



**REPUBLIC OF KOSOVA  
OFFICE OF THE AUDITOR GENERAL**

**Document no: 22.30.1-2015-08**

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

**Prishtina, June 2016**

The Auditor General 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 Office of the Auditor General undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

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

The reports produced by the Office of the Auditor General directly promote accountability as they provide a base for holding managers' of individual budget organisations to account. 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 and report on the Annual Financial Statements of the Municipality 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 under the management of the Audit Director, Astrit Bllaca, supported by Kapllan Muhaxheri (Team Leader) Enver Ramadani and Mexhit Ferati.

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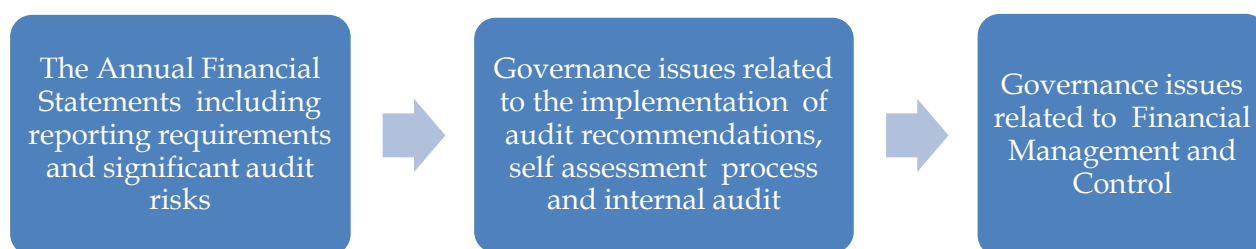
## Executive Summary

### Introduction

This report summarises the key findings from our audit of the 2015 Annual Financial Statements of Mamusha Municipality, which determine the Opinion given by the Auditor General. We would like to thank the Mayor and his team for their assistance during the audit process.

The examination of the 2015 annual financial statements was undertaken in accordance with the internationally recognised Public Sector auditing standards (ISSAIs). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The approach taken is set out in our Audit Planning Memorandum dated 05.11.2015.

Our audit focus has been on:



For more details, see Annex I of this report.

The level of work undertaken by the Office of the Auditor General to complete the 2015 audit is determined from the quality of internal controls implemented by the Management.

### Opinion

Annex II explains the different types of Opinions applied by the Office of the Auditor General.

The Auditor General's opinion is:

