



REPUBLIKA E KOSOVËS / REPUBLIKA KOSOVA / REPUBLIC OF KOSOVA

**ZYRA KOMBËTARE E AUDITIMIT
NACIONALNA KANCELARIJA REVIZIJE**

NATIONAL AUDIT OFFICE

Document No: 22.30.1-2016-08

AUDIT REPORT
ON THE ANNUAL FINANCIAL REPORT OF THE MUNICIPALITY
OF MAMUSHA
FOR THE YEAR ENDED 31 DECEMBER 2016

Prishtina, June 2017

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control, which according to the Constitution and domestic laws, enjoys functional, financial and operational independence. The National Audit Office undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

Our Mission is to contribute to sound financial management in the public administration. We perform audits in line with internationally recognized public sector auditing standards and good European practices.

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.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Municipality of Mamusha in consultation with the Assistant Auditor General, Qerkin Morina, who supervised the audit.

The opinion and report issued are a result of the audit carried out by Lavdim Maxhuni (Team Leader) Ernes Beka and Fetah Osmani (Team Member) under the management of the Audit Director Florim Beqiri.

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Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2016 Annual Financial Report of the Municipality of Mamusha, which determines the Opinion given by the Auditor General. The examination of the 2016 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions. Our approach included such tests and procedures, as we deemed necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in our External Audit Plan¹ dated 06.12.2016.

Our audit focus (detailed in Annex 1) has been on:



The level of work undertaken by the National Audit Office to complete the 2016 audit is a direct reflection of the quality of internal controls implemented by the Management of the Municipality.

Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

In our opinion, The Annual Financial Statements *present a true and fair view* in all material aspects.

Emphasis of Matter

As emphasis of matter, we would like to draw your attention to the fact that none of assets of the Municipality were recorded in the KFMIS and were not presented in the AFS. In addition, the Municipality had misclassified expenditures as out of the category of Goods and Services had paid for Subsidies and Transfers €9,000.

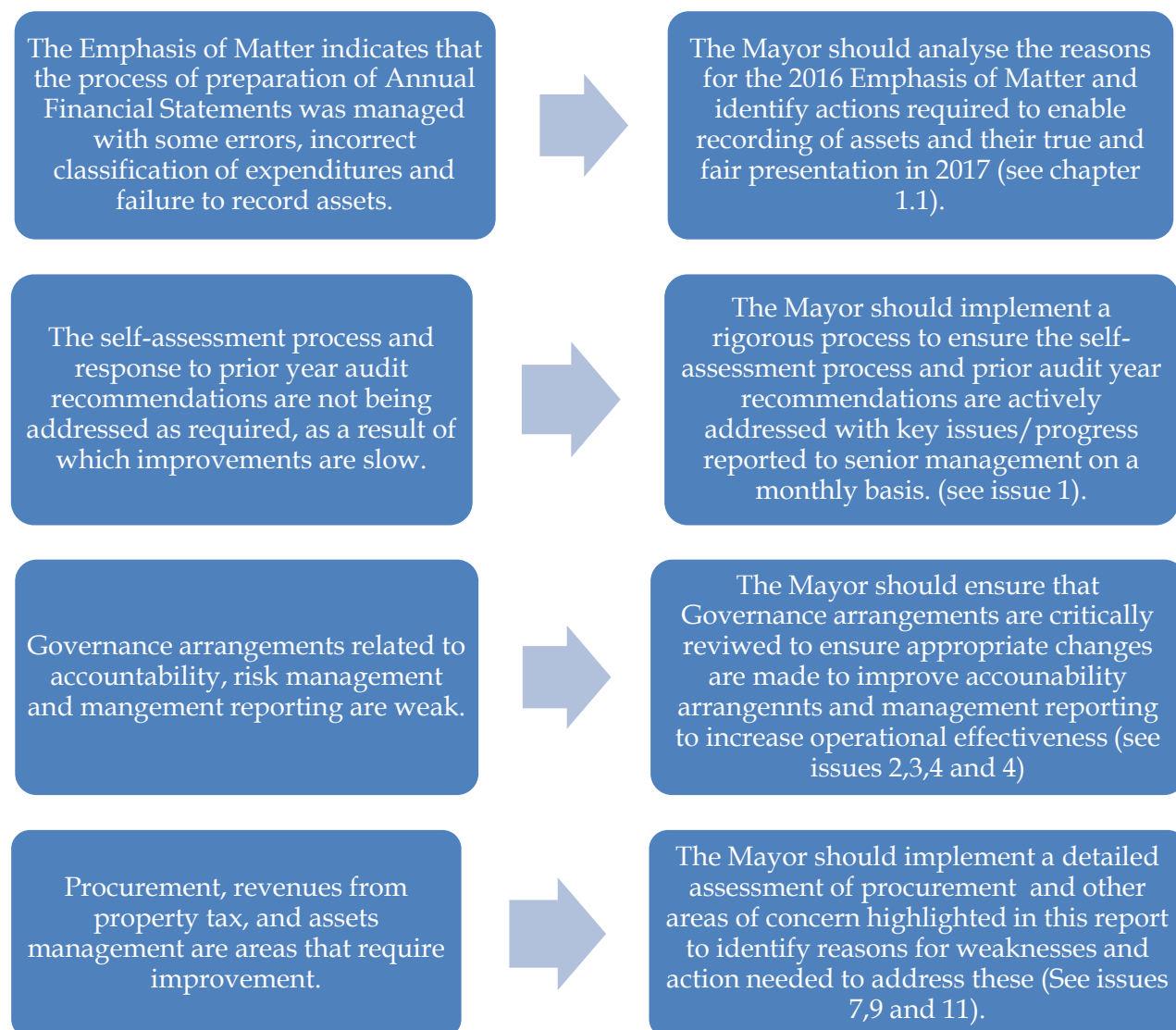
For more, please refer to Section 1.1 of this report.

