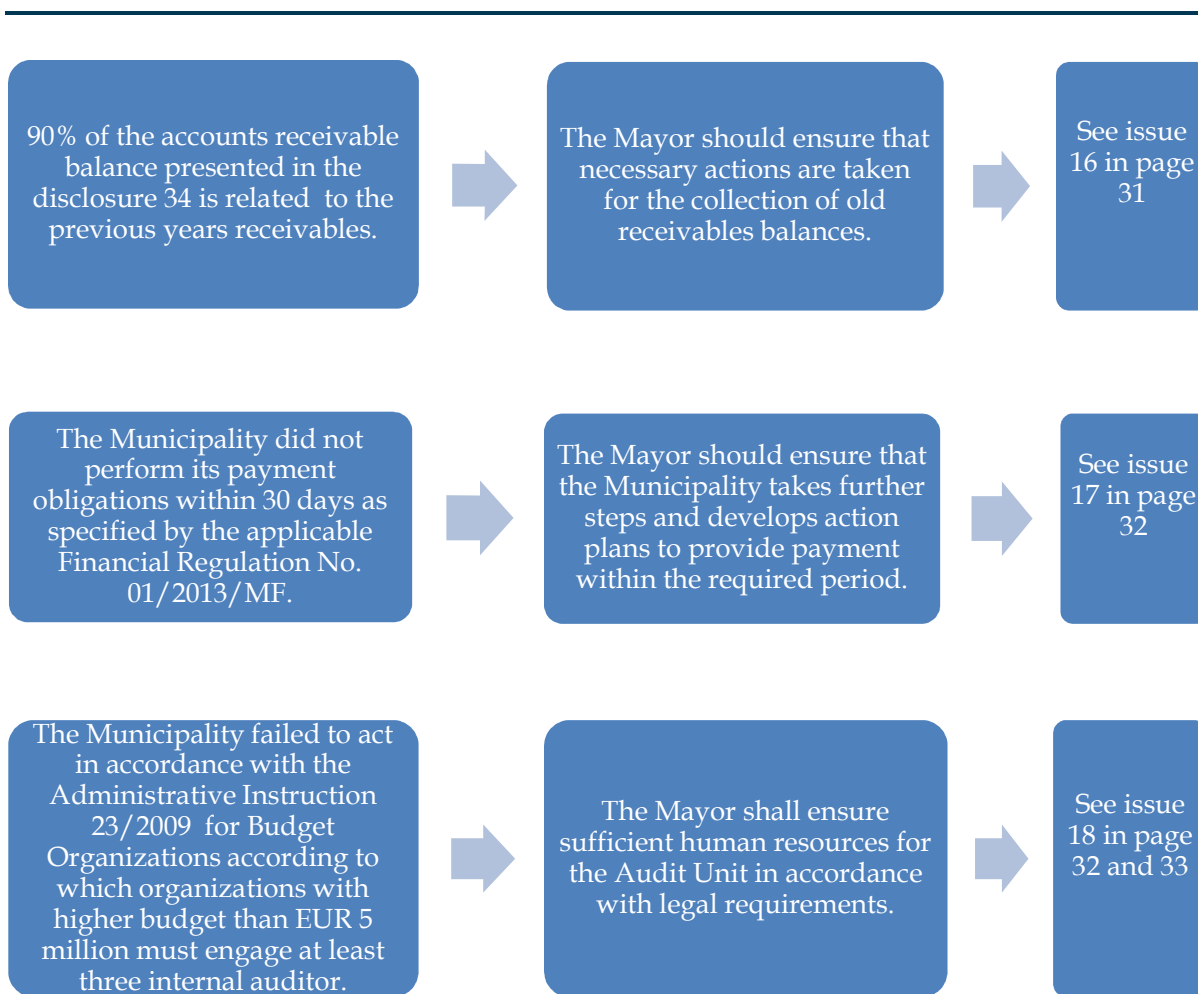
The Financial Statements of the Municipality for the year ended December 31, 2014, were audited by another auditor who expressed unmodified opinion on those statements on June, 2014.

Overall Conclusion

Our key conclusions and recommendations are:







Mayor's Response – 2014 audit

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

1. Audit Scope and Methodology

It is the responsibility of the Municipality to prepare Annual Financial Statements (AFS) under the International Public Sector Accounting Standards (IPSAS) for 'Financial Reporting under the Cash Basis for Accounting' and other specific requirements. We are responsible for carrying out a regularity audit which involves the examination and evaluation of the Annual Financial Statement and other financial records and expression of:

- whether the AFS 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.

We have considered the extent to which management controls can be relied upon when determining the overall testings' 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 ensure 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 a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of the review. An assessment of how the Management has addressed recommendations made in the report on 2013 may be found in Appendix II.

Our findings are defined as:

High Priority - issues that may result in material weaknesses in internal control and where the actions taken will provide the opportunity to improve the efficiency and effectiveness of internal controls, and issues that may have an impact on the loss and/or commitment of revenues; and

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

Findings considered with 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 that operate.

2. Annual Financial Statements and other External Reporting Obligations

Description

Our review of the Annual Financial statement 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 draft Annual Financial Statements are submitted to the Government.

The declaration regarding the presentation of the Annual Financial Statement 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.

Overall Conclusion

We have determined a qualified opinion, including an emphasis of matter paragraph. We have identified also a number of immaterial errors which did not affect the audit opinion but are included as issues in this report. Other obligations for external reporting that are not related to AFS are generally fulfilled, except in cases described in section 2.3 of this report. Our qualified opinion shows that the statement made by the CAO and CFO, to which we referred above, was not correct in all respects.

2.1. Audit Opinion

For the Municipality of Skenderaj

We have audited the accompanying financial statements of the Municipality of Skenderaj (the "Municipality"), which comprise Statement of Cash Receipts and Payments and Statement of Budget Execution for the year ended December 31, 2014, 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 the International Public Sector Accounting Standards (IPSAS) for "Financial Reporting under Cash Basis of Accounting", and with Regulation MF -Nr.03/2013 "On Annual Financial Statements of Budget Organizations". This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement 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 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 entity'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

1. The Statement of Budget Execution includes own source revenues and unused grants carried forward from the previous year in the amount of EUR 216,505 and EUR 22,000 respectively, which is not in accordance with the requirements of the Regulation MF - No. 03/2013 "On the Annual Financial Statements of Budget Organizations".