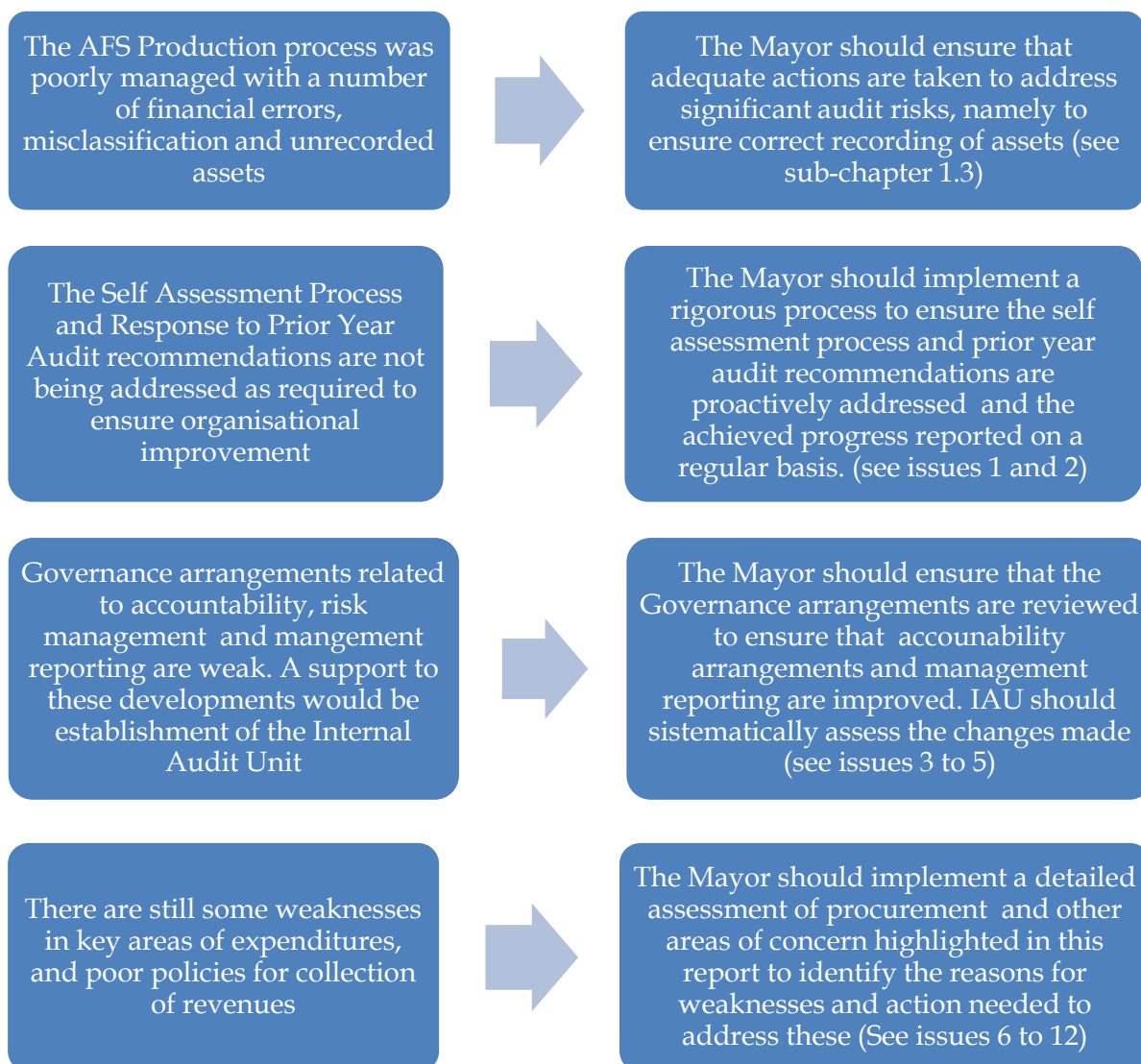
Unmodified Opinion with Emphasis of Matter because our audit has identified missclassifications in the AFS accounts in a total amount of €44,000. Moreover, municipality's assets were not recorded in KFMIS.

A complete opinion has been detailed in Section 1.2 of this report

## Overall Conclusion

The internal control system established by the municipality is effectively operating in some areas, but there are weaknesses in some important governance areas.

Our key conclusions and recommendations are:



## Management response – audit 2015

The Mayor has taken into consideration and agreed on the audit findings and conclusions in this report and committed to address the recommendations given.

We take it for granted that the Mayor:

- Will discuss the audit report in the Municipal Assembly; and
- By the end of January 2017, will also discuss the progress made on the implementation of the Action Plan on audit recommendations in the Municipal Assembly, before the AFS 2016 are submitted to the Ministry of Finance

# 1 Annual Financial Statements and other External Reporting Obligations

## 1.1 Introduction

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

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

## 1.2 Audit Opinion

TO: MUNICIPALITY OF MAMUSHA

### **UNMODIFIED OPINION WITH EMPHASIS OF MATTER**

We have audited the Annual Financial Statements of the Municipality of Mamusha for the year ended on 31.12.2015, which comprise of the Statement of Receipts and Payments in Cash, the Consolidated Statement of Comparison of Budget and Actual Amounts, Explanatory Notes in the AFS and Disclosures.

