



REPUBLIKA E KOSOVËS / REPUBLIKA KOSOVA / REPUBLIC OF KOSOVA

**ZYRA KOMBËTARE E AUDITIMIT
NACIONALNA KANCELARIJA REVIZIJE
NATIONAL AUDIT OFFICE**

Document No: 22.3.1-2016-08

**AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF GJAKOVA
MUNICIPALITY FOR
THE YEAR ENDED 31 DECEMBER 2016**

Prishtina, june 2017

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

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

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

The Auditor General has decided on the audit opinion on report on the Annual Financial Statements of Gjakova 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 by *Kapllan Muhaxheri* (team Leader), *Agim Sogojeva* and *Alban Shatri* under the management of the Head of Audit Department, *Astrit Bllaca*.

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Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2016 Annual Financial Report of Gjakova Municipality, which determines the Opinion given by the Auditor General. The examination of the 2016 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions. Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in our External Audit Plan¹ dated 19.10.2016.

Our audit focus has been on:



(For more details, see Annex 1)

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

Opinion of the Auditor General

Unmodified Opinion with emphasis of matter

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

Emphasis of matter

As an emphasis of matter, we would like to draw your attention to the fact that the project worth €2,064,161 for Construction of 29 Houses to Communities built on municipal land and 131 apartments, garages, basements and 59 business premises registered in the Cadastre were not recorded in the Assets Register in KFMIS.

For more details, see Section 1.1 of this report.

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

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

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

Key Conclusions and Recommendations

The Emphasis of Matter in the opinion reflects weaknesses in controls over assets management resulting in many assets not being recorded in KFMIS. In addition, improper classification in the expenditures register have been identified



The Mayor should ensure that an analysis is made on the reasons for the Emphasis of Matter. Actions should be taken to systematically address those reasons, to prevent errors in the classification of capital expenditures and to make a complete assets registration (see chapter 1.1).

A number of errors were identified in the initial statements and we suggested the Municipality to make the needed corrections before they are submitted to the MoF. The Municipality made all possible corrections in the final version, but a number of errors having no material impact on the opinion have remained

