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

Prishtina, June 2015

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

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

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

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

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

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Executive Summary

Introduction

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

This report summarises the key findings from our audit of the 2014 Annual Financial Statements of the Municipality which determine the Opinion given by the Deloitte Kosova sh.p.k. We would like to thank the Mayor of the Municipality and histeam for their assistance during the audit process.

The examination of the 2014 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 November 7, 2014.

Our audit focus has been on:



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

Opinion

Annex I explains the different types of Opinions applied.

Auditors opinion is:

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

1. The Municipality has not enrolled in the system land, buildings, vehicles and other capital assets in amount of EUR 64,833,140. These assets are disclosed in note 30 "Summary of non-capital assets over EUR 1,000 in possession of a Budget Organization" as total but not in the basis of categories and this is expressed in one explanatory sentence in this note.

Given that the Municipality has not received a detailed official report from government agencies relating to investments they have made in the municipality, we were unable to obtain reasonable assurance that all investments of the current year and previous years are recorded and presented in note 30 "Summary of non-capital assets over EUR 1,000 in possession of a Budget Organization".

Furthermore, due to deficiencies in the non-financial capital assets register for assets above EUR 1,000 we were not able to determine whether the depreciation calculated from the system and respectively net book value of the assets presented in the note is correct.

2. In the system "E-pasuria" which is used for the recording of the non-capital assets under EUR 1,000, the Municipality has not recorded such assets. Therefore we were not able to reconcile the amount of this note with the amount presented in note 31 "Summary of non-capital assets under EUR 1,000 and a useful life more than one year". Furthermore, the Municipality has not calculated depreciation for these assets and we were not able to determine whether the net book value of assets presented in the note 31 is correct.

3. In the Statement of Budget execution are presented own source revenues from previous year, in the amount of EUR 121,470, which is not in accordance with regulation 03/2013 "On the Annual Financial Statements of Budget Organizations"

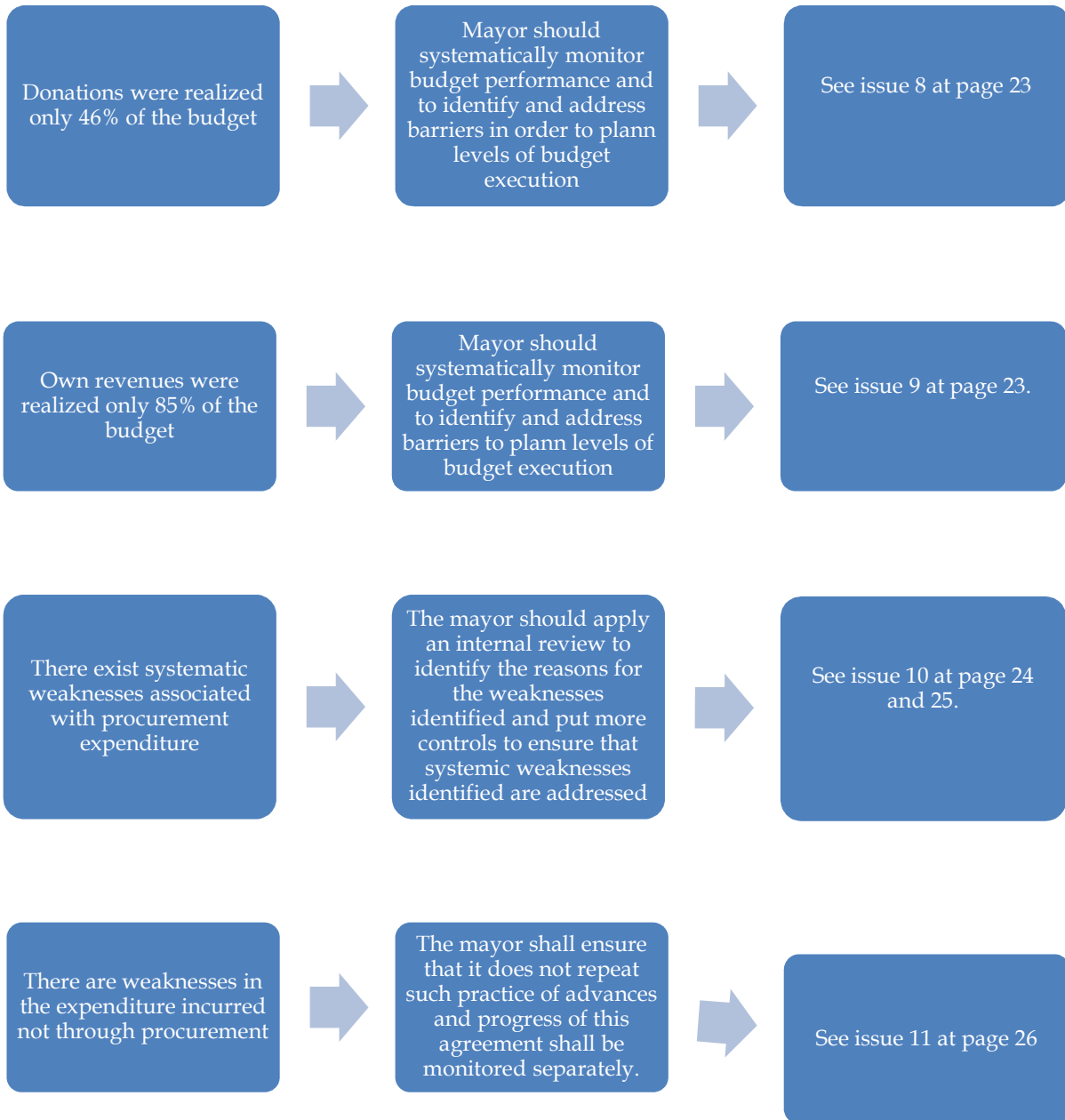
Other matter

Financial statements of the Municipality for the year ended December 31, 2013, were audited by another auditor who expressed unmodified opinion on those statements on June 6, 2014.