2. Comparative values for 2013 for other receipts - payments from third parties in the Statement of Cash Receipts and Payments are about EUR 1,968,000 higher than the values shown in the audit report of 2013. Given these inconsistencies between the two reports, we were not able to determine which balance is correct.
3. Given that the Municipality has not received a regular detailed official report from the 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 30 "Summary of non-capital assets over EUR 1,000 in possession of a Budget Organization" and that the investments in question are owned by the Municipality.

Furthermore, due to deficiencies in the non-financial capital assets register for assets above 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.

4. The Municipality has not calculated depreciation for the assets under EUR 1,000 and therefore we could not determine whether the net book value of these assets presented in the note 31 "Summary of non-capital assets under EUR 1,000 and a useful life more than one year" is correct.

Qualified opinion

In our opinion, except for the effects of the matters as referred in paragraph 1, and except of the possible effects of the matters as referred in paragraph 2, 3 and 4, as described in the Basis for Qualified Opinion paragraph, the Municipality's financial statements for the year ended December 31, 2014 have been prepared in all material respects, in accordance with IPSAS "Financial Reporting under the Cash Basis of Accounting" and with Regulation MF - No.03/2013" On the Annual Financial Statements of Budget Organizations".

Emphasis of matter:

We draw attention to Note 28 "Statement of outstanding debt for the Budget Organization" where invoices with a total value of EUR 111,630 (36% of total outstanding debts) represents unpaid invoice for more than 30 days, which is not in accordance with the requirements of Financial Regulation No. 01/2013/MF "Public funds expenditure".

Also within the total liabilities the Municipality erroneously included invoices in the amount of EUR 92,610, the date of receipt of which is after December 31, 2014. Our opinion is not qualified for these issues.

Other matter

The Financial Statements of the Municipality for the year ended December 31, 2014, were audited by another auditor who expressed unmodified opinion on those statements on June 6, 2014.



2.2. Significant Risks to the Annual Financial Statements

Description

Our Audit Planning Memorandum dated 4 November 2014 identified 2 significant risks to the Annual Financial Statements related to the completeness of capital assets. During the audit, we identified another risk in connection with the preparation of Annual Financial Statements. These are risks of material misstatement that may result in a modification of the audit opinion.

The risks of material misstatement that we identified relating to the completeness of non-financial assets and the preparation of Annual Financial Statements occurred because no management action were taken to address the highlighted risk.

Issue 1 – Lack of ownership documentation for the investments made by other government agencies - High Priority

Identified Risk

Lack of ownership documentation which may create uncertainty regarding the rights of ownership of assets between the Municipality and other Government agencies and difficulties in the use of these assets in the future.

Deficiencies can result in material values of assets not included in the financial statements of the Municipality or not included with the fair values.

Audit response and findings

We have assessed the controls implemented by management to prove the completeness of assets and clarify ownership issues regarding investments made by various agencies of the Government during 2014 and previous years. We have given advices to management for the actions needed to ensure that the fair value of the assets in the Annual Financial Statements was correct. However, the risks identified are materialized because management has failed to apply the necessary improvements in internal control and we were unable to confirm whether the values of assets recorded in the Annual Financial Statements is accurate.

Note 31 "Summary of Non-financial capital assets (with value over EUR 1,000) in possession of a Budget Organization": the Municipality has not received a detailed and complete official report from government agencies relating to investments they have made in the Municipality during the year December 31, 2014 and for previous years. During our work, we have observed that certain investments made from government agencies in previous years, are recorded in the financial statements of 2014, when the supporting documents have been received from government agencies. Assets valued at approximately EUR 8,796,721 related to investments in previous years, have been deleted from the register of assets during 2014 to be registered again with higher value since the Municipality has received all the invoices in 2014 for the investments made in previous

years by government agencies. The new value of the investments exceeds the prior value of the assets for EUR 1,203,452.

Also we have identified investments made during 2014, but which are not presented in the financial statements of December 31, 2014 within the note of the capital assets, since the supporting documents for them have not been received from the relevant government agencies during 2014. The total amount of these assets identified by us were during the audit were in amount of EUR 743,989.

We were not able to obtain reasonable assurance that all investments in the current year and previous years are recorded and presented in the financial statements as well as investments in question are owned by the Municipality.

As well as, the Municipality has not made a valuation and stocktaking of all its nonfinancial capital assets during 2014. This is not in compliance with Regulation MF No. 02/2013 " On management of non-financial assets by Budget Organizations", which requires that Budget Organizations at least once a year should make a stocktaking of all non-financial assets that are owned and controlled by the Budget Organization and verify the non-financial assets to validate and evaluate the situation of the property. As a result we were not able to obtain reasonable assurance that the Municipality has included all assets in the financial statements or if the assets are included with the fair value.

Recommendation 1 The Mayor should analyze the reasons for the deficiencies described above which form one of the points for the qualified opinion and identify appropriate actions to address these weaknesses in controls in order to enable a fair presentation in 2015.

Issue 2 –Incorrect presentation of third party payments and lack of reconciliation with third parties - High Priority

Identified Risk

Incorrect presentation of third party payments, incomplete data and lack of coordination and reconciliation with third parties may result in improper presentation of data in the financial statements.

Audit response and findings

We have reviewed the measures taken by management to identify and present correctly all possible payments from third parties. We have also reviewed whether the Municipality is performing official transfer of ownership of these investments presented as payments from third parties.

During 2014, there were no investments made by third parties in the Municipality. Nonetheless it should be noted that even in 2014 the Municipality has not received a detailed official report of third parties relating to investments they have made in previous years in the Municipality.

Recommendation 2 Although our audit procedures did not experienced any finding about the presentation of payments by third parties, we recommend that the Mayor ensures that the Municipality continuously records and presents in its financial statements all possible payments from third parties, and draws information from all sources involved in the financing of assets. Also we recommend that the Mayor ensures that the Municipality is making great efforts to provide the data by third parties, with particular emphasis on those parties known to have carried out significant investments in the Municipality. The data provided should be presented to the Municipality's register of assets. Best practice would require that on an annual basis reconciliation of data is made between third parties and the Municipality for investments made in the Municipality for the year.