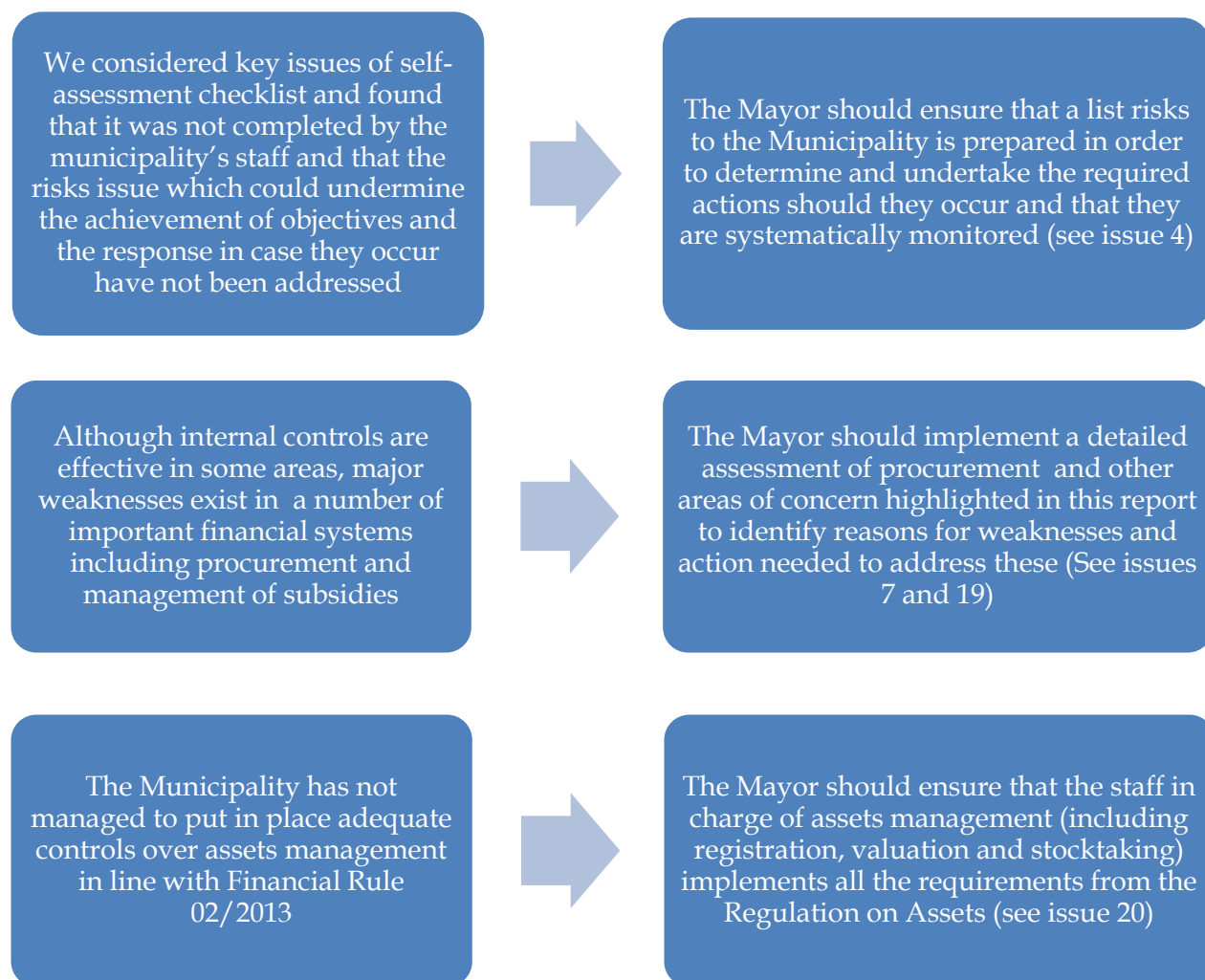


The Mayor should ensure that the 2017 AFS production process fully addresses weaknesses identified in the AFS. The declaration made by CAO and CFO when the draft AFS are submitted to MoF should not be signed unless a comprehensive review on the content and accuracy of AFS has been made by the Management (see chapter 1.2)

We found that the Management prepared the action plan on implementation of recommendations, but the planned actions were not implemented thus leading to the repetition of some of the recommendations this year as well



The Mayor should ensure that actions plans are implemented by sectors. She should respond to audit findings and recommendations and monitor them on a monthly basis. A rigorous accountability process regarding the recommendations implementation plan should be put in place (see issue 3)



Mayor's Response

The Mayor has considered the detailed audit findings and conclusions in this report and has committed to address all given recommendations. In addition, the Mayor is committed to:

- discuss the audit report in the Municipal Assembly; and
- By the end of January 2018, he shall discuss in the Municipal Assembly about the progress in the implementation of audit recommendations Action Plan before the annual financial statements of 2017 are submitted to the Ministry of Finance.

1 Annual Financial Statements and other External Reporting Obligations

Introduction

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

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

1.1 Audit Opinion

Unmodified Opinion with Emphasis of Matter

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

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

Basis for the opinion

We conducted the audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the AFS section of our report. NAO 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 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.

Emphasis of Matter

We draw your attention to the fact that the Fixed Assets Register does not confirm the complete assets situation. Acquired assets worth €2,064,161 from the project for Construction of 29 Houses to Communities, co-financed by Swiss Caritas, were presented in the AFS as third parties payment, but these residential premises were not recorded as assets in KFMIS. These houses were built on municipality land for social cases. The established Commission for the Property Valuation and Verification has verified, measured and recorded 131 apartments, additional garages, basements and 59 business premises of different surface which have been registered in the Cadastre but were not registered in KFMIS.

Responsibility of Management and Those Charged with Governance and AFS

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

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

Auditor General's Responsibility for the Audit of the AFS

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

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

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

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

1.2 Compliance with AFS and other reporting requirements

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

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
- Requirements of LPFMA no.03/L-048, as amended and supplemented with Law no.03/L-221, Law no. 04/L-116 and Law no. 04/L-194;
- Compliance with Financial Rule no.01/2013;
- Compliance with Financial Rule no.02/2013;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures;
- Nine-month Financial Statements in time;
- Procurement Plan for 2016; and
- AFS have been prepared and signed by CAO and CFO in time.

In the context of reporting requirements, we have not identified any irregularity.

In the context of the AFS, we have identified non-compliance and a number of financial adjustments were required to improve their quality. The suggested adjustments have been fully implemented.

1.3 Recommendations for the first part of the report

In the regard to the issues presented above, the following recommendations are given:

Recommendation 1 The Mayor should ensure that an analysis is undertaken to determine the causes of the emphasis of matter in the opinion. Actions should be taken to address the underlying causes in a systematic manner to remove errors in the classification of non-capital expenditure and to ensure the correct valuation of capital assets. Moreover, she should provide for a complete and accurate register of municipality's assets.

Recommendation 2 The Mayor should ensure that the AFS production process fully addresses weaknesses identified in the AFS. The declaration made by CAO and CFO when the draft AFS are submitted to MoF should not be signed unless a comprehensive review on the content and accuracy of AFS has been made by the Management.

2 Governance

Introduction

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

A key tool supporting effective Governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. Similarly the self-assessment checklist completed by all Budget Organisations provides a framework for developing enhanced Governance arrangements. It is important that the answers provided by an individual budget organisation are supported by appropriate evidence. We have therefore applied a consistent approach across all audits to determine the quality of the completed self-assessment checklists and to assess the accuracy of the picture being presented on Governance in Kosovo.

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

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

Overall Governance Conclusion

We have assessed some activities which would contribute to good governance and the existing capacities for further improvement as follows:

Poor implementation of recommendations – A key tool supporting effective governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. Only four (4) out of 18 recommendations have been implemented.