In our opinion, the Annual Financial Statements present a true and fair view in all material aspects of receipts, payments and executed budget of the Municipality of Mamusha for the year ended on 31.12.2015 in compliance 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 Financial Rule no.03/2013 on the AFS of Budget Organisations issued by the Ministry of Finance

### **Basis for the Opinion**

We conducted an 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 Annual Financial Statements section of our report. OAG is independent of the municipality in accordance with the ethical requirements that are relevant to our audit of the annual financial statements of budget organisations in Kosovo and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.

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### **Emphasis of Matter**

The Municipality has made a misclassification of expenditures in a total amount of €44,000. Payments for Goods and Services were made from the Investments category for the Tomato Festival, security of municipality's buildings, road cleaning, waste collection and some other payments, which none of them contains any element of investment. The main reason behind this is the limited budget for goods and services where the municipality could not cover the expenditures with.

It is worth mentioning that the amount of €38,000 was approved with budget tables of 2015 Budget as capital investments, but the tabled projects do not meet the criteria to be treated as capital projects and errors relate to initial planning by the municipality and inadequate approvals by MoF.

Moreover, we draw your attention to the fact that the municipality's assets were not recorded in KFMIS. Our opinion is not modified in respect of these matters.

### **Responsibility of Management and Those Charged with Governance for the Annual Financial Statements**

The Mayor and Chief Financial Officer are responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Modified Cash basis of 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 and Chief Financial Officer are responsible for overseeing the municipality's financial reporting process.

### **Auditor's Responsibility for the Audit of the Financial Statements**

Our responsibility is to express an opinion on the annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error. 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 reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



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

### 1.3 Significant Risks to AFS

#### **Description**

Our Audit Planning Memorandum dated 05.11.2015 identified three significant risks to the AFS. These are risks of material misstatement which may result in modification of the opinion or in an Emphasis of Matter. Two of them related to the classification of expenditures and recording of assets have materialised because no actions were taken by the Management to address these risks.

Out of the category of Investments were carried out payments for goods and services in the amount of €44,000, for the tomato festival, securing municipality premises, streets cleaning, waste collection and some other payments, while none of their elements met such condition.

The Municipality does not have any assets recorded in the KFMIS.

The third significant risk that relates to presentation of third party payments has not materialised because the management has taken appropriate action regarding the proper handling of these payments.

## 1.4 Compliance with AFS and other reporting requirements

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

- Compliance with Financial Rule no.03/2013;
- Requirements of LPFMA no. 03/ L-048 as amended and supplemented;
- Budget requests;
- Whether the AFS have been signed by the CFO and the Mayor;
- Whether the AFS have been prepared in Albanian and Serbian;
- Submission of regular quarterly reports to the Municipal Assembly; and
- Draft and final Procurement plan on time.

In the context of the AFS we have identified that disclosures on assets were deficient, as their value in the AFS is zero.

Given the above, the Declaration made by the CAO and CFO when the draft AFS are submitted to the Government can be considered to be incorrect because material errors have been identified during the audit, as well as other issues presented in the chapter 1.3.

## 1.5 Recommendations

**Recommendation 1 High Priority** – 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.

## 2 Governance

### 2.1 Introduction

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

A key tool supporting effective governance is the implementation of the 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 the municipality on the self-assessment are supported by appropriate evidence.

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

- areas of Governance arrangements where significant improvements are required and where we believe that our recommendations can generate positive improvements; 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)

### 2.2 Overall Governance Conclusion

There are a number of governance weaknesses in the municipality particularly that relate to accountability, risk management, and other arrangements that would support development of governance, such as an effective response to audit recommendations. Furthermore, the municipality did not complete the self-assessment checklist.

## 2.3 Prior Year Recommendations

Our Audit Report on the 2014 AFS of Mamusha Municipality resulted in 15 key recommendations. The Municipality prepared an Action Plan stating how all given recommendations will be addressed. At the end of our 2015 audit, two recommendations were implemented; six were addressed; and seven were not addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex III.

