



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

**AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF
THE MUNICIPALITY OF KAÇANIK
FOR THE YEAR 2019**

Prishtina, July 2020

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

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

This audit is carried out in line with the International Standards of Supreme Audit Institutions, and good European practices.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of *Kaçanik Municipality* in consultation with the Assistant Auditor General, *Naser Arllati*, who supervised the audit.

The report issued is a result of the audit carried out by *Ajtene Llapashtica*, Team Leader, and *Selvete Foniqi*, *Aurora Morina*, team members, under the management of the Head of Audit Department *Bujar Bajraktari*.

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Executive Summary

This report summarises the key issues arising from our audit of Kaçanik Municipality for 2019, which includes the Opinion of the Auditor General on Annual Financial Statements. Examination of 2019 financial statements was undertaken in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

Our audit focus has been on:



Conclusions

Conclusion on Financial Statements - The Annual Financial Statements were in compliance with the applicable rules and standards, with the exception of the misclassification of expenditures between economic categories. Inaccuracies were also noted in the disclosure of information on assets, A/R and liabilities. They are explained in detail in the separate subsections of the report.

Financial Management and Control Conclusion - in the context of financial systems, controls over revenues and expenditures are generally not being implemented effectively due to weaknesses identified in revenue management, payment execution, asset management, etc.

Conclusion on the implementation of the prior year recommendations -Despite the efforts of the municipality to implement the prior year recommendations, some of the recommendations were repeated this year; therefore, additional actions are needed for their full implementation.

Opinion of the Auditor General¹

Unmodified Opinion with Emphasis of Matter

For more details, refer to Section 1 of this report.

Response of Management in audit 2019

The Mayor has agreed with our audit findings and conclusions and committed to address all recommendations given. The National Audit Office appreciates the cooperation by the management and staff of Municipality during the audit process.

¹ Annex I explains different types of Opinions in line with ISSAIs.

Audit Scope and Methodology

The Audit involves examination and evaluation of Financial Statements and other financial records in regard to as the following:

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

The audit was based on risk assessment. We have analysed the Municipality's operations, the extent the management controls could be relied to in order to determine the level of in-depth testing required to obtain evidence supporting the Auditor General's opinion.

Our procedures have included a review of internal controls, accounting systems and interrelated substantive tests, as well as related governance arrangements to the extent considered necessary for the effective conduct of audit. Audit findings should not be regarded as representing a comprehensive overview of all the weaknesses that may exist, or of all improvements that could be made to the systems and procedures operated.

The following chapters provide in detail our audit findings and recommendations in each audited area. Management response on audit results is presented in Annex II.

1 Audit Opinion on Annual Financial Statements

We have audited the AFS of the Kaçanik Municipality for the year ended on 31 December 2019 in accordance with the Law on NAO and the International Standards of Supreme Audit Institutions (ISSAIs). Audit examinations were carried out in order to allow expressing opinions on AFS which comprise the Statement of Cash Receipts and Payments, and Budget Execution Statement, provided further in detail.

Unmodified Opinion with emphasis of matter

In our opinion, the Annual Financial Statements for the year ended on 31 December 2019 give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards according to cash based accounting.

Basis for the Opinion

The audit is carried out in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the section 'Auditor's responsibilities for the audit of the Annual Financial Statements' of our report. In compliance with ISSAI 10 and 30, and other relevant requirements for audit of budget organisations' AFSs, the NAO is independent from the Municipality. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

We would like to draw your attention to the fact that payments made by the Treasury on behalf of the municipality based on court/enforcement decisions, in the amount of €153,425 were paid and recorded in inadequate economic categories/codes. This issue is addressed in detail in subsection 2.1 Budget Planning and Execution. Our opinion has not been modified on this issue.

Responsibility of Management for AFS

The Mayor of Kaçanik is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Cash based Accounting. The management is also responsible for establishing internal controls which it determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law No. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented) and Regulation No. 01/2017 on Annual Financial Statements of Budget Organisations.

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

Auditor General's Responsibility for the audit of the AFS

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

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

The audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the entity's circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

We communicate with the management of the audited entity regarding the audit scope, planned time and significant findings including any significant shortcoming in internal control that we have identified during the audit.

The audit report is published on the NAO's website, except for information classified (as sensitive) or other legal or administrative prohibitions in accordance with applicable legislation.