Annex II explains the different types of Opinions applied by the National Audit Office.

¹ The term External Audit Plan replaces the term Audit Planning Memorandum

We would like to thank the Mayor and his staff for the cooperation during the audit process.

Our main conclusions and recommendations are:



Management's response to 2016 audit

The Mayor considered and agreed with all audit findings and committed himself to address recommendations given.

We take it for granted the fact that the Mayor:

- Table the Audit Report for discussion in the Local Assembly; and
- During January/February 2018 initiate a discussion in the Local Assembly regarding the implementation of the Action Plan on audit recommendations, before AFS 2017 are submitted to Ministry of Finance.

1 Annual Financial Statements and other External Reporting Obligations

Introduction

Our review of the Annual Financial Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information recorded in the AFS. We also consider the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance.

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

1.1 Audit Opinion

Unmodified Opinion with Emphasis of Matter

We have audited the AFS of the Municipality of Mamusha for the year ended on 31st of December 2016, which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement and the Explanatory Notes of the Financial Statements.

In our opinion, the Annual Financial Statements for the year ended on 31st of December 2016 present a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (cash based Accounting), Law no.03/L-048 on Public Finance Management and Accountability (as amended and supplemented) and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations issued by the Ministry of Finance.

Basis for the opinion

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

Emphasis of Matter

We would like to draw your attention to the fact that none of assets of the Municipality were recorded in the KFMIS and were not presented in the AFS.

In addition, the Municipality had misclassified expenditures as out of the category of Goods and Services had paid for Subsidies and Transfers €9,000. These misclassifications related to payments to maternity leave mothers that are residents of Mamusha.

Responsibility of Management and Those Charged with Governance and AFS

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

The Mayor 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. We conducted our audit in accordance with ISSAIs. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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

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

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

1.2 Compliance with AFS and other reporting requirements

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

- Compliance with MoF Regulation no. 01/2017 on the Annual Financial Reporting of Budget Organisations;
- Requirements of LPFMA no. 03/L-048, as amended and supplemented with Law no.03/L-221, Law no. 04/L-116 and Law no. 04/L-194;
- Compliance with Financial Rule no.01/2013;
- Compliance with Financial Rule no.02/2013;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures;
- Nine month financial statements and
- Draft and final procurement plan on time.

When it comes to above mentioned requirements, the Municipality had handled them in accordance with reporting framework.

A number of financial adjustments were required to the draft AFS and we have given some suggestions on their improvement, as follows:

- Article 14 - Budget execution report - cash outflow from the Treasury account - Direct payments of €22,648 were incorrectly presented as this amount did not go through STA;
- Article 19 - Report on non-financial assets - the Municipality had not presented any value of capital and non-capital assets.

The Municipality has considered our suggestions and the abovementioned errors have been corrected, with the exception of issues on assets and misclassification for which issues we have emphasised the opinion. For more, see subchapter 1.1 Audit Opinion.

DECLARATION BY MANAGEMENT

Given the above - the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance can be considered to be correct given that were not identified material errors except for issues identified in the audit opinion, which we considered to be immaterial.