Issue 3 – Deficiencies in the preparation of Annual Financial Statements - High Priority

Identified Risk

Annual financial statements may not be prepared in accordance with the requirements of Regulation MF No. 03/2013 “On Annual Financial Statements of Budget Organizations”.

Audit Response and Findings

We have reviewed the measures taken by management to ensure that the reporting process was performed in accordance with the relevant regulations. We have reviewed whether the annual financial report meets the requirements of Regulation MF –No. 03/2013 and found some material deficiencies that are basis for qualified opinion. A description of this deficiencies and other nonmaterial deficiencies are described in section 2.3 below.

Recommendation 3 The Mayor should ensure that the process of preparation of the Annual Financial Statement addresses in complete the weaknesses identified in the Nine Month Financial Statements and the requirements of Regulation MF – No. 03/2013. The statement made by the Mayor of the Municipality and Chief Financial Officer, when the draft annual financial statements are submitted to the Government, must be signed only after a comprehensive review of the management regarding the content and accuracy of Annual Financial Statement is made. All other reporting requirements must be met.

2.3. Compliance with Annual Financial Statements and other reporting requirements

Description

The Municipality must comply with certain reporting framework and other reporting requirements. We take into account the following:

- Compliance with financial Regulation MF -No. 03/2013;
- The requirements of LPFMA No. 03/L-048;
- Deadline of submission of reports to the Ministry of Finance;
- Requirements for the signature of Annual Financial Statement from CAO ("Mayor") and Chief Financial Officer;
- Requirements to prepare Annual Financial Statement in hard and electronic copies;
- Submission of quarterly reports to the Assembly of the Municipality and the Ministry of Finance;
- Reports on arrears;
- Operating Reports (performance indicators).
- The report of the actions taken and proposed actions on findings and recommendations of the External Auditor for the previous year
- The submission of Annual Financial Statements in Serbian and Albanian language.

From our audit procedures undertaken we have not noted any inconsistency with the above listed requirements.

Issue 4 – Compliance with Annual Financial Statement- High Priority

Finding The issues raised in connection with the reporting framework have been partially addressed by management. In the context of the Annual Financial Statements, we have identified the inconsistencies expressed below:

- The Statement of Budget Execution includes also budgeted own revenue of the previous year, in the amount of EUR 216,505 and unused grants carried forward from the previous year in the amount of EUR 22,000. In this report should not be presented own revenues and grants carried forward from previous year, but only those carried out during the current year.
- We have noted that there are differences between financial statement values presented in the audit report of 2013 and the one presented in the 2014 financial report for the previous year. In the Statement of Cash Receipts and Payments, as payment from external third parties and other receptions are presented approximately EUR 1,968,000 more this year compared with the audit report of the previous year.

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- The primary 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 Bases of Accounting. These disclosures include revenues from fines, payments from third parties, receivables and contingent liabilities.
 - The balance of the outstanding obligations presented in Note 28 includes in the amount of EUR 92,610 that were receipt after December 31, 2014;
 - The report produced by the system of ProTax for property tax receivables includes receivables from property tax calculated incorrectly by the system in the amount of EUR 211,669 thousand for two taxpayers. While total receivables from property tax presented in the financial statements are adjusted manually for the amount aforementioned.
 - According to the Regulation MF No. 02/2013 “On management of non-financial assets by Budget Organizations”, non-financial capital assets should be recorded in the system E - Pasuria. While the non-financial capital assets value presented in Note 31 was based on a report held outside the system of E- Pasuria which is based on the results of the process of count held at the end of 2014. This is as a consequence of that the stocktaking results have not been updated in the system.
 - Among the current total number of employees according to the Annual Financial Statement and the list of payroll is a difference of 43 employees less in the list of payroll in the beginning of the year.
 - There are small differences due to rounded numbers on some notes, and formatting that can be further improved to ensure a better presentation of the statements.

Risk

Incorrect presentation of the financial statements and notes to the financial report, and errors in the amounts recorded leads to a misunderstanding of the financial position of the Municipality and has potential negative impact on the accuracy of future budgetary requirements.

Recommendation 4

The Mayor of the Municipality must ensure that the process of preparation of the Annual Financial Statement fully addresses the requirements of the Regulation MF -No. 03/2013. The statement made by the Mayor and Chief Financial Officer, when the draft annual financial statements is submitted to the Government must be signed only after a comprehensive review of the management is done regarding the content and accuracy of the statements.

3. Prior Year Recommendations

Description

Audit Report on the 2013 Annual Financial Statement of the Municipality of Skenderaj resulted in 9 key recommendations. It is important to take proactive action from the Municipality of Skenderaj to ensure the improvement of key areas of financial management and control. For a more comprehensive description of the recommendations and how they are addressed, see Appendix II.

Issue 5 – Addressing Prior Year Audit Recommendations – High Priority

Finding Only a proportion of prior year recommendations have been implemented. The remaining part is partly addressed or has not been addressed.

Risk The lack in the actions taken for addressing prior year audit recommendations resulted in continued weakness in key financial systems with the following consequences:

- Compliance with the reporting requirements;
- Poor management of revenue due to lack of evidence and internal reporting;
- Deficiencies in the procurement process;
- Incomplete Register of assets;
- Inadequate treatment of disclosure of accounts receivable;
- Inadequate treatment of disclosure of debts;
- Limited benefit from the work of Internal Audit.

Recommendation 5 The Mayor should provide a revised plan of action, to address the remaining recommendations of 2013 and those of 2014. This plan must specify a reasonable time frame of implementation, responsible officers and application manner, being initially focused on areas of great importance and where significant weaknesses were identified. Progress against the plan must be monitored directly by the Mayor of the Municipality.

4. Governance

Overall Conclusion

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 the plan or function effectively. Conducting this requires the assessment of structures, processes and lines of accountability presented by management. We consider specific issues such as self-assessment application of FMK and risk assessment.

We consider that although there have been positive improvements in some areas of internal control in the last year, we have identified specific improvements required in the following areas:

- Controls over the preparation of the Financial Report (nine months and annual).
- Controls related to the stocktaking, valuation and presentation of capital assets;
- Controls over procurement procedures;
- Controls over the management of accounts receivable;
- Controls over the management of accounts payable;
- Controls on revenue management;
- Controls over the management of personnel files.