2 Financial Management and Control

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

Financial Management and Control Conclusion

In the context of financial systems, controls over revenues and expenditures are generally appropriate and effective, but further improvement is still needed to prevent irregularities. The main areas where improvements are needed are the implementation of rules when planning and executing expenditures, and revenue management. Further, the municipality should take action to improve the management and full reporting of asset registers, accounts receivable and outstanding liabilities.

2.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2019 Outturn	% of Outturn 2019	2018 Outturn	2017 Outturn
Source funds:	8,381,634	8,615,477	8,111,517	94%	7,811,294	6,713,321
Government Grant - Budget	7,495,209	7,495,209	7,346,664	98%	7,157,204	6,119,690
Carried forward from previous year ³ -	786,413	285,705	258,549	90%	169,558	111,877
Own source revenues ⁴	0	786,413	461,818	59%	374,107	429,039
Domestic donations	0	6,166	6,005	90%	7,000	0
External donations	0	2,400	0	0%	84,138	52,715
Borrowings	100,012	39,584	38,481	97%	19,286	0

² Final budget - the budget approved by the assembly, which was subsequently adjusted for by the Ministry of Finance.

³ Own Source Revenues unspent in previous year carried forward into the current year.

⁴ Receipts used by the entity for financing its own activities.

The final budget compared to the initial budget was increased by €233,843. This increase was a result of revenues carried forward from the previous year and donations, while there was a decrease in financing from borrowing.

In 2019, the municipality spent 94% of the final budget, which was the same level as in 2018. Below are the explanations for the current position.

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

Description	Initial Budget	Final Budget	2019 Outturn	% Outturn 2019	2018 Outturn	2017 Outturn
Spending of funds by economic categories	8,381,634	8,615,477	8,111,517	94%	7,811,294	6,713,321
Wages and Salaries	5,102,663	5,102,663	4,959,252	97%	4,925,423	4,764,651
Goods and Services	900,000	839,594	824,638	98%	870,614	490,400
Utilities	160,000	164,500	140,476	85%	63,383	117,200
Subsidies and Transfers	206,540	216,833	215,418	99%	306,772	161,230
Capital Investments	2,012,431	2,291,888	1,971,734	86%	1,645,101	1,179,840

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries has not changed compared to the initial budget;
- The final budget for Goods and Services was decreased by €60,406. Budget changes were influenced by the borrowing fund (Kosovo Health project according to the Agreement with the Ministry of Health), budget decrease by €80,182 and increases in revenues carried forward by €2,941, donations by €2,400 and borrowing from MEST by €14,434.
- The final budget for Utilities increased by €4,500 from revenues carried forward;
- The final budget for Subsidies increased by €10,293 (from revenues carried forward €4,273 and donations/farmer participations €6,019);
- The final budget for Capital Investments compared to the initial budget increased by €279,457. Of these, €273,990 from revenues carried forward, €5,320 from the borrowing and €147 from donations.

Issue A1 – Misclassification of expenditures**Finding**

Law no. 06/L-133 on the Budget of the Republic of Kosovo for 2019 and the chart of accounts clearly define that expenditures must occur from the appropriate economic categories.

As presented in the Emphasis of Matter paragraph, the municipality paid and recorded expenditures from inadequate economic categories. These payments are related to:

Payments for capital investments for land expropriation in the amount of €119,872⁵ executed by the Treasury with court/enforcement decisions from the category of Goods and Services; and

- Payment of salaries in the amount of €33,553, compensation to the employee who was unfairly fired, and was paid from Capital Investments.

These payments were made from inadequate categories due to lack of funds in adequate categories.

We also identified two payments with a total value of €6,275 related to funeral expenses, which were executed from Goods and Services, while the nature of the expenses was Subsidies and Transfers. This happened due to the planning/budgeting of funds from the category of goods.

Risk

Payments and recording of expenditures in inadequate economic categories affect the wrong presentation of expenditures in registers of expenditure and AFS, by overstating certain categories of expenditures and understating other categories.

Recommendation A1 The Mayor should ensure that all actions are taken so that expenditures are planned in the appropriate budget allocations and that the payment and recording of expenditures should be done accurately according to the adequate economic codes, as well as all liabilities must be paid on time in order to avoid the possibility of additional payments for court procedures.

⁵ The enforcement decision for this case is in the total amount of €513,023.63. In 2019, €310,809.20 was executed (€119,872 misclassification) and the rest for 2020; €202,214.43.

2.1.1 Revenues

Revenues generated by the Municipality of Kaçanik in 2019 were €577,192. They are mainly related to property tax revenues, revenues from construction permits, administrative fees, revenues from business activities, revenues from rent, etc. The municipality has implemented 73% of the revenue plan.