The Audit Report on 2014 was discussed in a Municipal Assembly session.

### Recommendations

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#### Issue 1 - Addressing Prior Year Audit Recommendations - High Priority

**Finding** Only a portion of prior year recommendation has been implemented because the municipality has not implemented any formal process to manage and monitor the way AG's recommendations are implemented.

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

- Failure to confirm the completeness of assets in the AFS by the management;
- Poor governance, which reduces management's possibility to respond timely to financial challenges, which can potentially result in financial losses; and
- Continuous organisational inefficiency and poor value for money in procurement practices.

**Recommendation 2** 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.

## 2.4 FMC Self-Assessment Checklist

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 checklist submitted to the Ministry.

### Recommendations

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#### Issue 2 - Self Assessment Checklist - High Priority

**Finding** The Municipality of Mamusha had not fulfilled its requirement of submitting the self-assessment questionnaire, and due to this, we were unable to review any of the key questions of the self-assessment questionnaire that related to certain components.

This situation has occurred due to lack of clarity within the municipality that has to do with the importance of this checklist and who is responsible for preparation and reviewing of this list.

**Risk** Not completing the self-assessment questionnaire is a failure to meet a statutory requirement, and does not enable disclosure of advantages and disadvantages of the financial management systems and controls and functioning of the municipality.

**Recommendation 3** 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.

## 2.5 Specific Governance Reviews

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

### 2.5.1 Risk assessment

All Budget Organisations are expected to implement risk assessment. The guidance set out in the FMC procedures requires the risk register to be in place to support effective operational and strategic management. This register identifies potential risks to which the municipality is exposed, their impact, likelihood of risk materialising and the level of risk.

#### Recommendation

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#### Issue 3 – Failure to Implement Risk Management Requirements – High Risk

**Finding** The Municipality does not have yet policies for assessment, identification, and risk setting through a register per priority or type. In addition, risk management is missing, which would cover activities included in planning, monitoring and control of actions that would address risks identified, in order to improve activities of the municipality in achieving its objectives.

**Risk** Due to lack of risk management process the municipality can face unexpected situations, and consequently achievement of objectives set by the municipality hindered or fail to be achieved, as well as decrease of quality of services provided.

**Recommendation 4** 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.

## 2.5.2 Management Reporting

A range of internal controls are 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.

### Recommendations

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#### Issue 4 – Weaknesses in Management Controls – Medium Priority

**Finding** Our review of management controls applied to the municipality’s key financial system has revealed a poor financial reporting on expenditures and revenues to senior management and incomplete analysis over service delivery. This has occurred as the format of managerial reports does not provide explanations on budget variances and that budget forecasts are not updated on monthly basis. Similarly, operational activities are not managed in a systematic way.

**Risk** Poor quality of financial reporting and activities to senior management reduces the ability of management to manage activities of the municipality in a proactive manner and reduces the effect of budgetary controls. This can result in an unplanned deficit or surplus and thus delay necessary actions to address them, and can affect the level of revenues collected.

**Recommendation 5** 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.

## 2.6 Internal Audit System

### Description

The Municipality does not have an Internal Audit Unit. The AI no.23/2009 regulates cases when organisations do not have an operational internal audit unit, and foresees other means on how to obtain these services.

### Recommendations

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#### Issue 5 - Lack of internal audit - Medium Priority

**Finding** The Municipality had not made any efforts to obtain internal audit services by cooperating with another budget organisation, or to request budgetary support from the Ministry of Finance. The AI 23/2009 on Establishment and Operation of Internal Audit Units in the Public Sector, Article 3, Paragraph 2.1 stipulates that: "A public sector subject that has an annual budget from Euro one (1) up to three (3) million should have at least one internal auditor."