The Municipality has progressed in the organisation's management, mainly in the reduction of operating expenditures and settlement of outstanding debts and has undertaken considerable actions in entering into contractual agreements with various donors.

For most of the Municipality's activities there is a good communication and reporting between the Heads of Units and the Mayor, supported with minutes, but there is no strategic monitoring and no formal and systematic reporting (monitoring) relating the Municipality's objectives to the results.

The Municipality did not present a risk register, which is the requirement number four in the Treasury's document on Financial Management and Control.

Self-Assessment Questionnaire - The Municipality has considered the legal requirements foreseen by the FMC rules and has timely completed the self-assessment carried out by the Mayor and the Director of Administration but needs to include a more critical assessment of the achievement of the results.

The main areas where more improvements are needed are: Municipal Assets and Communal Property Registration.

The Mayor has established a special commission to record all municipal properties in order to identify the disputed properties, their use by different people without any legal basis, and the use of premises without paying the municipality. So far, significant progress has been made so far. After recording the municipal property, DEMOS Project has supported the Municipality with some other surveyors to measure the surfaces of apartments and shops to be registered in the Cadastre. According to the verification, there were no valid contracts for the use of business premises. The Assembly has thereafter taken the decision to rent them by applying legal procedures. Another decision was taken to forgive these users' debts as of 2014.

There have been verified, measured and recorded 131 apartments, additional garages, basements and a final report is being prepared for 44 municipal plots rented by the former Assembly of 2009.

2.1 Progress in Implementing Prior Year Recommendations

Our Audit Report on the 2015 AFS resulted in 18 recommendations. Within 30 days after having received that report, the Municipality prepared an Action Plan stating how all recommendations will be addressed. By the end of the 2016 audit period, four (4) recommendations were implemented, six (6) were under implementation process and eight (8) have not been addressed yet. The audit report of 2015 AFS was discussed in the Municipal Assembly during July 2016.

For a more thorough description of the recommendations and how they are addressed, see Annex III.

Issue 3 – Implementation of Prior Year Audit Recommendations – High Priority

Finding The Municipality has implemented a small number of recommendations. This was because it has not applied any review process on whether planned actions were being implemented according to the deadlines and by the persons in charge to implement that plan. Thus, no monitoring and confirmation process was noticed which would identify the obstacles in fully addressing them. Such an approach is needed when it comes to managing continuous improvements in the Municipality.

Risk Repetition of recommendations from year to year shows the continuation of same weaknesses in internal controls and key financial systems that have resulted in:

- Incomplete assets register; and
- Misclassification of expenditures.

Recommendation 3 The Mayor should ensure that the reasons behind non-implementation of recommendations are considered and that control and accountability measures are taken towards the staff in charge with the implementation of recommendations. The Municipality should produce actions plans that can be implemented within the set deadlines and with a main focus on high priority recommendations. An accountability process should be in place.

2.2 Self-Assessment Checklist of FMC components

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

Issue 4 – Self Assessment Checklist – High Priority

Finding	As part of our audit, we have considered key questions related to the five components of the self-assessment checklist. We found that the completed self-assessment checklist confirmed that the Municipality has not identified the list of risks that could undermine the achievement of objectives and the responses to them should they occur.
	The Municipality was not sufficiently self-critical and objective in completing the self-assessment checklist. In regard to procurement planning and implementation, we identified many weaknesses whilst the self-assessment regarding the procurement process was given high grades. Moreover, the Municipality has not yet managed to identify and complete the list of its immovable property whilst the self-assessment regarding that was given high grade as well (for more, see sub-chapter 3.3.5)
Risk	Assessing processes by not describing associated weaknesses gives an inaccurate overview of the quality of overall financial management and control effectiveness and increases the risk of the management not being informed of the existing omissions and shortcomings while the actual situation is different. Subjective assessment of processes leads to wrong decision-making.
Recommendation 4	The Mayor should ensure that the self-assessment of processes is made to a high level of objectivity and that internal audit, in addition to the management's confirmations, validates the self-assessment assertions.

2.3 Specific Governance Reviews

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

2.3.1 Setting of Strategic Objectives

The Municipality has produced a series of strategic documents: the 2016-2018 Strategy on Local Economic Development aiming the achievement of objectives, which was quite comprehensive and well elaborated. It was underpinned by clearly oriented objectives and elaborated implementation costs. Its relation to the Medium-Term Expenditure Framework was quite good. Annual plans were based on its elements as well; the Strategy for Agricultural and Forestry sector and Development and the 2014 – 2020 Development Strategy of the Republic of Kosovo, aligned to EU standards and practices, to ecological and competitive norms in the region and supported by development government funds both local and international; the Strategy on Culture and the Sports aiming at the promotion and development of tourism in Gjakova; Open Public Spaces Maintenance Plan etc.

Recommendations

We have no recommendations in this area.