Table 3. Revenues (in €)

Description	Initial Budget	Final Budget	2019 Receipts	% of Receipts 2019	2018 ⁶ Receipts	2017 Receipts
Revenues	786,414	786,414	577,192	73%	584,915	643,910
Tax revenues	344,874	344,874	293,014	85%	244,907	233,160
Non-tax revenues	441,540	441,540	284,178	64%	340,008	410,750

In addition to the revenues presented in the table, the municipality has also generated indirect revenues in the amount of €120,348, of which revenues from courts €3,610, traffic fines €115,814 and from the forest agency €924.

Issue A2 – Weaknesses in the allocation for use of the municipal property

Finding

Law no. 04/L-144⁷ on Allocation For Use and Exchange of Immovable Property of the Municipality, Article 5, para 3 stipulates that the procedures for allocation for short-term use of municipal immovable property shall be conducted through the procedures of public auctions that shall be regulated with a sub-legal act.

- The municipality does not have procedures provided by sub-legal acts for the short-term use of municipal immovable property. While municipality has leased the municipal properties for the period 01.01.2019 to 31.12.2019, extending previous contracts without procedures. This was evidenced in four of the five samples tested. It is worth noting that contracts were signed even though the lessees have not paid their prior liabilities.

⁶ The table for 2018 and 2017 included also indirect revenues in non-tax revenues; €86,413 and €142,504.

⁷ This law entered into force in 2012. While law no. 06/L-092, which entered into force in March 2019, Article 6, para 1.3 stipulates that municipalities can allocate for use the immovable property for less than one (1) year, and procedures and forms for the allocation for use of the municipal immovable property for a period of up to one (1) year shall be regulated and determined by municipal regulations.

According to the assertions of the Directorate of Urbanism, these municipal properties have been allocated for in use since 1997 and have continued until now with the extension of contracts.

Risk The lack of written procedures for the allocation of properties for short-term use undermines the principle of free competition and equal treatment of the interested parties. Extending contracts without them fulfilling prior liabilities increases the risk of non-collection of revenues causing financial losses to the municipality.

Recommendation A2 The Mayor should ensure the drafting of written procedures for the allocation of properties for short-term use, as provided for by law. Before new contracts are signed, all lessees/users of the property must pay their pre-contractual liabilities.

Issue B1 – Shortcomings in evidences on rental properties

Finding According to Article 13, para 3 of Financial Rule 03/2010 - For own source revenues, the BO is obliged to reconcile revenues within the Treasury. To do this, the relevant directorates in the municipality must keep accurate records and reconcile revenues with the revenue officer every month.

- The Directorate of Urbanism keeps records of leased properties, but they are not complete to ensure that all values are recorded accurately, as revenues recorded in Free balance differ to those recorded in the internal register⁸. There were also no financial cards for leased properties.

This happened because the payments collected through the private enforcement agents were not recorded in the internal register, in the absence of information from the revenue officer. Monthly reconciliations between the revenue officer and the directorate were not performed either, where these shortcomings could be identified.

Risk Negligence of record keeping and non-reconciliation with the revenue officer has resulted in inaccurate records for lessees and revenue, and may cause non-regular collection of revenues.

Recommendation B1 The Mayor should ensure that the Directorate of Urbanism and the revenue officer perform monthly reconciliations of records. It is necessary to keep records/financial cards for each leased out property.

⁸ In Free balance are registered €23,553, while in the internal register €18,298. The difference of €5,255 could be for payments through the private enforcement agents for rents, which were transferred directly into the budget.

2.1.2 Wages and Salaries

The final budget for Wages and Salaries was €5,102,662, while €4,959,252 was spent during the year. The number of employees according to the budget was 801, while at the end of the year the current number of employees is 784. We tested 40 samples for substantive tests as well as 16 samples for compliance testing.

Issue C1 - Shortcoming in staff engagement with Special Service Agreements (SSA)

Finding According to Article 12 of Law no. 03/L-149 on the Civil Service stipulates that fixed-term appointments of less than six (6) months shall be governed by contracts called Special Service Agreements and shall be regulated by the Law on Obligations and a simplified recruitment procedure shall be applied.

During 2019, the municipality had 19 employees engaged with SSA. Although simple recruitment procedures were applied, 12 of them were from previous years mainly from 2014. These engagements were mainly for non-specific job positions⁹, such a phenomenon, according to the personnel manager, occurred due to the need for staff engagement for the performance of additional objectives of the municipality.