Overall Conclusion

Our key conclusions and recommendations are:







Mayor's of the Municipality Response - 2014 audit

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

- Audit Scope and Methodology

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

- whether the AFS give a true and fair view of the accounts and financial affairs for the audit period;
- whether the financial records, systems and transactions comply with applicable laws and regulations;
- the appropriateness of internal controls and internal audit functions; and
- all matters arising from or relating to the audit.

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

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

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review. An assessment of how the Management have addressed recommendations made in the report on 2013 may be found in Annex II.

Our findings are defined as:

High Priority - issues which may result in a material weakness in internal control and where action will offer the potential for improvements to the efficiency and effectiveness of internal controls; and cases that may have effect in the loss and/or commitment of sources; and

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

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

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

2. Annual Financial Statements and other External Reporting Obligations

Introduction

Our review of the AFS considers both compliance with the reporting framework and the accuracy of the information recorded in the financial statements. We also consider the Declaration made by the Chief Executive Officer (CEO) 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. A number of the declarations are intended to provide assurance to the Government that all relevant information has been provided to ensure that a comprehensive audit can be undertaken.

Overall Conclusion

We are determined for a qualified opinion. We have identified a small number of non-material deficiencies, which has not affected the audit opinion, however are included as issues in this report. Other reporting obligations not related to the AFS were met in full, except the cases described in point 2.3 of this report. A qualified opinion shows that the statement made by the CAO and CFO, to which we referred above, it was not accurate in all respects.

2.1 Audit Opinion

For municipality of Kaçanik

We have audited the accompanying financial statements of Municipality of Kaçanik (the "Municipality"), which comprise Statement of Receipts and Cash Payments and Budget Execution Report for the year ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS) for "Financial Reporting under Cash Basis of Accounting Cash", and with Regulation MF - no 03/2013 "For the Annual Financial Statements of Budget Organizations". This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for modified opinion

1. The Municipality has not enrolled in the system land, buildings, vehicles and other capital assets in amount of EUR 64,833,140. These assets are disclosed in note 30 "Summary of non-capital assets over EUR 1,000 in possession of a Budget Organization" as total but not in the basis of categories and this is expressed in one explanatory sentence in this note.

Given that the Municipality has not received a detailed official report from government agencies relating to investments they have made in the municipality, we were unable to obtain reasonable assurance that all investments of the current year and previous years are recorded and presented in note 30 "Summary of non-capital assets over EUR 1,000 in possession of a Budget Organization".

Furthermore, due to deficiencies in the non-financial capital assets register for assets above EUR 1,000 we were not able to determine whether the depreciation calculated from the system and respectively net book value of the assets presented in the note is correct.

2. In the system "E-pasuria" which is used for the recording of the non-capital assets under EUR 1,000, the Municipality has not recorded such assets. Therefore we were not able to reconcile the amount of this note with the amount presented in note 31 "Summary of non-capital assets under EUR 1,000 and a useful life more than one year". Furthermore, the Municipality has not calculated depreciation for these assets and we were not able to determine whether the net book value of assets presented in the note 31 is correct.
3. In the Statement of Budget execution are presented own source revenues from previous year, in the amount of EUR 121,470, which is not in accordance with regulation 03/2013 "On the Annual Financial Statements of Budget Organizations".

Qualified Opinion

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

Other matter

Financial statements of the Municipality for the year ended December 31, 2013, were audited by another auditor who expressed unmodified opinion on those statements on June 6, 2014.



Prishtina, Kosovo
June 23, 2015

2.2 Significant Risks to the Annual Financial Statements

Description

In our Audit Planning Memo dated November 10, 2014 were identified 3 significant risks to the AFS related to the completeness of assets. During the audit, we identified another risk in relation with the preparation of annual financial statements. These are risks of material misstatement that may result in a qualification of the opinion.

The risks of material misstatement that we identified relating to the completeness of assets and preparation of annual financial statements have occurred because no management action was taken to address the highlighted risk.

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

Identified Risk

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

Deficiencies can result in material value assets not included in the financial statements of the municipality or included with unrealistic values.

Audit response and findings

We have assessed the controls implemented by management to prove the completeness of assets and clarify ownership issues regarding investments made by various agencies of the Government of Kosova during the year 2014 and previous years. We have given advice to management for action needed to ensure that the real figure in AFS was correct. However, the risk identified is materialized because management has failed to apply the necessary improvements in internal control and we were unable to confirm whether the values of assets recorded in the AFS are accurate.

Note 30 "Summary of non-financial assets (above EUR 1,000) property of the municipality": The Municipality has not received a detailed official report from government agencies relating to investments they have made in the municipality during the year 2014, nor for the previous years. Also we have identified investments made during 2014, but which are not presented in the financial statements of December 31, 2014 since the documents for them have not been received from the relevant government agencies in 2014.

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

Furthermore, the Municipality has not made an assessment of its non-financial assets during 2014. This is not in compliance with Regulation Nr.02-2013 "For managing of non-financial assets in budget organizations", which requires that the budget of organizations must assess the non-financial assets to prove the necessity of non-financial assets to the organization, the physical condition and the ability to use other units of the organization.

Recommendation 1 The Mayor should analyze the reasons for deficiencies described above which form one of the points for qualified opinion for the year 2014 and identify appropriate action to address the weaknesses of controls in order to enable a fair presentation of property in 2015.

Issue 2 - Uncertainties concerning the completeness of the note 30 "Summary of non-financial capital assets (worth over EUR 1,000) in possession of the budget organization" and the absence of a reconciliation of information involved from all sources in the financing of assets- High Priority

Identified Risk

Disclosure of assets is not complete because not all property, plant and equipment are included in the disclosure. Movement (supplements) of assets may not be in accordance with the information presented in the Statement of cash receipts and payments.

Audit response and Findings

The Municipality has not prepared a detailed list of movements in 2014 and 2013 to ensure compliance of the information presented in the financial statements. Due to the absence of this verification, in 2014 Article 16 "Disclosure of assets" shows assets of EUR 50,865, while Article 11 "Capital Investments" shows additions of EUR 1,255,038. While the value of EUR 64,833,140 is not included in the KFMIS since Municipality did not have a certified official for registration of assets.