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

**Recommendation 6** 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.



## 3 Financial Management and Control

### 3.1 Introduction

Our work on Financial Management and Control (FMC) outside of the areas of Governance referred to above in Chapter 2 reflects the detailed work undertaken on Revenue and Expenditure Systems. As part of this, we consider budget management, issues of procurement and Human Resources as well as Assets.

### 3.2 Financial Management and Control Conclusion

The Municipality acknowledges the importance of an adequate and robust system of controls over expenditures and revenues. However, due to failure to comply with regulations and guidelines, our audit has identified some compliance weaknesses related to procurement, revenues and other expenditures. This reflects the municipality's lack of adequate supervision over the mentioned areas. Effective Financial Management and Control requires review processes and supporting guide (standard operating procedure) that provide for the full implementation of national laws, internal regulations and of other control processes.

#### Budget Planning and Execution

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

**Table 1 Sources of budgetary Funds - outturn against the budget (in €)**

Description	Initial Budget	Final Budget <sup>1</sup>	2015 Outturn	2014 Outturn	2013 Outturn
<b>Sources of Funds</b>	<b>1,403,570</b>	<b>1,446,056</b>	<b>1,359,737</b>	<b>1,309,902</b>	<b>1,051,000</b>
Government Grant -Budget	1,338,701	1,292,102	1,285,758	1,264,363	973,000
Carried forward from previous year <sup>2</sup> -	0	74,994	59,900	0	58,000
Own Source Revenues <sup>3</sup>	64,869	64,869	1,300	17,987	19,000
Internal Donations	0	5,600	5,600	5,150	1,000
External Donations	0	8,491	7,179	14,402	0

<sup>1</sup> Final Budget - the budget approved by the Assembly as adjusted by the Ministry of Finance.

<sup>2</sup> Municipality's Own Source Revenues unspent in previous year and carried forward into the current year.

<sup>3</sup> Receipts used by the entity to finance its budget.

The final budget was higher than the initial budget by €42,486. This increase is as a result of internal and external donations, and revenues carried forward from the prior year are in the value of €272,508, as well as the decrease under the Government's decision in the value of €46,599.

The Municipality in 2015 has executed 94% of the final budget, a similar level to that in 2014. Budget execution presents a very high performance, and below are provided explanations on the current position.

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

Description	Initial Budget	Final Budget	2015 Outturn	2014 Outturn	2013 Outturn
<b>Spending of funds broken down by economic categories</b>	<b>1,403,570</b>	<b>1,446,056</b>	<b>1,359,737</b>	<b>1,301,902</b>	<b>1,051,000</b>
Wages and Salaries	887,000	840,401	840,401	784,127	682,000
Goods and Services	95,740	102,757	100,327	114,566	94,000
Utilities	23,000	23,000	22,943	21,289	22,000
Subsidies and Transfers	3,000	3,000	3,000	2,976	3,000
Capital Investments	394,830	476,898	393,066	378,944	250,000

Explanations for changes in budget categories are given below:

- Despite the budget increase for capital expenditures during the year, the spending degree was 82%. The Public Investment Program includes several projects that are under development from last year, and two new projects for the current year. Delays in implementation are due to property and legal problems, as a result of which 62% of the capital investments budget were spent in December;
- Reducing the budget for wages and salaries by €46,599, is as a result of Government's decision for budget savings due to the surplus in this category; and
- The Municipality has also received grants from foreign donors in the value of €191,914, while the budget execution was good in this area where the expenditures were over 99%.

**Table 3. OSR for Municipality's budget - outturn against budget (in €)**

Description	Initial Budget	Final Budget	2015 Receipts	2014 Receipts	2013 Receipts
Own source revenues	64,869	64,869	52,763	62,498	40,000

Own source revenues in the amount of €1,300 of this year, as well as the amount of €59,900 from revenues carried forward for capital projects, while the other part of revenues in the amount of €66,557 was carried forward in 2016.