1.3 Recommendations for the first part of the report

Recommendation 1 The Mayor should ensure that an analysis is undertaken to determine the causes of the emphasis of matter. Actions should be taken to address the causes in a systematic and pragmatic matter in order to eliminate errors in classification of expenditures and to ensure that all assets owned by the Municipality are recorded and presented in the AFS.

2 Governance

Introduction

Effective governance arrangements are fundamental to Municipality for successfully managing the challenges it faces and ensuring that service delivery is optimised for the benefit of taxpayers and other service users.

A key tool supporting effective Governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. Similarly, the self-assessment checklist completed by all Budget Organisations provides a framework for developing enhanced Governance arrangements. It is important that the answers provided by an individual budget organisation are supported by appropriate evidence.

The remainder of our review of governance arrangements reflects a consideration of:

- Those areas of Governance Arrangements where significant improvements are required and where we believe that our recommendations can generate positive improvements including consideration of the Internal Audit system; and
- Areas of Financial Management and Control identified through our audit work including specific work directed at compliance issues in key income and expenditure systems (these areas are considered in Section 3 of this report).

Overall Governance Conclusion

There is a number of governance weaknesses within Municipality particularly related to accountability, risk management and the quality of management reporting. The self-assessment checklist completed by Municipality only partially recognises this situation with some positive comments about existing arrangements not evidence based.

A key tool that supports effective governance is implementation of audit recommendations. The Municipality has not managed to implement previous year's recommendations to a sufficient degree, as only one out of 13 was fully implemented.

The Municipality had not drafted a strategic plan and had not drafted the list of risks that the Municipality faces.

The budget for capital investments was spent only 76%. Such low level of budget spending for capital investments is unreasonable as Municipality had sufficient budget from own source revenues (€96,055), which it did not spend in 2016, but were carried forward in 2017.

In terms of compliance with legislation, our audit has revealed existence of some weaknesses that resulted due to non-implementation of regulations that mainly include procurement of goods and services, assets management, revenues and management of outstanding liabilities.

2.1 Progress in the Implementation of Prior Year Recommendations

Our audit report on 2015 AFS resulted in 13 recommendations, 10 of which were of high priority and three of medium priority. The Management had prepared an Action Plan showing how all recommendations will be implemented.

Last year's audit report was not discussed at the municipal assembly.

By the end of our audit for 2016, one recommendation with high priority was implemented, four are in the process of implementation (three of high priority and one of medium priority), and eight recommendations were not implemented (six of high priority and two medium priority). For a more thorough description of recommendations and how they are addressed, see Annex III.

Issue 1 - Addressing Prior Year Audit Recommendations - High Priority

Finding Based on the description above, we see that prior year recommendations were not addressed with the appropriate attention, and as a result, nearly 2/3 of recommendations were not implemented. This has taken place, as the Municipality has not followed any formal processes to manage and monitor the manner in which Auditor General's recommendations are implemented. As such, in this audit report issues were raised again in order to improve certain activities.

Risk The continued weaknesses of management and other controls in key financial systems such as assets management, revenues, good governance, have resulted in:

- Inadequate governance which reduces management's ability to take timely actions against financial challenges that can potentially result in financial losses;
- Insufficient controls over revenues from property tax; and
- Inadequate management of petty cash.

Recommendation 2 The Mayor should establish and implement specific accountability mechanisms over all persons that are in charge of implementation of recommendations. After receiving this report, we suggest preparation of an updated action plan on implementation of this year's, and prior year's recommendations, wherein are clearly defined timeframes, actions and persons responsible for implementation of this plan. A monitoring process should also be implemented.

2.2 Self-Assessment Checklist of FMC components

The Ministry of Finance has produced a detailed self-assessment checklist for Budget Organisations to support effective governance arrangements. We have tested the quality of FMC self-assessment submissions made to the Ministry by assessing one key question in each component of the checklist. This is not intended to give a commentary on the quality of the whole self-assessment questionnaire submission but will provide a ‘snapshot’ across a number of key questions to support the Ministry of Finance in its attempts to increase the effectiveness of the process and develop the FMC system as a whole.