Recommendation 2 We recommend the Mayor to ensure that the Municipality constantly records and presents in its financial statements all assets, as well as reconciles information from all sources involved in the financing of assets.

Issue 3 -Lack of ownership documentation for the investments made by third parties - High Priority

Identified Risk

There is not done yet official transfer of ownership for a significant portion of assets financed by third parties over the comparative past years and presented in financial statements as third party payment in those years.

Audit response and Findings

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

Recommendation 3 We recommend the Mayor to ensure that the Municipality is making maximum efforts for the obtainment of data from third parties, with particular emphasis on those parties known to have carried out significant investments in the municipality. The data obtained should be correctly presented in the asset register of the municipality. Best practice would require that on an annual basis reconciliation of data is made between third parties and the municipality for investments in the municipality for the year.

Issue 4 - Material weaknesses in the preparation of annual financial statements - High Priority

Identified Risk

Annual financial statements cannot be prepared in accordance with the requirements of Regulation for "Annual financial statements of budget organizations" no. 03/2013.

Audit Response and Findings

We have reviewed the measures taken by management to ensure that the reporting process is done in accordance with relevant regulations. We reviewed whether the annual financial report meets the requirements of Regulation 03/2013 and found some material weaknesses which are points to the qualified opinion. A description of these weaknesses and some other immaterial deficiencies are described in section 2.3 below.

Recommendation 4 The Municipality Mayor must ensure that the process of preparation of the AFS fully addresses the requirements of Regulation 03/2013. The statement made by the Mayor and Chief Financial Officer, when the draft annual financial statements submitted to the Government must be signed only after a comprehensive review of the management regarding the content and accuracy of AFS. All other reporting requirements must be met.

2.3 Compliance with AFS and other reporting requirements

Description

The municipality must comply with certain reporting framework for the reporting and other requirements. We have taken into account:

- Compliance with financial regulation no. 03/2013;
- The requirements of LPFMA no. 03/L-048;
- Deadlines for submission of reports to Ministry of Finance:
- Requirements for signature of AFS from CAO ("Mayor") and Chief Financial Officer;
- Requirements to prepare AFS in hard and electronic copies;
- Submission of quarterly reports to the Municipal Assembly and the Ministry of Finance.
- Reports on arrears;
- Operating Reports (performance indicators);
- The report of the actions taken and proposed actions on findings and recommendations of the Auditor General for the previous year; and
- The submission of AFS in the Albanian and Serbian language.

From our audit we noted that the above requirements the Municipality is not in compliance with some aspects of the annual financial statements, as follows.

Issue 5 - Compliance with AFS - High Priority

Finding The issues raised in connection with the reporting framework have been partially addressed by the management. In the context of the AFS, we have identified the following noncompliance expressed below:

- In the Statement of Budget execution are presented own source revenues from previous year, in the amount of EUR 121,470. In this statement should not be presented own source revenues carried forward from previous year, but only those realized during the current year.
- To the statement of the budget execution, at column B - Final Budget KFIMS, the value of donations was zero euros, while in the report received from the SIMFK value of donations is EUR 5,009.

Our reviews of other requirements for reporting have confirmed that all requirements have been met up to December 31, 2014 with the exception of:

- The main and reliable source of information for the preparation of financial statements is Free Balance, which is not used to record and report all disclosures that are not reported under the Cash Basis Accounting. These disclosures include revenues from fines, payments from third parties, receivables and contingent liabilities.
- At note 28 - Statement of unpaid bills of budget organization are not presented bills that belong to the category of transfers and subventions in amount of EUR 1,725, and thus the total submitted is misstated.
- Among the total actual number of employees according to AFS 2014 and payroll lists there is a difference of 25 employees at the end of the year 2014.

Risk

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

Recommendation 5

Municipality Mayor must ensure that the process of preparation of the AFS fully addresses the requirements of the regulation no 03/2013. The statement made by the Mayor and Chief Financial Officer, when the draft of AFS submitted to the Government should be signed only after a comprehensive review of the management regarding the content and accuracy of AFS. All other reporting requirements must be met.

3. Prior Year Recommendations

Description

The audit report for AFS of the year 2013 resulted in 10 key recommendations. Kacanik Municipality had not prepared an Action Plan to ensure that all recommendations are addressed within the period specified. During the year 2014 the municipality has partially addressed only one recommendation and nine of them have not been addressed yet. For a more complete description of the recommendations and how they are addressed, see Appendix II.

Issue 6 - Addressing Prior Year Audit Recommendations - High Priority

Finding Only a proportion of prior year recommendations have been implemented because the Municipality has not implemented any formal process to manage and monitor and to request a report on the progress of implementation of recommendations by the previous year Auditor.

Risk Non adressing prior year audit recommendations has resulted in continued weaknesses in key financial systems and with the folowing consequences:

- Incomplete fixed asset register
- Compliance with reporting requirements
- Weak executing of budget;
- Weak management of revenue due to lack of evidence and internal reporting;
- Deficiencies in the procurement process;
- Inadequate treatment of disclosure of accounts receivable;
- Limited benefits from the work of Internal Audit;

Recommendation 6 The mayor should provide an action plan, revised to address the remaining recommendations of 2013 and these of year 2014. This plan must specify a reasonable time frame of implementation, responsible staff and mode of application, being initially focused on areas of great importance and where significant weaknesses were identified. Progress against the plan must be monitored directly by the Mayor.

4. Governance

Overall Conclusion

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

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

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

4.1 Good Governance

Description

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

Issue 7 - Managerial Controls - High Priority

Finding	The review that we have made to the management controls implemented in the main municipal financial system has highlighted weaknesses in higher-level controls. As such, the governance arrangements require strengthening, in particular with regard to controls on: preparation of the Financial Report (nine month and annual), inventory, assessment and presentation of capital assets, identification and recording of payments from third parties, procurement procedures, management of accounts receivable, management of accounts payable, management of revenue, application of procedures for expenditures and management of personnel files.
Risk	Weak quality of financial reporting to senior management reduces the ability of management to react in time and manage actively municipal activities, and undermines effective control of budget.