4.1. Good Governance

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

Issue 6 – Managerial controls- High Priority

Finding	The review that we have made to management controls implemented in the main financial system of the Municipality 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 related to the identification and registration of third party payments, procurement procedures, accounts receivable management, accounts payable management, revenue management, personnel records management.
Risk	Weaknesses in the 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 6	The Mayor should review existing measures of general governance and the quality of internal reporting of the Municipality. Unimplemented requirements need to be addressed by the end of 2015. The quality of the reporting and budgetary surveillance must be reviewed critically and systematically to ensure the achievement of the objectives of the Municipality.

4.2. Budget Planning and Execution

Description

We have reviewed the sources of budgetary funds for the Municipality of Skenderaj, expenditure of funds by economic categories and own sources revenues. This was presented on the tables below:

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

Description	Initial Budget	Final Budget ¹	2014 Annual Actual	2013 Annual Actual	2012 Annual Actual
Source of funds:	10,295,577	11,741,233	11,279,619	11,252,000	10,060,000
Government Grant - Budget	9,695,800	10,574,632	10,379,831	10,278,000	9,358,000
Own source revenues transferred from the previous year ²	-	216,505	216,423	-	-
Own sources revenues ³	599,777	848,566	597,287	634,000	568,000
Domestic donations	-	12,450	8,000	-	-
Foreign donations	-	89,080	78,078	340,000	134,000

Final Budget is higher than the initial budget for EUR 1,445,656.

This increase is a result of domestic and foreign donations in the amount of EUR 101,530, revenues carried forward from previous year in the amount of EUR 216,505 as well as growth in own revenues to EUR 248,789. Also, the Government grant increased for EUR 878,832, after reviewing the budget and in accordance with the decisions of the Government.

In 2014, the Municipality has used 96% of the final budget or EUR 11,279,619 (2013: 95% or EUR 11,252,000). Implementation of the budget remains at a satisfactory level and below are given the explanations for the current position.

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 A Portion of the receipts planned and collected for the Kosovo Budget in the current year, and used by the Municipality to finance its budgeted expenses.

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

Description	Initial Budget	Final Budget	2014 Annual Actual	2013 Annual Actual	2012 Annual Actual
Funds expended by economic category	10,295,577	11,741,233	11,279,619	11,252,000	10,060,000
Wages and Salaries	6,054,250	6,933,082	6,890,821	5,927,000	5,949,000
Goods and Services	914,480	1,046,138	921,811	1,170,000	884,000
Utilities	201,040	220,040	169,063	191,000	173,000
Subsidies and Transfers	205,000	220,811	217,656	159,000	105,000
Capital Investments	2,920,807	3,321,162	3,080,268	3,805,000	2,949,000

Explanations for changes on budget categories are given as follow:

- According to the figures above it can be noted a good realization in the category of Capital Investments, which in 2014 had an implementation rate of 93% (2013: 95%). This category includes the largest investments in the construction of local roads with total capital expenditure in 2014 of EUR 1,935,625 according to the following main projects: construction of road Padalishtë - Leqinë, construction of road "Resistanca", construction of road Vojnikë –Burojë, construction of road "Muhaxheri" in Qirez and construction of road pavement in the village of Turiquevc segment 1 and 2. While a substantial part of the capital investment was held in the educational and administrative facilities under these following projects: construction of the school '2 Korriku "in Ticë, construction of the school in the village of Qubrel, etc.
- Regarding budget execution for Wages and Salaries category, it can be noted a good implementation of the budget of 99% (2013: 98%), although this partly reflects the increase of wages of 25% undertaken in April 2014, which is not reflected in the budget. Equal with other Budget Organizations, the Municipality of Skenderaj should address this growth as well as a 15% reduction in the Goods and Services category, implemented by the Government. As a result of this reduction the category of Goods and Services had a budget execution of 88%.
- The Municipality has also received grants from foreign donors in the amount of EUR 80 thousand, which mainly are allocated for investments in agriculture (EUR 59,833 received from the European Union).

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

Description	Initial Budget	Final Budget	2014 Annual Actual	2013 Annual Actual	2012 Annual Actual
Own source revenues	599,777	848,566	848,566	693,000	571,000

As regards to own revenue, it can be noted that the percentage of completion is 100% by 31 December 2014. The changes of the final budget in comparison to the initial budget are as a result of the increase in own revenues from the charges that the Municipality applies for the services offered to the citizens for EUR 248,789.

Given that the budget in total was implemented above 90% we do not have any recommendation on this point.

4.3. Revenues (including own source revenues)

Description

Own source revenues generated by the Municipality in 2014 amounted to EUR 848,566. This category includes revenues from tax on property, administrative and road taxes, construction permits, licenses for individual activities 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 7 – Integration of fees in the system – High Priority

Finding The Municipality owns software for recording and billing of services for types of income such as revenues from taxes for businesses, the fees of which are not integrated into the system but are entered manually.

Risk During entering of the fees in the system there is the risk of human error or misuse that can be made.

Recommendation 7 The Mayor has to ensure that the fees for all the services that provide the Municipality are entered automatically and the access to modify the fees should be allowed just for the Director of the Department or other responsible employees.

Issue 8- Tax on Property – High Priority

Finding The Municipality did not verify 1/3 of the existing registered properties. During 2014 was made the verification of only 83 existing properties.

Risk In the absence of verifications for 1/3 of the properties, the Municipality may use inaccurate and incomplete data in relation to the taxable property, and as a result revenue from tax on property will decrease.

Recommendation 8 We recommend to the Mayor of the Municipality to ensure that surveys and conditioning of provision of services are performed as required with the Administrative Guidance No. 03/2011.

4.4. Expenditures

4.4.1. Procurement

Issue 9- Procurement- High Priority

Description

Signed contracts through procurement procedures for 2014 were in the amount of EUR 3,293,783. This includes Capital Investments and Goods and Services.

Finding There are certain aspects of the procurement process, where the controls are not effectively implemented. Our audit of procurement management identified the following issues (our conclusions are based on evaluation of individual files and full details are provided to management):

1. In 13 cases of contracts, total amounting EUR 1,392,435, the commitment of funds for the expenditures to be undertaken according to the developed procurement procedure, was made after signing the contract with the Economic Operator. This is not in compliance with the Public Procurement Law 04 / L - 042 and Financial Rule No. 01/2013 Ministry of Finance - Expenditure of Public Funds.
2. In two cases of the contracts, total amounting EUR 793,636, the commitment of funds before signing the contract did not cover the total contract amount forecasted to be realized within 2014 for EUR 60,000.