## Recommendations

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### Issue 6 – Budget Execution – High Priority

**Finding** Even though the budget execution seems at a very high percentage, over €66,000 of own source revenues were carried forward as unspent, and this part of surplus was out of control of the municipality.

**Risk** Due to the fact that funds were not used effectively enough can result in non-achievement of organisational objectives, particularly in the category of Investments and in financing current year liabilities from budgets of the following year.

**Recommendation 7** 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.

## 3.3 Procurement

Procurement rules are intended to ensure that public funds are used in a transparent and efficient manner to achieve value for money. The legal framework clearly defines the rights, duties and responsibilities of all parties involved in procurement processes. This includes the requirement to mitigate the risk of non-completion of contracts and poor contract execution. This is achieved through the implementation of a regime of penalties related to poor performance and execution security.

## Recommendations

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### Issue 7 – Weaknesses in procurement – High Priority

#### Finding

When reviewing contracts and payments we have identified several common weaknesses. In particular, managerial controls have not operated effectively to prevent the following issues:

- Invoice no. 004/15 for vehicle servicing and maintenance was received with errors, namely in the position no. 5 of this invoice was described a battery Ahp 301 in a value of €602, while the battery installed on the vehicle was 75 Ahp.
- After the verification of price of goods – moving chairs with a price per unit was €125. According to the invoice were received ten pieces, while after the physical examination, in the presence of a member of the committee was established that five moving chairs were missing.
- In the contract “Construction of Field Roads” and “Supply with medicines for the needs of the FMC”, the contract managers also carried out the process of receiving of goods.
- For construction of the municipal building was signed an annex contract on 23.12.2015 in the amount of €2,684. On the same date were received works by the supervisory body, while the payment was carried out the next day on 24.12.2015.
- In the tender dossier for cleaning of streets and collection of waste was not specified clearly the manner in which the winning company will carry out its services. Responsible officials did not provide evidence or daily reports that would prove that the roads were cleared or waste collected, based on which should carry out payments.

#### Risk

Receiving positions that are different from those contracted, as well as confirming works without a basis will result in potentially irregular payments and financial losses for the municipality. Carrying out payments without supporting evidence on services delivered can result in payments for services that are not delivered.

#### Recommendation 8

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.

### 3.3.1 Remunerations (Wages and Salaries)

The Municipality for 2015 planned the amount of €840,401 for this category, which was also the amount spent. Wages and Salaries are paid through a centralised system. The key controls that confirm accuracy and completeness of payments as well as the entry into the payroll list of new employees, verification of the permitted number, and other accompanying controls by the Ministry of Finance and approval of the budget for wages and salaries by the municipal assembly.

#### Recommendations

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##### Issue 8 - Special service contracts - High Priority

**Finding** When testing files of health workers we noticed that upon establishment of employment relationship were issued appointment acts, and not contracts as foreseen under the Labour Law;

In the sector of education one teacher despite the regular contract with the municipality, was compensated from 01.09.2014 up to 01.08.2015 in a monthly value of €408, from the category of goods and services, and not through the payroll list, without withholding the income tax; and

The evidence on years of work experience was not presented with a decision confirmed by the authorised officials, as a base for payments of work experience.

**Risk** Failure to sign contracts under the Labour Law and paying for them from an inadequate category without withholding the income tax, can lead to lawsuits and financial losses for the municipality. Compensating without supporting evidence for work experience can potentially cause irregular payments.

**Recommendation 9** 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.

### 3.3.2 Subsidies and Transfers

Subsidies are a category of expenditures that are given by the municipality without a direct return to certain beneficiaries regulated under the municipal regulation. The Municipality in the category of subsidies and transfers for 2015 had planned €3,000, and were spent entirely.

#### Recommendations

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##### Issue 9 – Lack of Regulation on Subsidies – Medium Priority

**Finding** This year also the municipality has not managed to issue an internal regulation on granting of subsidies. Due to lack of a regulation, subsidies were given based on decisions of the Assembly and that all expenses were incurred to subsidise nursing mothers.