Recommendation 7 The Mayor must review the existing measures of the general government and the quality of internal reporting of the municipality. Unimplemented requirements need to be addressed by the end of 2015. The quality of the reporting and budgetary surveillance must be reviewed critically and systematically to ensure the achievement of the objectives of the municipality.

4.2 Budget Planning and Execution

Description

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

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

Description	Initial Budget	Final Budget ¹	2014 Outturn	2013 Outturn	2012 Outturn
Sources of Funds	6,215,408	6,915,787	6,545,962	5,557,324	5,436,793
Government Grant -Budget	5,585,408	6,159,308	6,040,636	4,992,436	4,975,151
Carried forward from previous year ² -	-	121,470	119,390	132,000	97,000
Own Source Revenues ³	630,000	630,000	383,612	325,212	275,175
Domestic Donations	-	-	-	-	-
External Donations	-	5,009	2,324	107,676	89,467

The final budget is higher than the initial budget by EUR 700,379. This increase is a result of External and Domestic Donations in amount of EUR 5,009, and Revenues carried forward from the previous year in amount of EUR 121,470, the rest is due to the increase approved by the Government. This increase was implemented after budget review and in line with Government decisions.

During the year 2014 the Municipality has used 95% of the final budget or EUR 6,545,962 (2013: 80% or EUR 5,557,324). The level of budget execution is at a satisfactory level and explanations for the current position are detailed below.

¹ Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

² Own Source Revenues unspent in previous year carried forward into the current year.

³ receipts used by the entity for financing its own budget.

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

Description	Initial Budget	Final Budget	2014 Outturn	2013 Outturn	2012 Outturn
Spending of funds based on the economic categories:	6,215,408	6,915,787	6,545,962	5,557,324	5,436,793
Wages and Salaries	3,752,072	4,325,962	4,315,980	3,733,084	3,728,231
Goods and Services	559,982	583,876	488,117	529,549	510,578
Utilities	128,757	128,784	118,209	112,518	164,042
Subsidies and Transfers	175,000	178,650	169,357	128,996	39,364
Capital Investments	1,599,597	1,698,515	1,454,299	1,053,177	994,578

Explanations for changes in budget categories are given below:

- Despite an increase in budget during the year for wages and salaries, performance which is influenced by the increase of 25% of base salary made in March 2014, an increase that is not reflected in the current budget, only 95% of the budget is spent. This budget is planned to be spent on ongoing projects and new projects. If we consider, we note that the implementation against the budget, category of goods and services and capital investment category in comparison with other economic categories have a lower level of performance for this period.
- The increase of the budget for Wages and Salaries by EUR 573,890 as a result of increased salaries by 25% in March 2014, while 99% of the budget was spent. While the budget for was realised 84%, having in mind the reduction in this category from the Government by 15%.
- The Budget for Utilities had not changed, while they were realized 92% of the expenses.
- The amount of EUR 1,698,515 was allocated for capital investments. Despite the increase of the budget for this category of expenditure, realization it was not satisfactory with only 86% of the final budget realized.
- The Municipality also received grants from domestic donors in the value of EUR 5,009, which were allocated for Goods and Services and Subsidies to finance the delivery of hives of bees. While budget execution is relatively low in this area, surplus of EUR 2,685 or 54% of the grant has remained unrealized.

Table 3. Own Source Revenues for Municipality budget – outturn against budget (in EUR)

Description	Initial Budget	Final Budget	2014 Receipts	2013 Receipts	2012 Receipts
Own source revenues	630,000	630,000	533,685	404,277	426,267

Own source revenues are collected only 85% as were budgeted.

Issue 8 – Budget Execution – High Priority

Finding Donation expense is the main area where the budget execution is in low level. This low level of realization is because this source of revenues was not taken into consideration from the Municipality during the planning of the budget.

Risk The failure to use donations has reduced the effectiveness of the activity of the Municipality especially in the category of goods and services.

Recommendation 8 The Mayor should ensure that implementation of budget to be increased in the budget lines where the implementation is under 90% and that the funds of the current year to be spent in the current year.

Issue 9 – Own source revenues execution – High Priority

Finding Own source revenues for this period are executed 85% of the budgeted amount.

Risk For the Municipality, non-fulfillment of its capital program will result in no effective use of sources and non-fulfillment of Municipalities budget plan.

Recommendation 9 The mayor should systematically monitor budget performance on a monthly basis and to identify and address barriers for the planning levels of budget execution. If the initial budget assumptions are incorrect, it should be fully reflected in the final budget position.

4.3 Revenues (including own source revenues)

Description

Revenues generated by Municipality in 2014 totalled EUR 533,685. Mostly these revenues are collected from property tax, taxes, court and traffic, sale of assets, while a smaller contribution to revenues from fines, licenses, inspection etc.

We have not found any findings in relation to this area.

4.4 Expenditures

4.4.1 Procurement

Description

Signed contracts through procurement procedures for 2014 were in the amount of EUR 1,874,512. This includes capital investments, goods and services and subsidies.

There are some aspects of the procurement process on which controls are not applied effectively.

Issue 10 – Systematic weaknesses in Procurement – High Priority

Finding

Our audit regarding procurement management has identified following issues (our conclusions are based on the assessment of individual files and full details are offered to the management):

- Based on the procurement law no. 04/L-042 is required that the Municipality to deliveres in the CPA prior procurement planning, not less than sixty days before the beginning of each fiscal year. We were not offered procurement plan for 2014 and for that we were not able to compare planned projects as well as projects expected values and actual values.
- In six cases of the contracts worth EUR 127,654 we have noted that unsuccessful tenderer have not been informede. Based on the procurement law no. 04/L-042 is required to inform all unsuccessful tenderers. We found that for some unsuccessful procurement tenderers have not been sent letters for the characteristics and relative advantages of the winning tender and the name of the winning tenderer.
- In two cases to contracts with a value of EUR 138,765 we have noted that the amount of committed funds don't cover the amount of the contract.
- In one case of a contract in the amount of EUR 9,740 was missing a declaration under oath that must be signed by the Evaluation Committee as required by procurement law no. 04/L-042.
- In five cases of contracts in total amout EUR 165,491 we have noted that contracted works are not completed on time as agreed in the contract between the Municipality and Economic Operator (EO).
- In 28 procurement contracts was not apointed the authorizing officer as required by the law of Public Procurement 04/L-042.