2.3.2 Management Reporting and Accountability

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. Quarterly and annual financial reports to be approved by the Municipal Assembly and the report on capital investments progress (quarterly and annual) are legal requirements imposed to the Municipality.

Issue 5 – Weaknesses in High Level Management Controls – High Priority

Finding	Our review of the management controls applied to the Municipality's key financial system highlighted ineffective financial reporting of expenditure and revenue to senior management and incomplete analyses. This is because the format of management reports does not provide explanations for variances against budget and budget forecasts are not updated on a monthly basis. As such, overall governance arrangements need to be improved. The draft annual financial statements have resulted with errors and mistakes. We identified that controls over revenues are not sufficiently effective yet and that controls over some areas of expenditures are weak. Planning of capital projects as well as management of debts and receivables are the key areas in need of improvement.
Risk	Failure to update financial and activity reporting to senior management has reduced the management's ability to proactively manage the operations of Municipality and undermines effective budgetary control. This may also result in revenues not collected as expected. Similarly, it may result in poor quality service delivery.
Recommendation 5	The Mayor should ensure that a review is implemented to determine the format of financial and operational reporting to senior management which may provide all relevant information for a qualitative and timely Management decision-making.

2.4 Internal Audit System

The Internal Audit Unit (IAU) consists of one official who was appointed in July 2016. The IAU's capacities, with just one auditor, is not sufficient considering the Municipality's budget and is not in line with the AI no.23/2009 on the Establishment and Functioning of IAU.

IAU planned just two audits for 2016. For the reporting period, it did not covered some of the key areas considering that it prepared two reports by the end of the year. The review areas are: (1) Procurement Office (Scope – January-2015/ August 2016); and (2) Audit of the property tax sector for the July-August 2016 period.

Moreover, the Municipality has not established the Internal Audit Committee this year, which would facilitate and improve the functioning of this system.

Issue 6 – IAU not functioning – High Priority

Finding	Due to lack of audit staff, IAU produced only two reports. Therefore, all areas of high risks to the Municipality's operations have not been covered and considered.
Risk	IAU's failure to consider high risks areas reduces the assurance provided to the Management on the functioning and effectiveness of controls applied on key financial issues and reduces the external auditor's possibility to rely on the IAU work. In addition, the Audit Committee's limited contribution may result in failure to address internal audit recommendations and in ongoing ineffective practices.
Recommendation 6	To gain maximum benefit from IA activity, the Mayor should ensure that IAU is manned with sufficient staff and that future IAU operations are focused on the production and implementation of audit plans and risk-based audit strategy. Moreover, an Audit Committee should be established in order to ensure oversight, building up and strengthening of the internal audit role.

3 Financial Management and Control

Introduction

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

Financial Management and Control Conclusion

The Municipality has put in place a sound system of controls over expenditures and revenues. However, in respect to compliance, our audit has highlighted a number of weaknesses related to procurement, revenues and other expenditures as a result of regulations and guidelines not being enforced. This reflects lack of Municipality's adequate oversight of the abovementioned areas. In the context of financial systems, controls over assets recording and management are generally weak and ineffectively applied. Other areas where improvements are required are the management and minimisation of accounts receivables and liabilities as well as classification of expenditures.

3.1 Budget Planning and Execution

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

Table 1. Own source revenues (in €)

Description	Initial Budget	Final Budget	2016 Receipts	2015 Receipts	2014 Receipts
Own Source Revenues	3,030,300	3,204,552	3,204,552	2,581,209	2,731,645

According to the budget, own source revenues were €3,030,300. The revenues outturn during the year had exceeded and the Municipal Assembly approved additional revenues. By the yearend, collection of revenues amounted to €3,204,552 or 106%, an increase of €623,343 compared to the previous year. This includes court fines and traffic fines. This revenues' collection level was quite satisfactory.

Own source revenues of €1,777,413, or 70%, were mainly spent on capital investments, whilst the remaining was spent on other categories. A considerable part of €1,270,405 of OSR was carried forward to 2017. Planned revenues, which are not spent, are for Capital Investments €1,081,733; Goods and Services €156,489; Utilities €2,427; Subsidies and Transfers €21,395; Wages and Salaries €8,640.

Table 2. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2016 Outturn	2015 Outturn	2014 Outturn
Sources of Funds	19,895,982	21,044,914	19,437,159	20,104,201	19,429,426
Government Grant - Budget	16,865,682	16,722,312	16,685,007	17,635,086	16,755,270
Carried forward from previous year ³ -	0	614,448	544,035	348,833	296,632
Own Source Revenues ⁴	3,030,300	3,204,800	2,004,529	2,002,422	2,348,116
Domestic and external Donations	0	410,554	203,588	17,860	29,408
Borrowing	-	50,000	-	-	-

The final budget is higher than the initial budget by €1,148,932 as a result of:

- Own source revenues of €614,448 carried forward from 2015;
- Increase in donations of €409,748;
- Savings from the Government Grant (€99,516) based on the Government decision and of an allocation of €50,000 from OSR to benefit a loan from MoF.