Issue 2 - Self Assessment Checklist - High Priority

| | |
|-------------------------|--|
| Finding | <p>As part of our audit we have considered key questions related to the five components of the self-assessment checklist. For the questions considered we found that:</p> <ol style="list-style-type: none">1. The completed self-assessment questionnaire has proved that the Municipality has not yet established formal and documented identification procedures and risk management at the level of organisation that would mitigate exposure to risks associated with achievement of objectives;2. The Municipality does not have a Comprehensive Strategy on Local Development. For more refer to subchapter 2.3.1;3. We have reviewed managerial reporting done by directorates to the Mayor, this was handled in more detailed in chapter 2.3.2; and4. The progress related to monitoring of objectives is not monitored regularly and as a result the causes for possible failures are not analysed. |
| Risk | <p>Poor governance arrangements weaken strategic and operational processes and reduce the quality of services provided to citizens through inefficient and ineffective activities.</p> |
| Recommendation 3 | <p>The Mayor should ensure that completion of self-assessment checklist is reviewed, and address areas of weaknesses in a proactive manner, and should be applied a mechanism that confirms accuracy of the checklist and ensures supporting documentation. Internal audit should be included as part of quality review.</p> |

2.3 Specific Governance Reviews

Our work on specific areas of governance arrangements has been informed by our audit planning which considered the context within which Municipality operates and the challenges that it faces.

2.3.1 Setting of Strategic Objectives

All budget organisations in municipalities are obliged to prepare and submit organisation level strategic plans such as: Urban Plans, Spatial Plans, Emergency Operations Plans, Anti-Corruption Strategic Plans, and Regional Development Strategy etc. The Municipality has some plans at the level of directorates such as: Municipal Development Plan 2014-2023, urban plan, local environment plan for the Municipality of Mamusha 2014-2019.

Issue 3 – Lack of Comprehensive Strategic Development Plan - High Priority

Finding The Municipality does not have a comprehensive strategic plan with long-term objectives wherein would be described clearly the Vision and Mission which presents orientation and goals of the Municipality in a medium-term development period. In addition, Municipality has not drafted the anti-corruption strategy, emergency operation plan etc.

Risk Due to lack of a comprehensive strategic plan are risked priorities of key issues that relate to orientation and development of the Municipality in the long-term. The uncertainty over implementation of the strategy makes it impossible to follow-up fulfilment of objectives (from the perspective of Municipality's vision) as one of the essential conditions of good governance.

Recommendation 4 The Mayor should approve an overall strategic plan for the Municipality including the cost of the strategy, establish long-term objectives, and serves as an orientation platform for drafting annual plans. Afterwards, should draft an action plan to monitor achievement of objectives, by establishing effective oversight functions.

2.3.2 Management Reporting and Accountability

A range of internal controls was applied by Management to ensure that financial systems and operational activities operate as intended. It is important that these include appropriate reporting to management to enable an effective and timely response to identified operational problems.

Issue 4 - Weaknesses in Management Controls - Medium Priority

Finding Our review of the management controls applied to Municipality's key financial system highlighted poor quality financial reporting of expenditure and revenue to senior management and an incomplete analysis of service delivery. This is because the format of management reports does not provide explanations for variances against budget and budget forecasts are not updated on a monthly basis. Similarly, operational targets are not systematically managed.

Risk Poor quality of financial and activity reporting to senior management has reduced the management's ability to proactively manage the operations of Municipality and undermines effective budgetary control. This can result in unplanned over or under spending and delay necessary actions to address these.

Recommendation 5 The Mayor should ensure that is carried out a review in order to determine the format of financial reporting to senior management, which is required to support effective business management - and to ensure that an appropriate solution is in place for this.

2.4 Internal Audit System

The Municipality has not established an Internal Audit Unit (IAU) as required under the Administrative Instruction no. 23/2009 on Establishment and Functioning of the Internal Audit Units in the Public Sector. This AI stipulates that the public entity with a budget of 1-3 million should have an internal auditor.

Issue 5 - Lack of Internal Audit - High Priority

Finding Even though it was prior year's recommendation, the Municipality had not attempted to obtain internal audit services from another budget organisation or seek support from the Ministry of Finance.

Risk Due to lack of internal audit can result in continued repetition of weaknesses in key internal control systems. Moreover, the management may not identify and respond timely to irregularities and control weaknesses.

Recommendation 6 The Mayor should ensure fulfilment of legal requirement, namely recruitment of an internal auditor. If this requirement cannot be met, then the internal audit service should be provided by the Ministry of Finance or by cooperating with another municipality.

3 Financial Management and Control

Introduction

Our work on Financial Management and Control outside of the areas of Governance referred to in Chapter 2, reflects the detailed work undertaken on Revenue and Expenditure Systems. As part of this, we consider Budget management, Procurement and Human Resources issues, and Assets and Liabilities.