-
- In 28 procurement files was missing the contract management plan, as required by the law of Public Procurement 04/L-042.

Risk

As a result of weak procurement procedures may be made irregular payments, delays in delivery of services, poor value for spent money, and contracts cannot be implemented to the required standards.

Recommendation 10 The Mayor of Municipality should ensure that there will be a review of audit findings in which processes are not applied effectively, and to determine why the failures occurred in them. Right actions/processes needed to be implemented to ensure that such failures will not occur in the future.

4.4.2 Non Procurement Expenditure

Description

Other expenditure are expenditures which are not subject of procurement procedures:

Issue 11 - Weakness in expenditure - High Priority

Finding

Our audit of other expenditure has identified following issue:

The mayor has signed joint agreement with Caritas Luxembourg, Ministry of Health (MoH), and Embassy of the Luxembourg for the building of the main family health center (FMC) in Kačanik in the amount of approximately EUR 1,343,000 to EUR 1,474,000. Based on the agreement between the three parties mentioned above for this joint project Caritas Luxembourg has organized procurement procedures and municipality has not any evidence of the procedures carried out by this organization to support payments of EUR 200,000, amount which based on the agreement with the municipality had to pay for 2014. The fee is based on the agreement with the donor without any other supporting documents and that the advance was made in February and March of 2014. On the other hand the expense is misclassified as equity investment (31900) while such payments should execute by the code Advance for Capital investment (31910). Also based on this agreement, the Municipality will pay the second half of EUR 150,000 in 2015. While remaining rest will be contributed by the Ministry of Health and Caritas Luxembourg.

Risk

The motive to held closely investors, in no way don't justifies municipal payments in advance, and that a few months before the project began. Municipalities are part of the state administration, which with law have guaranteed the budget funds and from neither co investor should not met such requirements.

Recommendation 11 The Mayor shall ensure that it does not repeat such practice of advances and progress of this agreement shall be monitored exceptionally. Appropriate procedures should be implemented to ensure that similar faults are not repeated in the future.

Issue 12 - Lack of commitment - Medium Priority

Finding During the audit we found that in three cases the request for commitment purchase is made after the date of invoice received. According to financial rule 01/2014 "Expenditure of public money" it is required that for each proceeding of payment initially to be a request for commitment purchase.

Risk Because that funds were not commitment before signing the contract or before the invoice date, the municipality may enter into obligations if it is impossible to provide the funds after signing the contract or receipt of invoice.

Recommendation 12 The mayor should ensure that for each purchase request initially to have committed funds in order the Municipality does not enter into obligations without providing sufficient funds.

4.4.3 Remunerations (Wages and Salaries)

Description

Wages and Salaries are paid through a centralized government system (payroll). Controls that operate at the local level are dealing with: a) authorization of the payroll; b) verification of the possible changes; and c) review of the budget for this category and reconciliation with the Treasury.

We noted a lack of documentation and error in the calculation of the maternity leave deduction.

Issue 13 - Personnel Data - Medium Priority

Finding

During the audit of personnel files we found that certain documents were missing, which are required by the Regulation no. 03/2011 "On files and the Central Register of Civil Servants". Documents that were missing are:

- In two cases in nomination letter of civilian employees was not mentioned coefficient of employee salaries;
- In twelve cases the file did not contain a certificate that the employee is not under investigation;
- In three cases the file did not contained qualification documentation of employee;
- In four cases the file did not contained documentation of performance evaluation.
- We have found that in personnel files of education instead of labor contracts there has been nomination letter.
- Also we found that CPO salaries for the month of April were not signed by the administrative officer and approval officer in some cases.

Risk

Lack of knowledge or misinterpretation of employment laws can result in encroachment of existing laws/regulations. The lack of controls over the completeness of data, documents and staff wages can increase the risk of unidentified errors and misuse of budget wages.

Recommendation 13 We recommend the Mayor to take measures in connection with a systematic review of personnel files, to ensure that all documentation necessary are included in the file. To ensure that the Municipality reports and archives complete data related to wages and salaries and observe the requirements for approval of payments and maintain complete personnel files.

Issue 14 - Calculation of maternity leave deduction - High Priority

Finding The calculation of deductions for maternity leave is not made according to Law on labor. We have noticed some errors that were made to salary payment by the Ministry of Public Administration and Municipalities that is related with the calculation of basic salary in education and restrictions on salary calculation for maternity leave. This relates to the fact that the base salary in the pre-university education has not changed in the system since 2010, although there were two times base salary increases according to government decisions. The first increase was in January 2011 for 50% and the second increase in March 2014 for 25% in the basic salary. These changes were not reflected in the payroll in the column of base salary but only as a supplement included in gross salary. The issue is that payroll applies a double standard when calculating the basic salary. Wage growth in 2014 is applied to the basic salary of 2011 while in the case of maternal compensation, payroll applies the deduction from 30% in 2010 base salary by allowing so to the maternity leave employees 70% of base salary (2010) and by adding also the two increases that had occurred that are being handled as additions to the salary. Under Law on labor, pregnant women should be paid by the employer in the first six months with 70% of base salary. As a result of the failure to comply with Law on labor in connection with maternity leave prohibitions the budget of the Municipality is damaged for around EUR 2,000 for 2014.

Risk Not application in regular way of wage changes in the basic salary and wrong deduction of allowances over maternity leave risks that in case of maternal compensation of Motherhood to be damaged further the municipal budget.

Recommendation 14 The mayor should ensure that this issue will be further in consideration by the payroll administration, in order to don't allow the damage of the municipality budget. The mayor should address this issue to the MPA to make the change in base salary in accordance with government decisions and changes to be reflected in the payroll system of pre university education.

4.4.4 Subsidies and Transfers

Description

The municipality has distributed EUR 169,357 in subsidies and transfers or 95% of the final budget of EUR 178,650. Overall realization of the subsidy plan depends mainly on collection of own source revenues. We have not noted any findings about the category of subsidies and transfers.