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3. In 25 cases of procurement procedures, which accounted for the total value of contracts signed of EUR 3,325,006, we have identified that before signing the contract with the Economic Operator selected, it was not confirmed that the information contained in the "Statement of Needs and Determination of Availability of funds" was still accurate and there were no changes in the availability of funds, as required by the Public Procurement Law 04 / L - 042.
 4. In 14 cases of procurement procedures that constitute the total value of signed contracts of EUR 772,044 the appointment of the commission for the evaluation of bids was made from the procurement manager. According to the Public Procurement Law 04 / L - 042 and Operational Guidelines for Public Procurement, it is the responsibility of the CAO to appoint the commission for the evaluation of bids.
 5. In two cases of procurement procedures undertaken, with total contract amount of EUR 790,947, were not explained the reasons for the elimination from the selection process of Economic Operators as required by the Public Procurement Law 04 / L - 042. In the standard form of the elimination was specified only the reason for the higher price and that the dossier did not meet all the requirements specified in the contract notice, but it was not cleared which documents were missing file or which requirements were not fulfilled.
 6. In 15 cases, the total value of contracts of which consisted of EUR 2,509,011, the Chief Administrative Officer has given written authorization to the Procurement Officer to initiate the procurement procedures, before signing the Statement of Needs and Determination of Availability of Funds, which practice is not consistent with the requirements of the Public Procurement Law 04 / L - 042.
 7. In one case of the contract, the value of which was EUR 9,936, one from the members of bid evaluation committee was appointed also as supervisor/project manager of the contract.
 8. In one case of the contract, the value of which was EUR 30, 865, we have encountered delays in the realization of the contracted work. While the construction on the basis of the signed contract should have been completed within 21 working days (approximately on 16 October 2014), the technical acceptance of the work was made 41 days after the deadline within which the work was contracted to be completed, on 26 November 2014, respectively.

Risk	As a consequence of the lack of effective controls on the procurement procedures and non-commitment of funds under the requirements of the law, may led to the failure of making payments or disbursing irregular payments, delays in the delivery of services, and the contracts cannot be implemented according to the required standard.
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Recommendation 9	The Mayor of the Municipality must ensure that there will be a review of audit findings in which processes are not applied effectively, and to determine the reason for the failures encountered in them. Actions/improvement in the processes are needed to be implemented to ensure that such deficiencies will not occur in the future.
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4.4.2 Non Procurement Expenditure

Description

No major exceptions identified.

Recommendation

We have no recommendation in this field.

4.4.3 Remunerations (Wages and Salaries)

Description

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 and error in the calculation of the prohibition for maternity leave.

Issue 10 – Personnel Files - Medium Priority

During the audit procedures that we have performed in the personnel files, we have noted lack of some documents which are required with Regulation No. 03/2011 “On civil servant files and central register”. The documents that were missing are listed below:

- 15 cases were where the form that describes the documents that contains the file of the employees was missing and three times were when this form was not signed by the employee and the Chief of Personnel Department.

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- 1 case when the process forms for recruiting new staff, containing explanations for applicants competing for the respective positions were missing in the file. In the file was included only the final form of the evaluation. Consequently the process is not carried out according to procedures established by the Municipality.
 - In 7 cases the file did not contain the certification that the employee is not under investigation, as required from the Regulation No. 03/2011.
 - During the observation of the Department of Education files we found one case in which there was no contract of employment for the employee, so we were unable to get information if the payroll salary was the same as under the agreement.
 - We found some cases in which the acts of appointment have not been updated with recent changes in the position of the worker or his benefits under and did not respond to the coefficient applied as per payroll list.

Risk

Lack of documentations in the personnel files is against the laws and regulations currently in force. Furthermore negligence of procedures and completion of documentation according to the rules on the recruitment process risks the Municipality hiring unskilled employees for the respective positions.

Recommendation 10

The Mayor of the Municipality must undertake a systematic review of personnel files to ensure that all necessary documentation is included within a specified period of time.

Issue 11 – Calculation of deduction for maternity leave – High Priority

Finding	The calculation of deductions for maternity leave is not made according to Law on labor. We have noticed some errors that were made to salary payment by the Ministry of Public Administration and Municipalities that is related with the calculation of basic salary in education and restrictions on salary calculation for maternity leave. This relates to the fact that the base salary in the pre-university education has not changed in the system since 2010, although there were two times base salary increases according to government decisions. The first increase was in January 2011 for 50% and the second increase in March 2014 for 25% in the basic salary. These changes were not reflected in the payroll in the column of base salary but only as a supplement included in gross salary. The issue is that payroll applies a double standard when calculating the basic salary. Wage growth in 2014 is applied to the basic salary of 2011 while in the case of maternal compensation, payroll applies the deduction from 30% in 2010 base salary by allowing so to the maternity leave employees 70% of base salary (2010) and by adding also the two increases that had occurred that are being handled as additions to the salary. Under Law on labor, pregnant women should be paid by the employer in the first six months with 70% of base salary. As a result of the failure to comply with Law on labor in connection with maternity leave prohibitions the budget of the Municipality is damaged for around EUR 5,910 for 2014.
Risk	Irregular application of wage changes in the basic salary and erroneous prohibitions of allowances for maternity leave risks that compensation for maternity leave further damage the Municipality budget.
Recommendation 11	The Municipality Major must ensure that this issue will be further considered by the administration of payroll, in order not to allow the damage of the Municipality budget. The Municipality Major must address this issue to the MPA to make the change in base salary in accordance with government decisions and ensure that these changes are reflected in the payroll system of the pre- university education.

4.4.4 Subsidies and Transfers

The Municipality has distributed EUR 217,656 as subsidies and transfers, or 99% of the final budget of EUR 220,811. Overall implementation of the subsidy plan depends largely on the collection of revenues.

Issue 12 – Lack of proper documentation in subsidies and transfers - Medium priority

Finding During the audit procedures in subsidies and transfers we have found one case where the purchase order was missing for the expense.

Risk Lack of documentation of expenses can result in poor value of the money spent.

Recommendation 12 The Mayor of the Municipality should ensure that all the expenses of the Municipality should be documented in the accurate manner.