**Risk** Due to lack of an internal regulation on granting of subsidies and transfers is created an uncertainty in determining the criteria on who can be the beneficiaries of subsidies, up to what amount, and for what purposes can the subsidies be given. This poses a risk, as subsidies may not be granted to persons in need and failure to achieve objectives.

**Recommendation 10** The Mayor should draft a regulation to be approved in Assembly, which clearly specifies the criteria and subsidising procedures.

### 3.4 Revenues (including own source revenues)

Revenues generated by the municipality in 2015 totalled to €52,763 or around 81% of the planned budget. Revenues were collected mainly from property tax, business fees, administrative fees etc. There is a need for improvement in some processes and controls that relate to planning and correction of revenues, in order to increase revenues and to ensure accuracy and completeness of reporting.

#### Recommendations

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##### Issue 10 – Inconsistency between the plan and invoicing – Medium Priority

###### Finding

Some of the key issues identified in revenues were:

- During 2015 own revenues planned were €64,869, while the invoicing of property tax and revenues from business fees was €52,799;
- The total amount of invoices issued on business fees was €23,858, for 117 businesses that do not exercise different activities. The collection of funds from these businesses during this period was only €640, or only 3%; and
- We have noticed delays in depositing collected funds to the bank as foreseen under the guidelines on own source revenues, where in one case the delay was 15 days.

###### Risk

Planning revenues without a detailed analysis, and failure to act timely for collection of revenues within the deadline, directly causes their reduction and results in failure to fulfil objectives established by the municipality. Failure to deposit the funds collected in the bank poses an increased risk of loss and misuse.

**Recommendation 11** 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.

## 3.5 Assets and Liabilities

### 3.5.1 Capital and Non Capital Assets

#### Description

Assets management in the municipality continues remaining a challenge. The Municipality has not recorded assets with value over €1,000 in the KFMIS and the assets with value over €1,000 in the e-assets program, while it had only one internal register in form of Excel.

#### Recommendations

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#### Issue 11 - Failure to record assets in the KFMIS and e-assets - High Priority

**Finding** The Municipality has appointed the assets officer, but had not yet started yet with the assets accounting register (KFMIS), on assets with value over €1,000 and a longer timeframe for more than a year. In addition, the receiving officer does not record purchases in the e-assets register.

**Risk** Poor management of assets registers can result in losses or acquiring of assets and makes it difficult to identify assets in order to confirm their existence.

**Recommendation 12** 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.



### 3.5.2 Handling of Receivables

The Municipality has not managed yet to collect all the debt on services provided. Accounts receivables mainly relate to property tax and receipts from rents and business tax. Lack of adequate policies and concrete measures for the collection of accumulated revenues has resulted in high level of accounts receivable.

#### Recommendations

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##### Issue 12 – Lack of concrete measures to collect debts - High Priority

**Finding** Total debts owed to the municipality at the end of 2015 were €209,018, or a significant increase compared to the prior year by over 25%. The main challenge remains collection business fees that amount to €130,042, then the property tax €78,977. Other issues related to accounts receivable are:

- While testing nine samples of property tax we have identified that seven taxpayers had not paid the debt in full;
- While testing eight samples, which have paid the fee for registration of vehicles, five of them had obtained the certificate proving that they do not owe any debts to the municipality.

**Risk** Due to lack of concrete measures on collecting accounts receivable, can result in increase of these accounts, and consequently in financial losses for the municipality. In addition, this reduces flexibility of the municipality when it comes to expenditures that were planned to be financed from its own source revenues.

**Recommendation 13** 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 reviews.

### 3.5.3 Handling of debts

The statement of outstanding liabilities owed to suppliers at the end of 2015 was €30,569. These liabilities are carried forward to be paid in 2016. Liabilities related to the following categories: goods and services €23,433, utilities €4,036 and subsidies €3,100.