Risk Covering/continuing to cover positions with SSA beyond the permitted deadlines is contrary to legal norms and may affect poor staff performance and increase uncertainty if adequate staff is engaged in such positions.

Recommendation C1 The Mayor should ensure that entering into agreements for special services/specific employment contracts is done in full compliance with the legal framework and the time of engagement in these cases does not exceed the deadlines set by law. The Mayor should also ensure that such engagements are made only in cases when there are specific requirements.

2.1.3 Goods and Services

The final budget for Goods and Services (including expenditures for Utilities) in 2019 was €1,004,094, of which €965,114 was spent. They are mainly related to office supplies, fuel and other heating costs, utility costs, maintenance of facilities, other contractual costs, etc. We tested 22 samples for substantive tests in the amount of €197,155 as well as seven samples for compliance tests.

⁹ Maintenance officer for public areas, forester, immovable property survey officer, etc.

2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €216,833, of which €215,418 was spent in 2019. Subsidies are allocated to public and non-public entities and are mainly spent to support the sector of agriculture, culture, health, sports and other activities within the municipality. We tested six samples for substantive tests in the amount of €29,385 as well as six samples for compliance tests.

Issue A3 -Weaknesses in subsidy management

Finding

The internal regulation for the allocation of subsidies no. 06/2016, Article 8.4 stipulates that "The evaluation commission keeps meeting minutes, which must be signed by the members of the commission, and which clearly define criteria for subsidy as well as mechanisms on how subsidies will be monitored and managed".

- The call for applications in the "Field of culture, youth and sports" did not require measurable and specific criteria for the selection of potential beneficiaries. This made almost all applicants meet the criteria, so officials have not been able to prove to us in the three cases of how the evaluation was done and the evaluation commission did not provide us with the minutes as provided in the internal regulations of the municipality

Article 13.1 stipulates, "To execute a subsidy, an agreement must be concluded which defines the rights and obligations between the municipality and the beneficiary of the subsidy".

- The municipality has subsidised/supported the shooting of the short feature film "In Search of Venus" without a prior agreement as required for by internal regulations, due to the negligence of the responsible officials.

Risk

Failure to set specific criteria when drafting application calls as well as non-compliance with the criteria of the regulation may have an impact on unequal treatment for applicants. The lack of a subsidy agreement increases the risk of not achieving the objectives set for the allocated subsidy.

Recommendation A3 The Mayor should establish additional controls in the process of allocating subsidies to ensure that the criteria in public calls for applications are specific and clear, and should ensure that the subsidy is preceded by an agreement, which makes it possible to monitor the spending of these funds.

2.1.5 Capital Investments

The final budget for Capital investments in 2019 was €2,291,888, of which €1,971,734 was spent. They are related to the costs incurred for the construction of local roads, sewerage, water supply, expropriation, etc. We tested 46 samples for substantive tests in the amount of €815,209 as well as five samples for compliance tests.

Issue A4 – Weaknesses in the procurement process

Finding

According to ROGPP, Article 8.6 stipulates, “If the procurement activity was not included in the final procurement forecast, in case of a public authority or a public undertaking, a copy of the form shall be sent by the CAO to CPA at least 5 days before the Authorising Officer authorizes the Procurement Officer to initiate the procurement activity”.

- During the testing of five compliance samples, we noticed that in two¹⁰ cases, the municipality has conducted procurement activities that were not included in the procurement forecast and did not notify the CPA according to the rules. It is worth mentioning that for the project "Construction of sports fields", the works were only started and were not completed, as the project was not completed within the timeframe provided by agreement and contract.

The non-inclusion of these projects in the forecast was because the projects were co-financed with the line ministries, while the failure to notify the CPA occurred due to negligence. The reason for not implementing the project is the problems that appeared on the ground; therefore, the works have been stopped.

ROGPP Article 20.10 stipulates, “Technical Specifications for works contracts shall determine the exact nature and performance characteristics of the required works. Technical Specifications shall include, as a substantial part of it, an Executive Project.

- In three work¹¹ projects, the municipality did not draft the execution project, but has developed procurement procedures only on the basis of the bill of quantity.

¹⁰ Regulation and asphaltting of city roads “co-financed with MLGA and” Construction of sports fields “co-financed with MCYS

¹¹ "Regulation of roads in the village of Kovaçevc", "Construction of faecal sewage" and "Construction of primary school in the village of Ivajë"

Risk Weaknesses identified in the procurement processes, lack of execution projects, lack of timely notification to the CPA for unplanned contracts affect the poor management of projects, as well as delays in their implementation.