4.5. Assets and Liabilities

4.5.1. Capital and non-capital assets

Description

Although the municipality has taken steps to improve its reporting on the assets, there are still some uncertainties and deficiencies regarding Municipality assets' and are only partially addressed the recommendations of previous years.

Issue 13 - Stocktaking of capital assets - High Priority

Finding For year ended December 31, 2014 the Municipality has not performed the process of stocktaking of its assets as required with the Regulation MF No. 02/2013 "On management of non-financial assets by Budget Organizations", which requires that the "Budget Organizations must check at least once a year the non-financial assets to verify and assess the factual situation of non-financial assets". While the stocktaking was performed for the assets below EUR 1,000, the Municipality did not performed stocktaking for the assets above EUR 1,000, except for the school buildings.

Risk Lack of stocktaking for the assets led to the consequences of 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 less value than the one with which they are held in the financial statements.

Recommendation 13 The Mayor of the Municipality must ensure that the stocktaking of non-financial assets will be conducted in accordance with the Regulation in force for non-financial assets of Budget Organizations and ensure that stocktaking will be held on an annual basis.

Issue 14 –Register of capital assets – High Priority

Finding Fixed Assets Register above EUR 1,000 does not contain the purchase date of the assets, but only the year was assets were recorded, therefore we could not determine whether the depreciation calculated from the system and, respectively, net book value of assets presented in the Note 30 is correct.

Risk Since capital assets are held in net value in the Note for capital assets owned by Budget Organizations, no proper calculation of depreciation can affect incorrect presentation of net value of capital assets in note 30 of financial statements.

Recommendation 14 The Mayor must ensure that the register of capital assets should contain all necessary information such as the date and year of purchase, the date when the asset is placed in use in order to be able calculate the depreciation. Moreover the Mayor should ensure that all capital assets recorded are accurate and complete.

Issue 15 – Disclosure of non-capital assets under EUR 1,000 – High Priority

Finding Fixed Assets under 1,000 EUR are recorded on the software named E-Pasuria. The assets are held with the base costs, since the software has not calculated the depreciation charge for any of them from the moment they are put in use. Due to the lack of supporting information for the non-capital assets, we cannot know the effect of the depreciation for the whole balance of the non-capital assets presented in the Financial Statements.

Risk The presentation of non-capital assets in gross value is not in accordance with the Regulation in force for non-financial assets of Budgetary Organizations. This will led in inaccuracies of the presentation of the information in the Financial Statement and the assets will not be carried out with the fair value.

Recommendation 15 The Mayor must ensure that the register of capital assets should contain all necessary information such as the date and year of purchase, the date when the asset is placed in use in order to be able calculate the depreciation. Moreover the Mayor should ensure that all capital assets recorded are accurate and complete.

4.5.2. Handling of cash (and cash equivalents when applicable)

Description

No major exceptions identified.

Recommendation

We have no recommendations in this area.

4.5.3 Handling of receivables

Description

The Municipality does not have in place a robust process for identifying, evidencing and following up on issued invoices for its taxes.

Issue 16 – Aging of Receivables – High Priority**Finding**

The Municipality has not taken the necessary actions to collect these amounts and no aging analysis is performed. Almost 90% of property tax receivables are related to years earlier than 2014.

Risk

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

Recommendation 16

The Mayor of the Municipality must ensure that the Municipality takes further actions to improve controls on revenue collection. The priority of the collection should be focused towards old debts. Municipal Office in collaboration with the Department of Tax on Property should ensure that to the tax payers are delivered warnings for the payment of taxes as required by the Administrative Instruction No. 08/2011 "On the collection of tax on property" or even to reach agreement with the taxpayer for payments of tax in installments.

4.5.4 Handling of debts

Description

The Municipality has not implemented an adequate process for planning and payment of its obligations due more than 30 days which by the end of 2014 totaled EUR 111,630.

Issue 17 – Unpaid debts – High Priority

Finding We have identified that the Municipality did not performed its payment of obligations within 30 days as defined by the Financial Regulation No. 01/2013/MF “Public funds expenditure”. Invoices amounting EUR 111,630 presented in note 28 of financial statement represent unpaid invoices for more than 30 days. This amount represents 36% of the total amount of unpaid debts. Furthermore under the amount of the total obligations presented in the note 28 of the financial statement the Municipality included incorrectly invoices in the amount of EUR 92,610, the date of receipts of which is after 31 December 2014.

Risk As a consequence of delayed payments and lack of accurate informations, 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 17 The Mayor of the Municipality must ensure that the Municipality will take further steps and develop action plans to execute the payments within the required period.

4.6. Internal Audit System

Description

The internal audit system is a key part of internal control and because of its importance it is presented here separately. We take into account the scope of internal audit work and the activities of the Audit Committee. In addition, we review the actions taken by senior management as a result of work performed by internal audit and Audit Committee.

Issue 18 – Lack in the human resources in the Internal Audit Department- High Priority

Finding Internal Audit Unit consists of an auditor who is also director of the unit. Existing internal auditor managed to fulfill the audit plan despite the lack of necessary human resources within the Internal Audit Department. According to the Administrative Instruction 23/2009, Budget Organizations with a larger budget than EUR 5,000,000 have to involve at least three auditors within the Internal Audit Department.

Risk Lack of capacity in the Internal Audit Department reduces the security the management offers in connection with the operation of financial systems. This can result in weaknesses and continued unidentified inefficient practices resulting in financial losses to the Municipality of Skenderaj.

Recommendation 18 The Mayor should ensure sufficient human resources for this unit and establish an action plan to be implemented to ensure that resulting advices are being addressed. Fulfillment of planned audit activities should be monitored on a regular basis and to take proactive action, so that deviations are addressed in a timely manner.