In 2016, the Municipality used 92% of the final budget. In general, the budget execution remains at an unsatisfactory level and explanations for the current position are detailed below.

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

Description	Initial Budget	Final Budget	2016 Outturn	2015 Outturn	2014 Outturn
Spending of funds by economic categories	19,895,982	21,044,914	19,437,159	20,104,201	19,429,426
Wages and Salaries	13,007,754	12,983,547	12,916,157	12,834,526	11,759,147
Goods and Services	1,695,220	1,891,474	1,733,534	1,561,945	1,404,276
Utilities	561,899	571,194	567,520	556,077	716,3777
Subsidies and Transfers	439,982	523,969	499,615	660,160	509,556
Capital Investments	4,191,127	5,074,730	3,720,333	4,491,493	5,040,070

Despite an increase in capital expenditure budget during the year, only 73% of the budget was spent. Moreover, according to the capital investments program, the actual annual expenditures were

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

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

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

€2,489,199 or 49% of the final budget because of the amount of €918,334 that relates to the payments for debts accumulated from previous years and the amount of €312,800 that was paid by Treasury on behalf of execution of court decisions.

The Goods and Services budget increased by €196,254, whilst 92% of the final budget was spent. While the budget execution was relatively good, the Municipality's liabilities in this category increased from €171,000 as they were in 2015 to around €557,225 in the end of 2016.

There were not big differences between the final and initial budget of Utilities. It was spent at 99%. On the other hand, outstanding liabilities for this category by the yearend were €165,503 or 29% of the budget. This was due to the Municipality's inability to properly plan and manage the available budget.

The Municipality also received grants of €409,748 from donors. The budget execution for this area was relatively low, with just 50% spent.

Issue 7 – Budget Execution – High Priority

Finding Budget execution was not at the expected level and the amount of €1,270,405 of own source funds were carried forward as unspent. Other expenditures could have been incurred at the yearend for outstanding liabilities which have reached a significant level (see chapter 3.5)

Risk Inadequate budget planning and execution may result in failure to meet organisational objectives. This was because previous years' liabilities have been paid during the current year.

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

3.1.1 Revenues

Revenues generated by the Municipality in 2016 totalled €3,204,552. This increase was as a result of collecting property tax revenues, which is a dominating category in the structure of own source revenues.

The Municipality has not put in place effective internal controls over the collection and reporting of revenues, including their aggregation in the AFS.

Issue 8 – Shortcomings in reporting – High Priority

Finding

In municipal directorates, existing data are not adequately managed in many cases. These directorates did not reconcile the accounting data, including monthly remaining balances, with the Revenues Officer in the central finance office as required in the Financial Rule no.03/2010 on Revenues.

The Municipal Property Tax Office is obliged to conduct on-site verification (resurvey) of 1/3 of recorded properties . This is done for the purpose of updating the existing notes. During 2016, Gjakova Municipality has just verified 3.2% of the total number of properties (897 out of 27,319). However, with the purpose of updating the existing records, the Municipality carried out 7,521 property verifications, which were not performed according to legal requirements (new surveys were not conducted).

In 2016, property tax revenues collected for this year and previous years' were €1,563,827 whilst invoicing for this year was €2,002,365. The Municipality did not apply any pro-active approach to collect property tax.

According to the AI no.05/2012 on Fees for Cadastral Services and Products, data checking and recording into the Field Data Register is charged for €20 per cadastral unit. In one out of five tested samples, we found that in relation to payment €1,251 two cadastral units were not charged, as a result revenues were understated by €40. Having identified this error, the municipal cadastral office has rebilled the client and the payment was executed.

Risk

Lack of complete records may lead to the situation where eventual errors are not detected in time. Lack of effective controls over own source revenues management will continue to result in low level of collection. Failure to verify 1/3 of properties may result in incomplete information on the current taxable property with a potential impact that estimated revenues on property tax may decrease.

Recommendation 8

The Mayor should ensure that reconciliations between municipal directorates and finance administration are made on regular monthly basis and that sustainable controls which would ensure a proper planning and effective collection of own source revenues are put in place. In addition, the municipal properties verification process should be conducted as stipulated in the law.

Issue 9 – Failure to review construction permits within the statutory deadlines – Medium Priority

Finding Our examinations have identified that in two out of eight tested matters, the statutory deadline for reviewing applications for construction permits has not been adhered to. The applicable Law on Construction stipulates that the construction permit of category II shall be reviewed within 45 days of the receipt of application. Delays in reviewing the said construction permits were from 31 to 39 days.

Risk Extended deadlines for reviewing construction permits may lead to the situation where citizens start to build without having the respective permits.

Recommendation 9 The Mayor should ensure that the Department of Urban Planning will review all applications on construction permits and that decisions upon are made within the legal limits.