Recommendations

We have no recommendations in this area.

4.5 Assets and Liabilities

4.5.1 Capital and Non Capital Assets

Description

The municipality has not taken steps to improve its reporting on the assets, there are still some uncertainties and deficiencies regarding municipal assets and are not addressed recommendations of previous years.

Issue 15 - Register of capital assets - High Priority

Finding

The municipality initially has engaged a property officer during 2014 to complete the registration of assets in Free Balance, but this officer is charged with other responsibilities. The municipality has recorded only the value EUR 50,865 in FreeBalance and E-pasuria during 2014. Also the Municipality has not prepared a detailed list of movements in 2014 and 2013 to ensure compliance of the information presented in the financial statements and has not held a comprehensive register with information such as the date of acquisition and disposal of assets, and depreciation for the year.

Risk

Disclosure of assets is not complete, because not all properties, plant and equipment are included in the disclosure and are appreciated. These deficiencies could result in material value of assets that are not included in the Municipality PNF th of municipality or included in unrealistic values, and in inability of management to control and exploit the resources for the benefit of the municipality.

Recommendation 15 We recommend the Mayor to include additional resources for the transfer of ownership of non-financial assets in ownership of the municipality. The mayor should ensure that the officer of non-financial assets to exercise his duty initially and to do recording of assets in the Free Balance. Also, the Mayor shall ensure to establish a committee for inventory and assessment of non-financial capital asset of the Municipality and to ensure that in ongoing way the Municipality records and presents in its financial statements all assets, and reconcile information from the all the resources involved in financing assets. We recommend the Mayor to include additional resources for the transfer of ownership of non-financial assets owned by the municipality.

Issue 16 Stocktaking of capital assets - High Priority

Finding For year ended December 31, 2014 the Municipality has not performed the process of stocktaking and valuation of its assets as required with Regulation No. 02/2013 "For government of non-financial assets in the budget organizations", which requires that "Budget organizations must check at least once a year the non-financial assets to verify and assess the factual situation of non-financial assets". The latest report on the registration and valuation of real estate is done in 2011 and we have not been provided in this report.

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

Recommendation 16 The Municipality Major must ensure that the stocktaking and valuation of non-financial assets to be conducted in accordance with the Regulation in force for non-financial assets of budgetary organizations and ensure that stocktaking be conducted on an annual basis.

Issue 17 - Disclosure of non-capital assets under EUR 1,000 - High Priority

Finding Fixed Assets under EUR 1,000 are recorded on the software named e-pasuria. Kacanik Municipality did not have an assets officer in order to register assets in the system. Therefore we couldn't perform reconciliation with the note 31 of Financial Statements Note for non-capital assets.

Furthermore, as a lack of information for non-capital assets we cannot know the effect of the depreciation for the whole balance of non-capital assets presented on Financial Statements.

Risk Lack of supporting documentation for the non-capital assets owned by budgetary organizations can affect incorrect presentation of information's in financial statements. This may result in presenting of non-capital assets in the financial statements on unrealistic value or on presenting of assets that can be damaged or do not exist. Also, the presentation of non-capital assets in gross value is not in accordance with the Regulation in force for non-financial assets of budgetary organizations.

Recommendation 17 The Major must ensure that the Municipality maintains accurate and complete information's in relation to non-capital assets in "E-pasuria" system and to ensure that they are depreciated according to the regulation in force. Also to be identification of all none capital assets under EUR 1,000, to set the tag numbers and any movement of property to be associated with the respective documents.

4.5.2 Handling of cash (and cash equivalents when applicable)

Description

According to the Financial Regulation No.01/2013/MF "Expenditure of Public Money," budgetary organizations cannot receive multiple invoices from one supplier to reduce the amount of individual bills in less than EUR 100 in order to realization of a payment.

Issue 18 - Payments made with cash - Medium Priority

Finding In the report of the financial statements of the year 2014, note 15-Statement of unpaid bills of BO, are presented expenditures made to the same suppliers within the same day in value over EUR 100.

Risk Lack of knowledge or misinterpretation of the law can result in encroachment of existing laws/regulations and the lack of controls over the completeness of data can increase the risk of unidentified errors and misuse of budget.

Recommendation 18 The Mayor should ensure that such cases are not repeated and to undertake measures that spending money to be in full in compliance with regulations in force.

4.5.3 Handling of Receivables

Description

The Municipality has not implemented adequate instructions for the planning, identifying, reporting and collection of bills issued for its taxes. Kacanik Municipality has uncollected amount of revenue from property tax, rent and business taxes. Similarly, historical debts on property tax exceed EUR 1,175,416.

Issue 19 - Aging of Account Receivables - High Priority

Finding Most of the receivables presented in the financial statements are relating to previous years. The municipality has not taken the necessary actions to collect these amounts and did not perform their analysis on their aging.

Risk The lack of sufficient controls over the collection of revenues and information on the amounts of aging of receivable affects negatively in collection of revenue and as a result also on the funds that municipality generates to cover its expenses and investments. These absences hamper the identification of problems, monitoring and appropriate concentration of properly resources in revenue collection, and presentation in the financial statements of accurate amounts and complete, which are expected to be collected.

Recommendation 19 We recommend the Mayor to ensure that the Municipality takes further steps to improve controls and that acts in compliance with laws and local regulatory requirements regarding the collection of revenues.

4.5.4 Handling of Debts

Description

In the AFS of the year 2014 are presented liabilities in the amount of EUR 19,141, which EUR 10,680 are for capital investments, EUR 1,725 for subsidies and transfers and EUR 6,665 are for goods and services incurred during the year. From the total liabilities presented EUR 1,693 are obligations older than 30 days. This is contradiction with the Financial Regulation 02/2013. These liabilities are carried forward to be paid in 2015. Kacanik Municipality has not obligations carried forward from the previous year that are still unpaid.

Issue 20 - Unpaid Obligation - Medium Priority

Finding We have identified that the Municipality did not perform payments for its obligations amounting EUR 1,693 within 30 days as is defined with legal requirements.

Risk As a result of delay payments can weaken the ability of the municipality to forecast and manage liquidity needs and the municipality may face to additional costs of interests and fines for delays requested by third parties.