Appendix I: Explanation of different types of opinions applied

(Extracted from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
Compliance with the reporting requirements in the AFS	We recommend that the Mayor ensures that the preparation of financial statements will include procedures and tools designed to ensure that information required is recorded, processed, summarized and appropriately reported in the financial statements. Information about third party payments, the amounts of receivables and contingent liabilities must be regularly updated and reviewed to ensure the accuracy and completeness of such disclosures in the financial statements.		Partially solved	
Planned and realization of budget	Mayor should systematically monitor budget performance on monthly basis and to identify and address barriers to planned levels of budget execution. If the initial budget assumptions are incorrect, it should be fully reflected in the final budget position. The Mayor should ensure that the implementation plan of OSR constitutes realistic plan and disproportionate to the Municipality for the collection of revenue. For more should ensure that all measures are taken for the collection of these revenues.	Solved		

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
Revenues (including own source revenues)	We recommend the Mayor ensures that the Municipality takes steps to improve the billing and accounting systems in order to ensure safe, efficient and effective controls on billing and revenue. Improvement of the procedures related to such systems would enable management to monitor and manage significant risks, and to ensure that decisions related to budgeting, planning and collection of revenues are properly carried out. We recommend that the Municipality considers to: • Implement a billing system that includes updated details about the payers, their current address, history and collection rating. Such information should be accessible only to a limited number of people and with the authorization of management. • Enter and centrally control the approved tariffs and tax rates in the system in order to calculate and generate bills automatically. The generation of bills should also be authorized and reviewed. • Automatically inter-connect the billing system with the accounting software so that information is automatically processed into the general ledger. • Automatically link the operational and billing units and perform regular reconciliations between them, in cases where the billing is directly related to services supplied by the operational units. This is especially important where a high volume of transactions is executed.		Partially solved	

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
Procurement	• The Municipality shall take further steps to improve controls over expenses and payments, and ensure that all required documentation is obtained and presented in strict compliance with laws and local regulatory requirements. • A review of the audit findings according to which the processes are not implemented effectively is performed, and the reasons for failures are assessed. Appropriate actions / processes should be implemented to ensure that such failures will not occur in the future.		Partially resolved	
Capital and non capital assets Disclosure of the assets	We recommend to the Mayor to include additional resources in the registration, control and evaluation of assets of the Municipality and to ensure that steadily the Municipality records and presents in its financial statements all assets, and draws information from all sources included in financing assets.		Partially resolved	
Payments from third parties	We recommend the Mayor ensures that the Municipality is making its best efforts to obtain information on payments from third parties, with particular emphasis on those parties that are known to have made significant investments in the Municipality. The obtained information should be properly presented in the assets register of the Municipality. Best practice would require an annual reconciliation of information between third parties and the Municipality for the investments made during the year.		Partially resolved	

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
Handling of receivables	We recommend the Mayor ensures that the Municipality takes further steps to improve controls and complies with laws and local regulatory requirements regarding collections of revenues.			To be solved
Handling of debt	We recommend the Mayor ensures that the Municipality will take further steps and develop action plans to: • monitor the budget performance on a monthly basis and identify and address barriers to the planned levels of budget execution; • execute the payments within the required period; and • disclose accurate information in the financial statements.			To be solved
Internal Audit System	We recommend the Mayor to ensure sufficient human resources for this unit and make an action plan to be implemented to ensure that internal audit work is done and reported on a timely basis and to address the resulting advices, detail the officers responsible and the timetable for implementation. The Mayor should work with Internal Audit to provide enough activities on the financial systems of the year, before issued the draft of Annual Financial Statement. In the coming years the fulfillment of planned audit activities should be monitored every two months and undertake proactive actions, so that deviations are addressed in a timely manner.			To be solved

Appendix III: Management response to the findings of the auditor for the current year

Findings	Agree/ Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
Issue 3 and 4 – Compliance with Annual Financial Statement We have noted that there are differences between financial statement values presented in the audit report of 2013 and the one presented in the 2014 financial report for the previous year. In the Statement of Cash Receipts and Payments, as payment from external third parties and other receptions are presented approximately EUR 1,968,000 more this year compared with the audit report of the previous year.	Disagree	The Municipality has always had difficulties in completing the documentation for their presentation in the AFS. These problems are always presented to the joint-financing or financing by Ministries which was finally decided not to be treated as third parties. We have provided you with clarification for 2013. Improvements are made at the request of the Auditor after the discussions that the Officer of Property has had with them. The change was in Klina for the Primary School, with the unregistered amount of EUR 1,550,000 and unregistered differences for the road pavement of Lagja Durmishaj for EUR 254,000 and Lagja Dajaku for EUR 163,000 Total $(254,000 + 163,000) + 1,550,000 = 1,967,000$ In the beginning the AFS of 2013: EUR 4,318,000 $4,318,000 + 1,967,000 = 6,285,000$ We consider that the issue is raised for the AFS of 2013, (for which the Municipality has the opinion) and you are auditing the AFS of 2014.	In the annual financial report are presented the prior year comparative figures as well. Therefore the prior year values presented in the current year report should be consistent with the values presented in the published audit report for the year 2013. The finding remains valid.

Findings	Agree/ Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
Issue 3 and 4 – Compliance with Annual Financial Statement (continued)			
• The balance of the outstanding obligations presented in Note 28 includes in the amount of EUR 92,610 that were receipt after December 31, 2014;	Disagree	Unpaid debts from last year, except for the invoices presented, are based as well on acceptance documents for workings performed in the prior year and it should be considered as debt from the previous year. (This has been accepted from prior audits as well).	According to the Financial Rule No. 02/2013 "For Outstanding Reporting Obligations" all invoices must be registered and are recognized when they are receipt. The finding remains valid.
• The report produced by the system of ProTax for property tax receivables includes receivables from property tax calculated incorrectly by the system in the amount of EUR 211,669 for two taxpayers. While total receivables from property tax presented in the financial statements are adjusted manually for the amount aforementioned.	Disagree	We have had the same case last year and we have given the necessary explanation. We have documented to you the individual analytics for both the taxpayers (EUR 209,898 and EUR 1,771). It is a technical error in the system "ProTax" which is regulated by the Municipal Office in the individual analytics of the taxpayers, while the adjustment in the total analytical of the tax on property is centralized and under the competence of the Department of Tax on Property.	Our recommendation refers to adjustment that the Municipality has to make in the total analytical of the taxpayers in the system of ProTax, and not to carry forward the technical error every year. The finding remains valid.

Findings	Agree/ Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
Issue 5 – Addressing Prior Year Audit Recommendations Only a proportion of prior year recommendations have been implemented. The remaining part is partly addressed or has not been addressed. • Inadequate treatment of disclosure of debts; • Limited benefit from the work of Internal Audit.	Disagree Disagree	Budget Organizations enter into obligations towards public operators since some of them end up the contracted work at the end of the year although a part of that work has to be performed in the following year and acceptance report by the Commission for the acceptance of the work carried out is proof of this obligation. Based on Administrative Instruction 23/2009, if the BO fails to complete the internal audit with additional staff, then the MF sends its staff for internal audit. This means that it is not necessary since there has impact on growth of the number of the employees.	According to the Financial Rule No. 02/2013 "On Unpaid obligations of Budget Organizations", all obligations of the Municipality are to be paid within 30 days. According to the Administrative Instruction 23/2009, every BO holding over EUR 5,000,000 budget should employ at least three internal auditors. The finding remains valid.