3.1.2 Wages and Salaries

The planned budget for Wages and Salaries were €12,983,546, whilst expenditures were €12,916,157 or 99.5%. Wages and Salaries are paid through a centralised system operated by the Ministry of Public Administration. Key controls should confirm accuracy and completeness of payments such as approval and entry into payroll, verification of the allowed number and other controls and the budget approval for Wages and Salaries by the Municipal Assembly. We also examined whether employees have been paid according to their contracts.

Issue 10 – Compensation for overtime work – High Priority

Finding Based on the Law no.3/L-147 on Salaries of Civil Servants, compensation for overtime work is calculated for each working hour, adding the value depending on whether overtime work is conducted during regular working day, weekends or holidays, calculated on the basic salary. In eight tested samples, we found that compensation for overtime work was not correctly calculated. In total, these compensations were overstated by €100.

In three tested samples, we found that personnel files were not completed as required in the regulation. Files were missing some of the required documents such as the copy of Investigation Clearance Certificate, copy of Birth and Citizenship Certificates, copy of registration in the pension fund etc.

Risk Incomplete files do not provide for the possibility to possess the adequate records to justify pay/allowances or to allow consideration of the outcome of performance appraisals.

Recommendation 10 The Mayor should ensure that officials are compensated for overtime work according to the applicable legislation and that a systematic review of personnel files is undertaken in order to ensure that the required documentation is included within a certain period.

3.1.3 Goods and Services and Utilities

The final budget of Goods and Services and Utilities in 2016 was €2,462,669. Out of which €2,301,054, or 93% were spent.

Issue 11 – Special Service Contracts – Medium Priority

Finding Municipal Directorates hired over 19 officials on Special Service Contracts. The testing of five payments to these officials has identified that the source withholding tax was not applied as stipulated in the Law no.05-L-028.

Risk The Municipality may be subject to punishment by tax authorities for not having applied the source withholding tax to persons engaged through special service contracts.

Recommendation 11 The Mayor should ensure that the source withholding tax to persons engaged through special service contracts is applied in line with the applicable legislation.

Issue 12 – Payment made for Undelivered Service – Medium Priority

Finding The payment of €4,380 dated 8.12.2016 for the use of heating services from District Heating was made for December 2016 and January 2017. This payment was made for a service to be delivered in the future.

Risk Execution of payment before the service is delivered is in contradiction to the Regulation no.01/2013 on Spending of Public Money, which does not foresee the advance payments for Goods and Services. This increases the risk that services are not delivered equivalent to the money spent.

Recommendation 12 The Mayor should ensure that each payment is made only after the service is delivered and that reports and invoices are not accepted unless the period that the payment is made for has ended.

3.1.4 Subsidies and Transfers

The final budget of Subsidies and Transfers was €523,969. Out of which €499,615 or 95% were spent in 2016. We notice an increasing trend of 8% compared to the previous year(2015).

Issue 13 – Weak Monitoring and Lack of Financial Reporting - Medium Priority

Finding In 2015, the Municipal Assembly approved the District Heating’s request for financial aid of €202,500 for revitalising the heating for the 2015-2016 season. The District Heating asked for such financial aid to unfreeze the bank accounts, the were frozen due to financial liabilities, so that they could invest on equipment, settle licence liabilities to the Regional Energy Office and pay employees for 2014 and partially for 2015. The amount of €156,851 was paid to the District Heating in 2015, whilst €45,648 was paid in 2016. We did not find any report confirming that allocated funds have been spent as designated in the Municipality’s decisions.

Risk Lack of reports confirming the destination of expenditures does not provide sufficient assurance that funds have been used according to the project proposals and to the subsidies intended purposes.

Recommendation 13 The Mayor should ensure that respective Directorates monitor and report in details and that payments are supported with sufficient and adequate evidence in order to ensure that subsidies are spent for the intended purpose.

3.1.5 Capital Investments

The final budget of Capital Investments was €5,074,730, out of which €3,720,333 or 73% were spent in 2016. We notice a lower execution of 7% compared to the previous year.

Issue 14 – Failure to Implement Projects and Payments made for Unplanned Projects - High Priority

Finding Public Investment Program includes several ongoing projects from previous years and 26 new projects for the current year. However, the signed contracts of €157,698 for the project on Asphalting Mother Teresa Street in Gjakova had not started to be implemented because the sewage network and plant was about to be built in the city centre (foreign donation). Whilst implementation of projects worth €978,600 for Asphalting of roads in the villages of Novosellë, Pjetërshan-Kusar, Doblibare, and Dobrugjë, signed in previous years, had not even started at all.

Delays in implementation of projects were also found in some projects that started off in 2009 such as: Gradishtë-Smaq-Travë Road, streets in Brekoci quarters, Ujëz 2 – Fshej Road, construction and asphaltting of Madanaj-Rrypaj Road, asphaltting of Kodra e Butinit Road in Dol village. Works in these projects have been executed from 45% to 75%. These projects are not implemented yet. The main causes behind this is lack of funds for the finalisation of projects.