Recommendation A4 The Mayor should ensure that all activities outside the procurement plan will be notified to the competent authorities, as well as executive projects will be prepared as part of the technical specifications of the projects, in order to facilitate their implementation in accordance with the contracts.

2.2 Capital and Non-capital Assets

The value of capital assets presented in the 2019 AFS is €75,573,750, non-capital assets €594,734, and stocks €1,180. We tested 69 samples for substantive tests in the amount of €863,717. We also assessed the overall asset management process, asset inventory and maintenance of municipal asset registers.

Issue B2 - Shortcomings in management of asset registers and disclosure of information in the AFS

Finding MoF Regulation No. 02/2013 on Management of Non-financial Assets by Budget Organizations clearly defines the rules and procedures for the management of assets and stocks. This regulation requires BOs to approve internal rules for asset management. This regulation also defines the obligations and activities related to the inventory of assets. During the audit testing, we have identified numerous shortcomings in the management of registers and disclosure of information in the AFS, disclosed as follows:

- The municipality did not approve internal regulations or procedures for evidence, preservation and alienation of non-financial assets as required by the financial rule;
- The municipality has formed a commission for inventory/evaluation of assets, and has drafted the general inventory report, but has not harmonised it with the accounting register before the preparation of the AFS;
- Land¹² expropriation payments were not recorded in the asset registers and were not disclosed in the AFS, understating the capital assets by €310,809;
- For the project funded by the Ministry of Economic Development "Energetic audit of public buildings and other mandatory undertakings - Support programme - Implementation of energy

¹² Payments made by the Treasury according to court/enforcement decisions.

efficiency measures in public buildings (IV)", which is related to capital investments in two school in the amount of €40,252, the handover of assets was officially accepted, but these investments/assets were not recorded in the registers and were not disclosed in the AFS, thus understating the assets for this value;

- Three (3) used trucks, purchased with co-financing of the municipality, the Regional Waste Company "Pastërtia" and the German Association for International Co-operation L.L.C (GIZ), in the amount of €45,000 are not recorded in the name of the municipality¹³, while only the part paid by the municipality was recorded (€23,000) in the asset registers, understating the capital assets by €22,000;
- In the payment of €18,628 for the contract "Construction of roads in the village of Biqec", we have identified that although the technical acceptance of the works was done, the assets were not registered as assets in use, but in the following investment class, not calculating depreciation, this has occurred as a result of negligence; and
- The value of assets under €1,000 in the AFS is disclosed according to the inventory report in use, in the amount of €594,734, and not according to the e-assets report where the gross value of assets under €1,000 was €329,914, although assets purchases of 2018 and 2019 are not recorded in the e-assets system. In addition, non-capital assets (laptops) in the amount of €520 and furniture in the amount of €5,000 were not registered in the inventory registers either, while upon physical verification, laptops did not even have bar codes.

These shortcomings have occurred due to insufficient attention in the area of asset management.

Risk

The identified shortcomings in the management of asset registers have affected the inaccurate disclosure of asset values in the AFS. Lack of internal procedures and non-compliance with the requirements of the regulation on asset management hamper the management to have accurate information about the state of assets of the municipality and this makes it difficult to make decisions about possible investments in existing assets or the needs assessment for investment in new assets.

Recommendation B2 The Mayor should initiate the approval of internal rules for asset management to clarify each activity related to asset management. The Mayor should also ensure that all municipal assets (including capital and non-capital assets) are recorded in the registers, and are disclosed correctly in the AFS, in accordance with legal requirements.

¹³ According to the Registration Documents, the trucks are registered in the name of natural persons and companies, while according to the agreement, their ownership is transferred to the municipality and the municipality allocates them for use to RWC Pastërtia.

2.3 Receivables

In the 2019 AFS, the municipality has disclosed receivables in the amount of €1,464,154. This amount consists of property tax €1,194,285, business tax €237,585, and rent €32,284.

Issue B3 – Increase of the value of receivables and their inaccurate disclosure in the AFS

Finding

Regulation No. 01/2017 on Annual Financial Reporting, Article 16, obliges budget organizations that collect revenues to keep records of collected revenues and invoiced but uncollected amounts. Receivables are disclosed in the annual financial report in the relevant table by type of revenue”.

In the 2019 AFS, A/R were reported from the use of public property in the amount of €32,284, but the portion of the A/R in the amount of €45,966¹⁴ that were sent to the enforcement agent for collection were not disclosed in the AFS. In addition to inaccurate disclosure, information on the use of public property was incomplete and there were errors in the transfer of balances¹⁵. This happened due to negligence and lack of internal co-ordination regarding enforcement cases.