Financial Management and Control Conclusion

Expenditures for the Municipality remain an area where controls are not being implemented at the expected level due to which can result in poor value for money and use of petty cash in disagreement with applicable rules. Other areas where more improvements are needed are revenues from property tax, business fees, budget planning and execution, assets management, and management of outstanding liabilities.

3.1 Budget Planning and Execution

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

Table 1. Own Source Revenues

| Description | Initial Budget | Final Budget | 2016 Receipts | 2015 Receipts | 2014 Receipts |
|---------------------|----------------|--------------|---------------|---------------|---------------|
| Own Source Revenues | 64,900 | 64,900 | 56,243 | 52,763 | 62,498 |

Out of planned own source revenues the Municipality had managed to collect only 87%. Part of the total of own source revenues are also revenues from traffic fines (4,661) court fines (470). However, these revenues were not spent in 2016. If we add to collected and unspent revenues (€56,243), the revenues carried forward from 2015 (€39,815), then the total of revenues to be carried forward in 2017 is €96,058.

Table 2. Sources of budgetary Funds (in €)

| Description | Initial Budget | Final Budget ² | 2016 Outturn | 2015 Outturn | 2014 Outturn |
|---|------------------|---------------------------|------------------|------------------|------------------|
| Sources of Funds | 1,473,046 | 1,562,021 | 1,440,614 | 1,359,737 | 1,301,902 |
| Government Grant -Budget | 1,408,146 | 1,429,251 | 1,412,667 | 1,285,758 | 1,264,363 |
| Carried forward from previous year ³ - | 0 | 66,557 | 26,742 | 59,900 | 0 |
| Own Source Revenues ⁴ | 64,900 | 64,900 | 0 | 1,300 | 17,987 |
| Domestic Donations | 0 | 0 | 0 | 5,600 | 5,150 |
| External Donations | 0 | 1,313 | 1,205 | 7,179 | 14,402 |

The final budget is higher than the initial budget by €88,975. This increase relates to Revenues carried forward from the previous year in the amount of €66,557, Government Grant in the amount of €21,105, and External Donations in the amount of €1,313.

Municipality in 2016 used 92% of the final budget. A similar spending degree was also last year. From this we can conclude that overall budget spending was quite significant.

Table 3. Spending of funds by economic categories - (in €)

| Description | Initial Budget | Final Budget | 2016 Outturn | 2015 Outturn | 2014 Outturn |
|---|------------------|------------------|------------------|------------------|------------------|
| Spending of funds by economic categories | 1,473,046 | 1,562,021 | 1,440,614 | 1,359,737 | 1,301,902 |
| Wages and Salaries | 825,709 | 870,709 | 856,690 | 840,401 | 784,127 |
| Goods and Services | 197,534 | 230,187 | 227,852 | 100,327 | 114,566 |
| Utilities | 23,000 | 23,000 | 22,953 | 22,943 | 21,289 |
| Subsidies and Transfers | 2,466 | 2,466 | 2,400 | 3,000 | 2,976 |
| Capital Investments | 424,337 | 435,659 | 330,719 | 393,066 | 378,944 |

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 budget.

Issue 6 – Budget Execution – High Priority

Finding The budget for capital investments was spent at 76%, which is relatively low. Such low level of spending of capital investments budget is unreasonable due to the fact that Municipality had sufficient budget from own source revenues (€96,055), which were not spent in 2016 but were carried forward to be spent in 2017.

Risk Ineffective use of funds available for implementation of capital projects can result in a reduced number of projects and in failure to meet organization’s objectives in the area of investment.

Recommendation 7 The Mayor should ensure that budget performance is systematically monitored on a monthly basis and that this review identifies and addresses barriers to planned levels of budget execution in the category of capital investment. Where initial budget assumptions are found to be incorrect this should be fully reflected in the final budget position.

3.1.1 Revenues

Revenues generated by Municipality in 2016 totalled €56,243, which are mainly from property tax, administrative tax revenues, etc.

Issue 7 - Property Tax - High Priority

Finding The Municipality had not managed to verify 1/3 of immovable property as required under the Law No.03/L-204 on Taxes on Immovable Property and the applicable Administrative Instruction. Out of 1059 properties, the Municipality up to now has managed to verify only 48. We have notice that the Municipality has not managed to update the system with data, as it was missing field surveying officers that verify properties.