Risk Incorrect planning of projects leads to additional costs and brings the Municipality to budgetary challenges. One of the main challenges was entry into contracts with economic operators without having the needed funds appropriated. Entry into contractual liabilities without having such funds increases the risk that the Municipality may fail to timely meet contractual obligations and be exposed to possible penalties. It also affects the timely completion of projects. Implementation of projects outside the plan could undermine the implementation of planned projects and the achievement of the set objectives.

Recommendation 14 The Mayor should ensure that projects are implemented according to the plans and budget. When the need for re-destination of funds or changing of budget arises this should be reflected in the reviewed budget plans. Administrative procedures for re-destination of funds should be adhered to.

Issue 15 – Systematic Weaknesses in Procurement – High Priority

Finding Our examination of the 2016 Annual Report on Signed Contracts identified some common weaknesses, development of procurement procedures for some projects that were not planned. Funds of €42,616 for the Construction of Memorial Complex in Rogovë and €6,833 for Construction and Maintenance of Parks were not planned according to PIP.

In addition, we found projects that were not foreseen in the procurement plan such as: Construction of Petro Nini Luarasi Road and its Drainage System, worth €225,449; Construction and Asphaltting of the Roan in Zhabel village, worth €507,946; Construction of Pedestrians Walkways in the City Park, worth €101,885; and Decorative Lightening for Yearend Festivities, worth €8,000.

Risk Incorrect planning of projects leads to additional costs and brings the Municipality to budgetary challenges. Implementation of projects outside the plan could undermine the implementation of planned projects and the achievement of the set objectives.

Recommendation 15 The Mayor should ensure that projects are implemented in line with previous plans, otherwise formal changes should be made to the plan. Moreover, additional controls should be applied in order to ensure that weaknesses identified above are addressed.

Issue 16 - Deviation from open procurement procedure and lack of execution security - High Priority

Finding Similar to previous years, procurement procedures such as price quotation and minimal value are still being applied. The price quotation and minimal value procedures were used for 66 out of 128 conducted procurements, i.e. 52%. This has led to separation of tenders where a large number of procedures have been conducted for the same products or services, as follows:

The Municipality conducted the price quotation procedure for Supply of Orchardmen with Young Plants service worth €9,900. Such a service could have been included in the open procedure activity for the contracts Supply with Decorative Young Plants as well as Supply of Orchardmen with Walnut and Hazelnut Young Plants where the beneficiary of both contracts was the same EO.

The same occurred when it comes to supply with stationery; supply with inventory; and supply with curtains. Three contracts of minimal value were signed for these three items.

In two cases, the contract execution security of 10% had not been applied (Internal Renovation of School Premises, payment of €12,125 and Rehabilitation of Sanitary Fittings, payment of €5,000) as required by Article 63 of LPP. The Municipality had required the security only for the value of the current year's commitments for contracts.

Risk The existence of such occurrences during the planning and selection of the type of procedures undermine transparency, eliminate competition and put the quality of delivered services/products and the achievement of projects to question.

Lack of contract performance security may risk that the works or services are not completed on time and quality under the terms of the contract.

Recommendation 16 The Mayor should ask for a detailed planning and ensure that Units make a fair evaluation of procurement requests and that the LPP and AI are fully adhered to in order to prevent the abovementioned cases from being repeated.

Issue 17 – Non-Systematic Weaknesses in Procurement –High Priority

- Finding** Failure to deliver contracted items – Our examination of the contract Renovation of District Heating in Ganimete Terbeshi kindergarten, for the payment of €28,894 made to the EO, has identified the following shortcomings: According to Stage 2 in the Bill-of-Quantities, central heating boilers of 100KW capacity was planned to be mounted. The Contract Manager and Supervisory Body accepted the works and the payment certification was made. In our site visit we paid together with the Contract Manager we found that a boiler of 80 KW, i.e. with a smaller capacity of 20 KW was delivered and installed.
- Risk** This case shows the failures of the Acceptance Commissions and of supervisors when it comes to the completion of the payment and acceptance of services against the money paid. Moreover, changes to the stages in the contract increases the risk that the Municipality will be delivered with products with higher prices than the market ones.
- Recommendation 17** The Mayor should consider the causes behind the reported issue and strengthen control measures in order to prevent such cases from being repeated. Works should be continuously supervised and payments should not be made unless full assurance that contracted stages are implemented according to the Pre-calculation and Bill-of-Quantities is given.