Recommendation 20 The mayor should ensure that the Municipality will take further steps and to develop action plans to carry out the payments within the required period. The mayor should ensure that the municipality does not make expenses, enters into contractual agreements, and makes procurements without the commitment of funds for the respective case.

4.6 Internal Audit System

Description

The Internal audit system is a key part of internal control and due to its importance we present it here separately. We consider the scope of internal audit work and the activity of the audit committee. In addition we review actions taken by senior management as a result of the work carried out by internal audit and the audit committee.

Internal Audit Unit (IAU) functions with only with one internal auditor, respectively director of the IAU. The unit has an annual work plan derived from the internal audit strategy for the period 2014-2016. The internal audit plan for 2014 has provided six audits, one of which is procurement with scope 2013. Five other planned audits, with scope partially 2013 and partly 2014 includes: Asset management, revenues in the urbanism department, cadastre and environmental protection, management and maintenance of vehicles, expenditure on education and culture department, and the expenditure in the department of health and social welfare.

Also, the previous year auditor's recommendation in connection with meetings held of Audit Committee has not been implemented. During 2014 only one meeting was held by the three that are foreseen to be held.

21 - Fulfillment of audit plan - High Priority

Finding

There are a number of deficiencies in the activity of the IAU.

- IAU operates without possession of the Statute of AB and AC documents which define the rights and responsibilities of management, Unit Committee members to perform their function independently;
- Up to this time, the Audit Committee has held only one meeting and is not anymore functional;
- IAU composition capacity, with only one auditor, it is not enough and not in accordance with AI 23/2009 on the establishment and functioning of the IAU. Instruction sets, which for municipalities with a budget of over EUR 5,000,000 must commit at least three auditors;
- There is no timetable to follow the recommendations of the IAU and the management does not plan designed to address these recommendations.

These findings suggest a lack of attention to provide maximum benefits that an internal audit system can give Municipality.

Risk

Disapproval of the Statutes and ineffective work of the Audit Committee undermines the authority of the IAU. Incomplete audit program reduces security of effectiveness given to management for key financial systems and reduces the opportunity to take assurance from the work of AB. Lack of focus on the recommendations given by the IAU will result in continued weakness in the control environment within the municipality.

Recommendation 21 To achieve maximum benefits from the work of the IAU, the Mayor shall ensure to approve soon the relevant statutes and appoints an Audit Committee and to operate effectively through regular meetings, in support of the challenges as well as plans and results of the IAU. President should engage at least three auditors since the municipal budget is above EUR 5,000,000. Also, the Mayor shall ensure that management has a timetable to follow the recommendations of the IAU and to address these recommendations.

Annex I: Explanation of the different types of opinion applied

(extract from ISSAI 200)

Form of opinion

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

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

Qualification to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex II: Prior Year Recommendations

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
Compliance with AFS reporting requirements	<ul style="list-style-type: none"> • The preparation of the annual financial statements includes procedures and tools that are designed to ensure that the required information is recorded, processed, summarized and appropriately reported in the Financial Statements. • Information on payments from third parties, receivables and contingent liabilities is regularly updated and reviewed to ensure accuracy and completeness of such disclosures in the financial statements. • The number of employees is continuously monitored and regularly reported to ensure compliance with the budget limits and reporting requirements. 			to be addressed;
Planning and Budget Execution	<p>The Mayor should regularly monitor the budget performance on a monthly basis and identify and address barriers to the planned levels of budget execution. Where the initial budget assumptions are found to be inaccurate, this should be addressed in the final budget.</p> <p>The Mayor should ensure that the plan for own source revenues represents a</p>		Partially addressed;	

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
	realistic plan and corresponds to the opportunities of the Municipality to collect revenues. Furthermore, the Mayor should ensure that all necessary measures are taken to collect these revenues.			
Revenue (including own source revenues)	<p>We recommend the Mayor ensures that the Municipality takes steps to improve the billing and accounting systems in order to ensure safe, efficient and effective controls on billing and revenue. Improvement of the procedures related to such systems would enable management to monitor and manage significant risks, and to ensure that decisions related to budgeting, planning and collection of revenues are properly carried out. We recommend that the Municipality considers to:</p> <ul style="list-style-type: none"> • Implement a billing system that includes updated details about the payers, their current address, history and collection rating. Such information should be accessible only to a limited number of people and with the authorization of management. • Enter and centrally control the approved tariffs and tax rates in the system in order to calculate and 			to be addressed;

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
	<p>generate bills automatically. The generation of bills should also be authorized and reviewed.</p> <ul style="list-style-type: none"> • Automatically inter-connect the billing system with the accounting software so that information is automatically processed into the general ledger. • Automatically link the operational and billing units and perform regular reconciliations between them, in cases where the billing is directly related to services supplied by the operational units. This is especially important where a high volume of transactions is executed. • Perform the required identification and verification of all properties to ensure a proper assessment of the tax on property. • Utilise the adequate codes and payment slips for own source revenues to ensure their proper classification, and implement controls such as regular review of classification, in order to ensure an accurate presentation of such revenue in the financial statements. 			
Procurement	<p>We recommend the Mayor ensures that:</p> <ul style="list-style-type: none"> • The Municipality shall take further 			to be addressed;

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
	<p>steps to improve controls over expenses and payments, and ensure that all required documentation is obtained and presented in strict compliance with laws and local regulatory requirements.</p> <ul style="list-style-type: none"> • A review of the audit findings according to which the processes are not implemented effectively is performed, and the reasons for failures are assessed. Appropriate actions / processes should be implemented to ensure that such failures will not occur in the future. 			
Non Procurement Expenditure	We recommend the Mayor ensures that the Municipality takes further steps to improve controls over expenses and payments and ensure that all required documentation is obtained and presented in strict compliance with laws and local regulatory requirements.			to be addressed;
Remunerations (Wages and Salaries)	We recommend the Mayor ensures that the Municipality reports and maintains complete information in relation to wages and salaries and complies with the relevant requirements for approval of such expenses and for the personnel files.			to be addressed;
Capital and non-capital assets	We recommend the Mayor to involve additional resources in the registration,			to be addressed;