Findings	Agree/ Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
Issue 6 – Managerial controls The review that we have made to management controls implemented in the main financial system of the Municipality 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), controls related to stocktaking, valuation and presentation of capital assets related to the identification and registration of third party payments, procurement procedures, accounts receivable management, accounts payable management, revenue management, personnel records management.	Partially agree	We have provided our viewpoints in details related with these raised issues. We asses that we should given a greater importance for stocktaking and valuation of assets, third party payments, which until now have been recommended to be treated in varoius ways. The previous auditor recomended to include payments from ministris in thrid party payments, while according to your recomendation, payments from ministris have to be excluded from third parties, with which we agree. We agree with your comments that procurement procedures have to be improved. Accounts receivable management is a challenge for all municipalities, however, our efforts and additional procedures are needed for their collection thereof. Management of the revenues collection we consider that is properly managed and we do not belive that additional procedures are needed while all revenues collected are managed according to budget plan and separate lines allocation. Accounts payable management; we will follow after the recommendation. And also regarding management of personnel files, we will give greater importance in the future of completion with the documentation required by law for all employees.	

Findings	Agree/ Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
Issue 9- Procurement 1. In 13 cases of contracts, total amounting EUR 1,392,435, the commitment of funds for the expenditures to be undertaken according to the developed procurement procedure, was made after signing the contract with the Economic Operator. This is not in compliance with the Public Procurement Law 04 / L - 042 and Financial Rule No. 01/2013 Ministry of Finance - Expenditure of Public Funds. 2. In two cases of the contracts, total amounting EUR 793,636, the commitment of funds before signing the contract did not cover the total contract amount forecasted to be realized within 2014 for EUR 60,000.	Disagree	On the basis of medium-term expenditure framework and budget planning year 2014-2015, this budget has been approved by the Assembly of the Municipality for all projects, therefore the commitment that was made later is an omission that does not affect the procurement procedures. The same explanation applies for all the cases. They have been planned for 2014-2015 and approved by the Assembly of the Municipality for the contracts amounts.	Our findings are based on the requirements of Financial Regulation 01/2013 "Public funds expenditure" under which BO should not enter into contractual obligations without commitment of funds in KFMIS, and the same commitment should be part of the contract. LMFPF also requires that prior to the initiation of a procurement process that is intended to result in the establishment of an obligation in the current fiscal year, the Budget Organization records all the commitments of funds allocated in KFMIS in accordance with the rules of MF. The finding remains valid.

Findings	Agree/ Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
Issue 9- Procurement (continued) 5. In 15 cases, the total value of contracts of which consisted of EUR 2,509,011, the Chief Administrative Officer has given written authorization to the Procurement Officer to initiate the procurement procedures, before signing the Statement of Needs and Determination of Availability of Funds, which practice is not consistent with the requirements of the Public Procurement Law 04 / L - 042.	Disagree	We have referred to the midterm framework of expenses that were planned by the Department of Finance and Economic Development from 2013 for the years 2014 to 2015 and approved by the Assembly of the Municipality. All projects that have been in the budget codes that started in 2014 are also in 2015. All these projects are being completed.	Our finding is referred to requirements of the Law on Public Procurement 04/L-042 under which the authorization to initiate the procurement activity has to be performed after the SNDAF is accurately prepared, signed and submitted by CAO and CFO. The finding remains valid.
6. In one case of the contract, the value of which was EUR 30,865, we have encountered delays in the realization of the contracted work. While the construction on the basis of the signed contract should have been completed within 21 working days (approximately on 16 October 2014), the technical acceptance of the work was made 41 days after the deadline within which the work was contracted to be completed, on 26 November 2014, respectively.	Disagree	The completion of work according to the dynamic plan is the responsibility of supervisors of the contract, who monitor the project rather than the responsibility of the procurement officer.	The Municipality must clarify the responsibility for the delay in the dynamic plan and take measures in cases of delays in the implementation of the contracted work from the EO and apply punitive measures. The finding remains valid.

Findings	Agree/ Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
Issue 10 – Personnel Files • 15 cases were where the form that describes the documents that contains the file of the employees was missing and three times were when this form was not signed by the employee and the Chief of Personnel Department. • 1 case when the process forms for recruiting new staff, containing explanations for applicants competing for the respective positions were missing in the file. In the file was included only the final form of the evaluation. Consequently the process is not carried out according to procedures established by the Municipality. • In 7 cases the file did not contain the certification that the employee is not under investigation, as required from the Regulation No. 03/2011. • We found some cases in which the acts of appointment have not been updated with recent changes in the position of the worker or his benefits under and did not respond to the coefficient applied as per payroll list.		In all the files that for which you have findings are set the forms which include a list of documents contained in the file of a civil servant. The forms that constitute an explanation for the applicant recruited are located in CCS Archive. And there is maintained the record held by the selection committee for the recruiters. The employees have brought the certificates and they are placed in their files. These certificates are valid only for 6 months from date of issuance from the Basic Court-Skenderaj branch. Acts of appointment which are current in the personnel files are based on salaries without the reflection of the growth that has occurred in the value of 25%. The finding is reasonable and we are updating with recent changes based on the current coefficients of civil servants.	Our findings are based on the state of personnel files that we examined during the field work in the Municipality, and the same findings were communicated to the Officer of the Personnel in nine months and the final audit. The finding remains valid.

Findings	Agree/ Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
Issue 14 -Register of capital assets Fixed Assets Register above EUR 1,000 does not contain the purchase date of the assets, but only the year when assets were recorded. Therefore we could not perform a calculation of depreciation, to obtain assurance for its properly calculation from the system and that the net value of assets presented on note 30 of the financial statements is correct.	Disagree	When the property is registered in the system and placed into the function, from that time begins the calculation of the depreciation. The calculation of depreciation of assets is made from the system of "Free Balance" and the competence for any action is the responsibility of the MF - Treasury Department.	