The Municipality has constantly taken actions to secure additional funds from the government, but they did not receive a positive response.

We have no recommendations in this area.

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

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## 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 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 actions 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.

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 the OAG

(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 1705<sup>19</sup> 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: Prior Year Recommendations

Audit Component	Recommendation given	Implemented	Partially addressed	Not addressed
2.2 Significant Risks to the Annual Financial Statements	The Mayor should undertake measures to appoint an Assets Official. Having been appointed, the Assets Officer should immediately start recording assets in compliance with the Regulation no.02/2013 on Asset Management.			X
2.2 Significant Risks to the Annual Financial Statements	The Mayor should undertake measures to ensure that all expenditures are processed through the adequate economic codes.			X
2.3 Compliance with AFS and other external reporting requirements	The Mayor should ensure that the AFS production process fully addresses the identified weaknesses. The Declaration made by the Mayor and Chief Financial Officer, when the draft AFS are submitted to MoF should be signed only after a comprehensive review by management in regards to the content and accuracy of AFS is made.	X		
3 Prior Year Recommendations	The Mayor should ensure that a revised action plan clearly sets out a timetable for addressing the recommendations made by the AG with accountable staff members identified and with initial focus on those of greatest significance. The implementation of this plan should be systematically reviewed by the Mayor.		X	

4.1 Good Governance	The Mayor should take immediate measures to ensure that a suitable governance structure is applied and a developed internal reporting system wherewith the senior management is informed about results, costs and control weaknesses forming a base for active management.		X The Mayors has started his regular weekly meeting with the Board of Directors on duties and discusses overall problems.	
4.2 Budget Planning and Execution	The Mayor should initiate a systematic assessment of the reasons behind the setbacks in capital investments budget execution for 2014 and determine the practical options to improve the execution in 2015.		There was an overall progress in budget execution, but there is a setback in the category of capital investments.	
4.3 Revenues (including own source revenues)	The Mayor should ensure that register of active business is updated on regular basis, the software program is developed and that accurate records on the number of businesses owing to the municipality are established. Verification and registration of taxable property should be performed in timely.		Establishment of a team for verification of active businesses is a proof that implementation of this recommendation has started.	
4.3 Revenues (including own source revenues)	The Mayor should ensure that all cash from taxes and fees are deposited in the nearest bank within the statutory deadline.			X
4.4.1 Procurement	The Mayor should ensure that such practice of financing is not repeated and that all payments are executed only after the required documentation is completed as foreseen by law.	X		
4.4.1 Procurement	The Mayor should ensure an effective control system in order to prevent contractual terms from being overlooked in both goods receiving and prices paid for them. The above mentioned			X

	cases should be investigated whether it was a mistake or find the reasons behind the unlawful payments.			
4.4.2 Remunerations (Wages and Salaries)	The Mayor should ensure that all recruitments of teachers is done by a public vacancy announcement and in compliance with the relevant law.		X	
4.4.3 Subsidies and Transfers	The Mayor should prepare a regulation, which should be approved in the Assembly, by clearly specifying the criteria and procedures for subsidies.			X
4.5.1 Capital and Non Capital Assets	The Mayor should undertake measures to appoint the Assets Official. Having been appointed, the Assets Officer should immediately start recording assets in compliance with the Regulation no.02/2013 on Asset Management.			X
4.5.2 Handling of Receivables	The Mayor should initiate a reassessment process, where all accounts will be analysed in terms of aging, significant amounts, real possibilities for collection and exercising administrative measures needed.		After the interim audit the municipality has established a task force to analyse the age of debts and with the help of this Task Force has examined business, and has issued a list of businesses that are not active or that do not operate. Such list was given for review to the Municipal Assembly, in order to be deleted	



4.6 Internal Audit System	The Mayor should ensure the establishment of the IAU and the Audit Committee in compliance with the Law no. 03/L-128 on Internal Audit or looking for another solution in providing such service			X
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