According to Article 9 of the Law on Taxes on Immovable Property, “Every natural person who, on or before 1 March of a tax period, establishes that the property or residential unit serves as his or her principal residence shall be allowed a deduction of ten thousand (10,000) Euro from the taxable value of the property. We have identified seven cases where the Municipality had not acted in accordance with the Law as there were taxpayers who owned two or more properties registered as main residence and for each property was applied a deduction of €10,000 from the taxable value of the property.

Risk Failure to verify 1/3 of the properties can result in incomplete information on the current taxable property, with a potential impact that estimated property tax revenues will decrease.

Failure to apply charges in accordance with legal requirements on property tax poses a risk of revenues being lower in this category.

Recommendation 8 The Mayor should ensure that verification of municipal property should be done as foreseen under the Law, so that the database integrates all potential changes to the property that are valid for the taxable base. In addition, more actions should be taken to ensure that deductions by €10,000 are applied in accordance with Article 9 of the Law on Taxes on Immovable Property.

Issue 8 - Revenues from municipal business fee – Medium priority

Finding The Municipality for 2016 from business fees had planned to collect €10,510, while it collected €3,090. We have tested seven samples and noticed that businesses do not fulfil obligations in line with the decision sent by the Municipality. The debt from tested samples was €12,323. The management of the Municipality had not taken adequate measures to obligate debtors to meet the obligations to the Municipality.

Risk Collection policies seem to be weak to ensure maximisation of revenues. Delays in collection of revenues lead to failures in management's decision-making to finance foreseen projects.

Recommendation 9 The Mayor should ensure that measures are taken through effective mechanisms to collect arrears in order to increase revenue collection and the basis for financing the foreseen projects.

3.1.2 Wages and Salaries

The planned budget for the category of Wages and Salaries was €870,709, while were spent €856,690 or 98%.

We have tested the compliance of payroll lists, recruitments, dismissals, maternity leaves, pensions and payments to municipal members. We also reviewed whether the employees have been paid under contracts. From our tested samples, we have not noticed any issues that need reporting.

Recommendations

We have no recommendations in this area or.

3.1.3 Goods and Services and Utilities

The final budget for Goods and Services and Utilities was €4,148,366, while were spent €3,570,677. These expenses relate to fuel, office and medical supplies, contracted costs, maintenance of schools and buildings, and vehicle repairs.

Issue 9 – Supplies outside the contract and weaknesses in management of petty cash - High priority

Finding While reviewing samples in two payments for the contract “Medical Supplies” we have noticed that the Municipality had been supplied with items not specified in the contract. Out of 39 items supplied, 13 were not specified in the contract. The value of items supplied outside the contracts was €875.

We have noticed that the Municipality had carried out a payment through petty cash in the amount of €500 for transport expenses in disagreement with legal requirements. Article 29, Paragraph 6 of Rule 01/2013 on Spending of Public money stipulates, “petty cash can be spent on goods or services with a total combined value of not more than 100 euros”.

In addition, payments were carried out of the petty cash fund in disagreement with Rule 01/2013, such as: maintenance of buildings €2,215, maintenance of local roads €1,299, printing services €911, clothing supplies €741, maintenance of schools €759, maintenance and repair of vehicles €476, which expenditures could have been incurred through a regular spending process.

Risk Supplying with items outside the contract exposes the Municipality before risk as it may pay higher prices than provided by competition, and damages the municipal budget. Using petty cash outside the quotas foreseen under the Rule on Spending of Public Money poses a risk as petty cash may not to be used for the purposes intended.

Recommendation 10 The Mayor should particularly strengthen controls over certification in order to prevent all payments related to items supplied outside the contract, and to establish controls to ensure that petty cash is spent in line with requirements of Rule 01/2013.

3.1.4 Subsidies and Transfers

The final budget of Subsidies and Transfers was €2,466, out of which were spent €2,400.

Issue 10 – Lack of regulation on subsidies

Finding In the last year's report, the Municipality was recommended to draft an internal regulation on award of subsidies and transfers, but the Municipality did not draft such regulation yet. Due to lack of regulation, subsidies were awarded based on Municipal Assembly decisions, while all subsidies were awarded to maternity leave mothers.

Risk The lack of internal regulation on award of subsidies creates uncertainty when defining the criteria for beneficiaries of subsidies. This poses a risk as subsidies may not be awarded to the people in need, and thus objectives not achieved.

Recommendation 11 The Mayor should draft a regulation, which clearly specifies the criteria and procedures for subsidies, and approved by the Municipal Assembly.