In addition to the inaccurate disclosure in the AFS, compared to the previous year, A/R increased by €80,934. This increase was mainly from property tax, influenced by the debts of Socially Owned Enterprises managed/privatised by the Privatization Agency of Kosovo¹⁶. However, from 31.12.2019 the municipality started to apply collection measures by sending payment remarks and concluding agreements with taxpayers.

Risk

Lack of accurate records of A/R affect the incorrect presentation of these accounts and their inaccurate disclosure in the AFS. They can also affect loss of data and their collection. While the increase of A/R over the years and their non-collection affect the deterioration of the budget performance of the municipality.

Recommendation B3 The Mayor, in co-operation with the CFO, should ensure accurate records of A/R from the relevant directorates by reporting on a regular basis on their situation. These receivables should be followed up with special care over the years. The issue of payment of old debts of former Socially Owned Enterprises should find an appropriate form of their execution/collection based on the agreements concluded with taxpayers.

¹⁴ We do not provide assurance for this value since: - for the business premises in parcel 727-0 old Kaçanik, the value for execution is €2,681, the same is disclosed in the AFS with another value by €3,037, as well as for the office-premises in parcel 1130-0 Kaçanik the value for execution is €8,791, the same is disclosed in the AFS in the amount of €10,891

¹⁵ The final balance of 2018 in the AFS was €35,120. This balance was carried forward as an initial balance of €30,359 (€4,760 is less). While the final balance for 2019 in the AFS was presented €32,283, and in the registers are € 32,117. After recalculation in Excel we noted that they are €32,504. (these differences do not provide us with assurance of the completeness of these notes)

¹⁶ The problems are mainly with the privatised enterprises which still have debts, also accumulating interest. Only the PAK debt is in the amount of €111,538.

2.4 Liabilities

2.4.1 Outstanding liabilities

The statement of liabilities not paid to suppliers at the end of 2019 was €74,796. These liabilities are carried forward to be paid in 2020. Compared to 2018, the outstanding liabilities presented in the AFS have increased by €57,626.

Issue A5 – Shortcomings in the presentation of liabilities in the AFS

Finding MoF Regulation no. 01/2017 on financial reporting by budget organizations, Article 17, para 3, provides that budget organizations report all liabilities (invoices) incurred by 31st of December of the reporting year.

- The municipality did not correctly disclose the outstanding liabilities in the AFS, understating the account by €202,214, as there was an enforceable¹⁷ court/enforcement decision, according to the CFO, this was the reason for non-disclosure.
- For 2019, the municipality did not have a protocol book for identifying invoices, and none of the tested invoices was recorded.

Risk Shortcomings in the reporting/disclosure of liabilities have an impact on the fair and accurate presentation of the AFS, and the implementation of capital projects foreseen for 2020 can also be affected.

Recommendation A5 The Mayor should ensure that all outstanding/remaining liabilities at the end of the year are reported correctly in the AFS.

2.4.2 Contingent liabilities

The statement of contingent liabilities at the end of 2019 was €14,309, mainly related to claims compensation and jubilee salaries. Compared to the previous year, these liabilities have decreased by €46,891.

2.4.3 Contractual liabilities

The municipality did not provide us with information regarding the value of contractual liabilities until 31.12.2019.

¹⁷ Payments executed by the Treasury for this court/enforcement decision in 2019 were €310,809, while €202,214 remained and were executed in 2020;

2.5 Internal Audit Function

The Internal Audit Unit (IAU) operates only with the head of IAU. For 2019, five audits were planned and conducted which covered important areas of financial management such as: revenues, expenditures on goods and services, project management and asset management. The focus was on the activities of 2018 and 2019. The Audit Committee has functioned properly and has held the scheduled meetings. The IAU in its reports has made 23 recommendations, of which seven (7) have been implemented, five (5) have not been implemented and 11 are in process.

Issue A6 - Failure to staff IAU

Finding Regulation CRK-no 01/2019¹⁸, Article 5, para 1.1 stipulates, "The public sector entity with a budget over seven (€7,000,000) million will have at least three (3) internal auditors. In the municipality, the IAU operates with only one auditor/head of the Unit.

Risk Failure to staff the IAU with sufficient staff may limit the work of auditing all areas of risk, making it impossible for management to take timely action to prevent potential errors.