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
	control and valuation of the assets of the Municipality and to ensure that Municipality continuously records and presents all assets in its financial statements, and reconciles information from all sources involved in financing these assets.			
Payments from third parties- High Priority	We recommend the Mayor ensures that the Municipality is making its best efforts to obtain information on payments from third parties, with particular emphasis on those parties that are known to have made significant investments in the Municipality. The obtained information should be properly presented in the assets register of the Municipality. Best practice would require an annual reconciliation of information between third parties and the Municipality for the investments made during the year.			to be addressed;
Handling of receivables	We recommend that the Mayor ensures that the Municipality take further steps to improve controls and to comply with laws and local regulatory requirements regarding collections of revenues.			to be addressed;
Internal Audit System	We recommend that the Mayor should prepare an Action Plan which should be implemented to ensure that the internal			to be addressed;

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Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
	<p>audit work is appropriately performed and reported on a timely basis, and to address the resulting recommendations, including appointment of the responsible officers and determination of the timeline for the implementation.</p> <p>The Mayor should cooperate with Internal Audit to ensure sufficient activities on the financial systems during the year, before draft AFS are issued. The completion of activities included in the internal audit plan, should be monitored every two months to take proactive actions in order to address deviations from the plan in due time.</p>			

Findings	Agree / Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
<p>Issue 1 - Lack of ownership documentation for the investments made by other government agencies (continued)</p> <p>Also we have identified investments made during 2014, but which are not presented in the financial statements of December 31, 2014 since the documents for them have not been received from the relevant government agencies in 2014.</p>			
<p>Issues 4 and 5 - Material weaknesses in the preparation of annual financial statements</p> <p>The issues raised in connection with the reporting framework have been partially addressed by the management. In the context of the AFS, we have identified the following noncompliance expressed below:</p> <p>4. In the Statement of Budget execution are presented own source revenues from previous year, in the amount of EUR 121,470. In this statement should not be presented own source revenues carried forward from previous year, but only those realized during the current year.</p>	Partially	<p>Revenue carried over from 2013 should have been presented because it is required by budget as per KFMIS.</p> <p>To clarify this note we thought that adding and describing of carried HVK will be better understood.</p>	<p>MF Regulation - No.03 / 2013 "On the Annual Financial Statements of Business Organizations" and Volume III Accounting Manual establishes that revenues carried forward from last year should not be presented in the Statement of Budget Execution.</p> <p>The finding remains valid.</p>

Findings	Agree / Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
<p>Issues 4 and 5 - Material weaknesses in the preparation of annual financial statements (continued)</p> <p>5. At note 28 - Statement of unpaid bills of budget organization are not presented bills that belong to the category of transfers and subventions in amount of EUR 1,725, and thus the total submitted is misstated.</p> <p>6. Among the total actual number of employees according to AFS 2014 and payroll lists there is a difference of 25 employees at the end of the year 2014.</p>		<p>Do not agree that unpressed debt to subsidies and transferet is EUR 1,725.</p> <p>The discrepancy of 25 workers has to do with Municipal Councilors because they are not included as the number in the budget law, so we have a lack of employment of 2 persons.</p>	<p>This amount has not been presented to note 28 of the financial statements but only a detailed table of unpaid bills.</p> <p>The finding remains valid.</p> <p>Anyway must be reconcile between financial statements and payroll lists. The finding remains valid.</p>

Findings	Agree / Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
<p>Issue 10 - Systematic weaknesses in Procurement</p> <ul style="list-style-type: none"> In two cases to contracts with a value of EUR 138,765 we have noted that the amount of committed funds don't cover the amount of the contract. In one case of a contract in the amount of EUR 9,740 was missing a declaration under oath that must be signed by the Evaluation Committee as required by procurement law no. 04/L-042. 		<p>Asphalting and regulation of local roads has been an annual contract and commitment and payments are done according to the needs and works carried out in the field.</p> <p>DUO is and with the date. 04.01.2014 signed by autorizuaes persons. I send you a scanned copy.</p>	<p>Our findings are based on the Financial Regulation 01/2013 "Spending of Public Funds" under which budgetary organizations should not enter into contractual obligations without commitment of funds in balance system, and the same commitment should be part of the contract. LMFPP also requires that prior to the initiation of a procurement process that is intended to result in the establishment of an obligation in the current fiscal year, the budget organization records all the commitments of funds allocated in accordance with the Balance in the MFK The finding remains valid.</p> <p>DUO for Ms. Lika Jasemine was not provided.</p> <p>The finding remains valid.</p>

Findings	Agree / Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
<p>Issue 10 - Systematic weaknesses in Procurement (continued)</p> <ul style="list-style-type: none"> In five cases of contracts in total amount EUR 165,491 we have noted that contracted works are not completed on time as agreed in the contract between the Municipality and Economic Operator (EO). 		<p>In case of exceeding of the dynamic plan without reason by EO, the project manager announces PO and apply measures against the EO. In the cases mentioned based on the Project Manager there have not been notice that the delays were due to delays in the implementation from EO.</p>	<p>Municipality should clarify the reasons for delays and if they are caused by the EO to apply penalty measures. The finding remains valid.</p>
<p>Issue 16 Stocktaking of capital assets</p> <p>For year ended December 31, 2014 the Municipality has not performed the process of stocktaking and valuation of its assets as required with Regulation No. 02/2013 "For government of non-financial assets in the budget organizations", which requires that "Budget organizations must check at least once a year the non-financial assets to verify and assess the factual situation of non-financial assets". The latest report on the registration and valuation of real estate is done in 2011 and we have not been provided in this report.</p>	Partially	<p>Exist records from the commission, it was done effort to keep assets on control.</p>	<p>Regulation requirements should be fully fulfilled. The finding remains valid.</p>

Findings	Agree / Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
Issue 20 - Unpaid Obligation We have identified that the Municipality did not perform payments for its obligations within 30 days as is defined with legal requirements.	Partially	We have cases where the payments are made in legal terms.	Regulation requirements should be fully fulfilled. The fiunding remains valid.