3.1.5 Capital Investments

The final budget of Capital Investments was €435,659, out of which in 2016 were spent €330,719, or 76%. Those relate to construction of roads, asphaltting and repair of roads, construction of heroes' memorial etc.

From samples tested, we have not found any issues that need to be raised in the report.

Recommendations

We have no recommendations in this area or.

3.2 Assets

3.2.1 Capital and Non Capital Assets

Management of assets in the Municipality continues to remain a challenge. The Municipality has not recorded assets over €1,000 in the KFMIS and assets under €1,000 in the e-Assets system.

Issue 11 – Assets not recorded - High priority

Finding The Municipality had appointed an Assets Officer in 2015, but he had not started yet to record assets over €1,000 in KFMIS. In addition, purchase of assets under €1,000, and stocks are not recorded in the e-Assets system. Therefore, the Municipality does not have a register of assets it owns.

Risk Failure to record assets in the accounting register makes assets management and proper use of assets difficult, and makes it difficult to identify assets that confirm their existence. Due to lack of evidence, there is a potential risk that assets will be misused, even lost and alienated without being noticed by the management.

Recommendation 12 The Mayor should undertake immediate action and begin the process of recording all assets and stocks, and to establish a complete and reliable assets register.

3.2.2 Receivables

At the end of 2016, the Municipality has reported receivables in the amount of €118,000, out of which €84,000 are from property tax, and the amount of €33,000 are from business fees. If we compare it with 2015 when receivables were €217,000, there is a decrease of these accounts which resulted due to the decision taken by the Municipal Assembly on 29.03.2016 to relieve from taxes all passive businesses in the Municipality of Mamusha.

We have no recommendations in this area.

3.3 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2016 was €55,385. These liabilities are carried forward to be paid in 2017.

Issue 12 - Increase of outstanding liabilities - Medium Priority

Finding We have analysed outstanding liabilities, and from this, we can conclude that liabilities have increased from year to year. In 2016 liabilities had increased by 81% (€55,385) compared to 2015 (€30,569). It is incomprehensible the fact that remaining liabilities at the end of the year solely in the category of Capital Investments were €46,452, while the surplus from own source revenues was €96,058.

Risk Failure to pay liabilities on time can expose the Municipality to financial difficulties, and presents a challenge for the following year, as last year's liabilities have to be paid, while current year liabilities are not met.

Recommendation 13 The Mayor should critically review outstanding liabilities in order to determine necessary measures to address issues identified, and to make payments within the timeframes established under financial rules.

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

ANNEX I: Audit Approach and Methodology

The responsibilities placed on the Auditor and Those Charged with Governance are detailed in the Opinion set out in Section 1.1 of this report.

While a key output of our work is the audit opinion this report reflects the totality of our work with specific focus also on Governance Issues including Financial Management and Control. The latter is informed by our extensive, risk based, compliance audit programme.

The Executive Summary is intended to highlight the key finding of the audit and the key action that the Mayor should ensure are taken to address identified management/control weaknesses.

The detailed report provides an extensive summary of our audit finding with emphasis on determining the cause audit findings and providing appropriate recommendations to address these. For completeness we have included issues identified at the interim audit where they remain relevant. Our findings are defined as:

High Priority - issues which if not addressed may result in a material weakness in internal control and where action will offer the potential for improvements to the efficiency and effectiveness of internal controls; and

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

Findings considered low priority were reported separately to finance staff.

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

Annex II: Explanation of 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 III: The progress in implementation of Prior Year Recommendations

| Audit Component | Recommendation given | Implemented | Under implementation | Not implemented |
|-----------------------------------|---|-------------|----------------------|-----------------|
| 1.5 Recommendations | The Mayor should ensure that an analysis is undertaken to determine the causes behind incorrect recording of expenditures in adequate categories. It is necessary to undertake appropriate actions in order to address the causes that led to Emphasis of Matter, and to ensure recording of assets in the KFMIS. | | | No |
| 2.3 Prior Year Recommendations | The Mayor should ensure implementation of the Action Plan, which clearly sets out a timetable for the implementation of AG's recommendations, with accountable staff members identified, and with initial focus on those of greatest significance. | | | No |
| 2.4 FMC Self-Assessment Checklist | The Mayor should ensure that the requirement for completing the self-assessment questionnaire is fulfilled, and that areas with weaknesses are addressed proactively and systematically. | Yes | | |