Recommendation A6 The Mayor should ensure that the required positions will be budgeted in a timely manner and that the IAU will be staffed with sufficient staff in accordance with the regulations in force.

¹⁸ For the establishment and the implementation of the internal audit function in the public sector entity

3 Progress in implementing recommendations

Our audit report on the 2018 AFS resulted in 11 recommendations. The municipality has prepared an action plan stating how all recommendations will be implemented. The municipality has submitted the periodic report to the CAO on the implementation of recommendations according to the requirements of the rules of procedure for the implementation of the audit and action plans, but has not submitted the second final¹⁹ report.

At the end of our audit for 2019, four (4) recommendations have been implemented; one was in the process of implementation; three (3) have not been implemented yet, and three (3) recommendations are considered closed. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or Table of recommendations).

Table 4 Summary of prior year recommendations and of 2019

No.	Audit area	Recommendations of 2018	Actions taken	Status
1	Annual Financial Statements	The Mayor should ensure that an analysis is undertaken to determine the causes for Emphasis of Matter of the audit opinion. Actions should be taken to address the underlying causes in a systematic manner in order to eliminate errors in disclosing of assets, asset registration and to confirm their accurate assessment. Further on, the Mayor should ensure that effective processes are in place to confirm that the 2019 AFS production plan formally addresses all issues related to the compliance. This also includes Management review of the draft AFS with specific focus on high risk areas or areas where errors have been identified in previous years. The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be signed unless all necessary checks have been applied to the AFS.	No action is taken. The recommendation regarding the Emphasis of Matter from last year was made in the area of assets.	Recommendation closed
2	Financial Management and Control	The Mayor should make a comprehensive assessment of the causes of non-execution of the budget in certain categories, as well as to ensure proper budget planning along with targeted projects and budget performance monitoring on a regular basis with a purpose of budget execution and avoiding of	The municipality for 2019 had a good budget execution.	Recommendation implemented

¹⁹ The first report submitted is on 22.10.2019, while the report that should have been submitted by 15 March, has not been submitted.

		misstatement.		
3	Revenues	The Mayor should undertake measures to increase the responsibilities of the Public Property Utilization Officer with the Revenue Officer who is obliged to make the reconciliation of revenues on a monthly basis. Likewise, the Mayor should ensure that a tenant's files are reviewed, principally with tenants with whom they have extended contracts without clearing out the prior obligations, and to establish the appropriate measures in collection of all overdue obligations within a reasonable period of time. Furthermore, the Mayor should ensure the creation and maintain clear evidence and complete it with all the necessary information so that the management of rent revenues is more efficient	No action is taken.	Recommendation unimplemented Ref:B1
4	Wages and Salaries	The Mayor should ensure that all legal requirements related to regular employees and to special services employees must be respected.	For all SSA, the municipality has advertised a vacancy.	Recommendation in process of implementation Ref:C1
5	Capital Investments	The Mayor should ensure that concrete measures are taken relating to the classification of expenditures.	We have not identified similar issues.	Recommendation implemented
6	Common Issues on G&S and CI	The Mayor should ensure that the procurement planning process is done professionally, accurately and the selection of the winners is as realistic as possible.	We have not identified similar issues.	Recommendation implemented
7	Capital and non-capital assets	The Mayor should ensure timely and accurate registration of all assets in the respective registers, in accordance with the requirements of regulation 02/2013. Furthermore, the Mayor should also ensure that capital assets that are registered contain complete information, including the date the asset was put in use, so that the depreciation calculation can be performed accurately and to determine the status of ownership. Further on, to ensure that after the process of inventory a comparison of inventory assets with general assets register is carried out, to identify potential differences and to incorporate them into the asset registers.	No action is taken.	Recommendation unimplemented Ref:B2
8	Receivables	The Mayor should undertake measures	No action is	Recommendat