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| 2.5.1 Risk assessment | The Mayor should adopt a general risk management strategy as soon as possible, wherein will be clearly defined management's approach to risks. Besides identifying risk at operational and strategic level, the management should develop an action plan wherein are defined action measures to prevent and manage potential risks. | | | No |
| 2.5.2 Management Reporting | The Mayor should ensure that is carried out a review to determine the form of financial and operational reporting to senior management, which is required to support effective business management and to ensure that an appropriate solution is adopted by the end of 2016. | | | No |
| 2.6 Internal Audit System | The Mayor should ensure fulfilment of requirements in the AI no.23/2009, namely to recruit an internal auditor. If this requirement cannot be fulfilled then the internal audit service is provided by the Ministry of Finance, or from another municipality. The Audit Service will support management's decision-making and elimination of weaknesses. | | | No |
| 3.2 Financial Management and Control Conclusion | The Mayor should ensure that budget performance is systematically monitored and that barriers to planned levels of budget execution are identified and addressed. Where estimations of the initial budget are inaccurate, this should be reflected in the position of the final budget. | | | No |

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| 3.3 Procurement | The Mayor should ensure that identified cases are reviewed in order to find the causes of occurrence and take appropriate measures to avoid them in the future. He should particularly enhance accountability of responsible persons, requesting units, procurement officers and contract managers. Consequently, additional controls are needed to ensure that accurate records are held on the services delivered by the Operators. | | This recommendation was Partially addressed, there were no cases where the goods were accepted in contradiction with quantity and cost estimates but still has lack the controls because there are positions that were accepted even though they were not in the basic contract. | |
| 3.3.1 Remunerations (Wages and Salaries) | The Mayor should ensure that contracts are signed based on clear criteria and based on Labour Law. Personnel officials should complete evidence on work experience to create a legal basis to give the allowance based on work experience. | | This recommendation was partially addressed, there are still cases where contracts for specific services are signed in contradiction with the legal requirements, we have not identified any issues to raise in this report in relation to health and education workers. | |

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| 3.3.2 Subsidies and Transfers | The Mayor should draft a regulation to be approved in Assembly, which clearly specifies the criteria and subsidising procedures. | | | No |
| 3.4 Revenues (including own source revenues) | The Mayor should ensure that in the planning phase of the annual budget data from previous years and the current situation is used so that planning is as realistic as possible. In addition, current controls applied over the collection of revenues should be monitored and the possibility of fraud be avoided. The cash collected should be deposited to the bank within the deadlines as foreseen in the Instruction. | | This recommendation was partially addressed, there were no cases when the depositing of funds in the bank has been delayed, but further on business taxes there are high debts that the municipality has not created adequate mechanisms to collect | |
| 3.5.1 Assets and Liabilities | The Mayor should undertake actions and start immediately with assets recording, management of non-financial assets and apply in full the requirements that relate to their recording and maintenance. | | | No |
| 3.5.2 Handling of Receivables | The Mayor should review the situation of these accounts, analyse the reasons behind accumulation of these amounts and take effective actions to maximize the collection level. The process of systematic monitoring of policies on increase of collections should also be part of the regular management | | This recommendation was partially addressed, the municipality has taken a decision in the municipal assembly to | |

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| | reviews. | | write off debts of all businesses that are passive in the municipality, but still there is lack of adequate policies to collect it's accounts receivable | |
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Annex IV: Letter of confirmation

[Put the Municipality's logo]

LETTER OF CONFIRMATION

For having agreed on the Auditor General's findings of 2016 and implementation of recommendations:

To: National Audit Office

Venue and date:

Honoured,

We hereby confirm that:

- We have received the draft audit report of the National Audit Office on the 2016 Annual Financial Statements of the Municipality of Mamusha, hereinafter referred to as the Report;
- Agree on the findings and recommendations and I have no comment on the content of the Report; and
- Within 30 days from receiving the final report, I will submit the action plan on implementation of recommendations including the deadlines and responsible staff for their implementation.

Mayor:



Republika e Kosovës – Kosova Cumhuriyeti

Republika Kosova – Republic of Kosovo



Mamuşa Belediyesi – Komuna e Mamushës

Opština Mamuša – Municipality Of Mamusa

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm për vitin 2016 dhe për implementimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Vendi: Prishtinë

Datë: 10.05.2017

I nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për Auditimin e Pasqyrave Financiare të Komunës së Mamushës, për vitin 2016 (në tekstin e mëtejshëm “Raporti”);
- 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.

Arif Bütuç, Kryetar i Komunës së Mamushës