		regarding the provision of a software that would enable the accurate keeping of records related to accounts receivable, their categorization according to seniority and their accurate carrying forward in the following year	taken.	ion unimplemented Ref:B3
9	Receivables	The Mayor should undertake measures in addressing the causes of failure to collect receivables and provide effective mechanisms for their collection. Likewise, the Mayor should ensure that a tenant's files are reviewed, principally with tenants with whom they have extended contracts without clearing out prior obligations, and to establish appropriate measures in collecting of all remained obligations within a reasonable period of time and to initiate a process of re-evaluation of accounts receivable, where all accounts are analysed in terms of seniority, significant amounts and real possibilities for their collection, and in certain cases provisioning or settlement in case of categorization as bad debts	The municipality has taken measures for debt collection; however, there are high values of A/R in the AFS.	Recommendation closed
10	Internal Audit System	The Mayor should ensure that the IAU plan applies an approach towards risk areas by constantly assisting operational activities, and that management has a higher focus on addressing of recommendations so that benefits from internal audit are greater	The IAU has planned and completed reports based on risk areas.	Recommendation implemented
11	Management Reporting, Accountability and Risk Management	The Mayor should ensure that a review has been carried through to determine the form of financial and operational reporting to senior management. Budgetary performance, including revenues and expenditures, and procurement plan should be subject to regular reporting and review by the Management. Further on, in order to reduce the impact of risks to acceptable levels, the Organization should draft a risk register with all appropriate measures/actions to put the exposed threats under control	Management reporting is not subject to handing in this report.	Recommendation closed
No.	Audit area	Recommendations of 2019		
1	Budget Planning and Execution	The Mayor should ensure that all actions are taken so that expenditures are planned in the appropriate budget allocations and that the payment and recording of expenditures should be done accurately according to the adequate economic codes, as well as all liabilities must be paid on time in order to avoid the possibility of additional payments for court procedures.		
2	Revenues	The Mayor should ensure the drafting of written procedures for the allocation		

		of properties for short-term use, as provided for by law. Before new contracts are signed, all lessees/users of the property must pay their pre-contractual liabilities.
3	Revenues	The Mayor should ensure that the Directorate of Urbanism and the revenue officer perform monthly reconciliations of records. It is necessary to keep records/financial cards for each leased out property.
4	Wages and Salaries	The Mayor should ensure that entering into agreements for special services/specific employment contracts is done in full compliance with the legal framework and the time of engagement in these cases does not exceed the deadlines set by law. The Mayor should also ensure that such engagements are made only in cases when there are specific requirements.
5	Subsidies and Transfers	The Mayor should establish additional controls in the process of allocating subsidies to ensure that the criteria in public calls for applications are specific and clear, and should ensure that the subsidy is preceded by an agreement, which makes it possible to monitor the spending of these funds
6	Capital Investments	The Mayor should ensure that all activities outside the procurement plan will be notified to the competent authorities, as well as executive projects will be prepared as part of the technical specifications of the projects, in order to facilitate their implementation in accordance with the contracts
7	Capital and Non-capital Assets	The Mayor should initiate the approval of internal rules for asset management to clarify each activity related to asset management. The Mayor should also ensure that all municipal assets (including capital and non-capital assets) are recorded in the registers, and are disclosed correctly in the AFS, in accordance with legal requirements.
8	Receivables	The Mayor, in co-operation with the CFO, should ensure accurate records of A/R from the relevant directorates by reporting on a regular basis on their situation. These receivables should be followed up with special care over the years. The issue of payment of old debts of former Socially Owned Enterprises should find an appropriate form of their execution/collection based on the agreements concluded with taxpayers.
9	Outstanding liabilities	The Mayor should ensure that all outstanding/remaining liabilities at the end of the year are reported correctly in the AFS
10	Internal Audit Function	The Mayor should ensure that the required positions will be budgeted in a timely manner and that the IAU will be staffed with sufficient staff in accordance with the regulations in force

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

Annex I: Explanation of the Different Types of Opinion Applied by NAO

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

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 judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, and provided this is not prohibited by law or regulation, this should be done in a paragraph with the heading "Other Matter," or another appropriate heading. This paragraph should appear immediately after the opinion and any Emphasis of Matter paragraph.

Annex II: Confirmation Letter

				REPUBLIKA E KOSOVES REPUBLIKA KOSOVA KOMUNA E KAÇANIKUT OPSTINA KAÇANIK					
		Data: 21.07.20	Vendi: KAÇANIK	<table border="1"> <tr> <td>M. org.</td> <td>Numi</td> <td>Shtetçi</td> </tr> <tr> <td>01</td> <td>170/03-16412</td> <td>✓</td> </tr> </table>		M. org.	Numi	Shtetçi	01
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01	170/03-16412	✓							

Komuna Kaçanik - Municipality of Kaçanik
Republika e Kosovës - Republic of Kosovo

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm për vitin 2019 dhe për implementimin e rekomandimeve

Për: Zyrën e Kombëtare të Auditimit;

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Komunës së Kaçanikut, për vitin 2019 (në tekstin e mëtejshëm "Raportit");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Z. Besim Ilazi 

Kryetar i Komunës së Kaçanikut,

Data: 21.korrik.2020, Kaçanik,