Issue 18 – Elimination of the Cheapest Operators – High Priority

- Finding** The Contract for Rehabilitation of Public Space nearby Beqir Kastrati street was signed on 16.06.2016. Our examination of the Pre-calculations and Bill-of-Quantities has identified that the estimations made were not correct because in Part II the stage for Rehabilitation of Parking was not included in the final bid calculation. Stage I for Cleaning Works in the amount of €450 and Stage II for Paving of Tiles as well as sub-stages from 1 to 6 amounting to €27,095 were not estimated in the final value. Our calculations have identified arithmetic errors where the exact value of the winning EO should have been €105,483. Failure to estimate the total value of €27,545 was the prevailing factor in the selection of the winning EO, given that the other eligible bidder had offered a price of €87,946. The Evaluation Commission's explanation for this was that they did not notice such occurrence. Moreover, the projects works have begun to be executed and the first payment €5,892 has been made.
- Risk** Such cases show serious and ongoing shortcomings in procurement. Evaluation Commission's failure to conduct serious reviews and incorrect estimations lead to additional expenditures and delays in projects execution. In addition, this may lead to the situation of selecting the most expensive operators due to misleading information provided. Such occurrence discriminates other cheaper bidders.
- Recommendation 18** The Mayor should ensure that requesting units evaluate their procurement requests fairly. The Procurement Office should supervise the evaluation commissions, pay more attention to the calculation of stages and ensure that errors are timely detected and corrected.

Issue 19 – Misclassification of expenditures – High Priority

Finding	The Municipality made four (4) payments of €17,510 from Capital Investments budget for goods and services. These payments were made for the maintenance of parks and supply with decorative trees. In 2016, based on courts decisions and provisions of Article 39.2 of LPP, Treasury executed the amount of €162,907 from Capital Investments budget for the Goods and Services category. The reason behind this relates to the large debts inherited from 2013 and lack of funds to compensate EO. This led to a number of budgeted capital projects not being completed and to other cases where the implementation of procurement procedures has not started at all.
Risk	Use of funds in contradiction to the Law on Budget Appropriations may result in overstatement of one category and understatement of the other. Incorrect disclosures may have a negative impact on the users of information in the AFS. Direct execution of payments by Treasury may lead to budgetary turmoil and undermines the achievement of objectives and implementation of planned projects.
Recommendation 19	The Mayor should ensure that a control system is put in place regarding this area, payments are made under adequate codes and that a comprehensive strategy on handling outstanding debts, including their timely budgeting, is produced.

3.2 Assets

3.2.1 Capital and Non-Capital Assets

Assets management is an important part of Financial Management and Control in the Public Sector. A sound management of assets requires the Municipality to have a complete view of assets as well as assets management and control procedures in place and to continuously update changes into its registers. Our audit planning memo identified the risk related to the recording of assets.

The total value of assets over €1,000 was €47,081,468 whilst assets under €1,000 were presented in the amount of €411,949. All significant issues on assets are handled in Section 1.1 – Opinion on the Annual Financial Statements.

Issue 20 – Weaknesses in the Recording of Assets – High Priority

Finding The Municipality has not recorded Education and Health assets under €1,000 into the E-Assets module as foreseen in the Article 6 of the Regulation 02/2013 on the Management of Financial Assets. According to the Assets Officer, this was because the Education Directorate is still using an out-dated program.

Finding Incomplete recording of municipal properties increases the risk of assets being understated. Lack of proper records may expose them to loss, misuse and unauthorised use. Weaknesses in complete assets recording, not including all receipts, makes the assets verification to confirm their existence difficult.

Recommendation 20 The Mayor should ensure that the comprehensive assets recording process will continue and that a final register on municipal assets will be produced within an optimal time. Requirements on assets recording and their maintenance should be fully applied. She should ensure that inventory is accurately recorded and that inflow/outflow of all moveable assets under €1,000 is made through E-assets system by all municipal directorates.

3.2.2 Receivables

According to the data in the AFS, the list of debts to the Municipality amounted to €7,950,662. The largest part of €6,965,025 of these accounts relate to corporate tax and rent. In general, the value of AR has decreased compared to last year. This is mainly caused by the increased collection of property tax and debt forgiveness based on the Amnesty Law and the Municipal Assembly's decision to write off rental debts for the period tenants did not have valid contracts.

Issue 21 – Understatement of Accounts Receivable - High Priority

Finding The value of debt reflected in the individual financial cards of taxpayers does not correspond to the value of debt presented in the charge and collection report. These differences relate to the fine calculated for the second half of the year and the interest of December 2016, which are not included in the charge and collection report. These differences exist among all taxpayers whose debts value at the end of the year was not zero. Therefore, the total value for which accounts receivable are understated is €74,259.

Risk Lack of accurate records on accounts receivable may lead to potential errors unless they are identified in time. As a result, there is an unfair presentation of these accounts receivable in the AFS.

Recommendation 21 The Mayor should put in place more effective controls in order to enable an accurate recording and presentation of accounts receivables.

3.3 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2016 was €1,423,500. These liabilities are carried forward to be paid in 2017. The Municipality has continuously made efforts to obtain additional funds from the Government, but with no positive response. Therefore, expenditures in other categories have been reduced and changes have been made to some projects in order to cover previous liabilities.

Issue 22 – High Level of Liabilities and Increased Contingent Liabilities – High Priority

Finding The municipality has managed to reduce outstanding liabilities from €2,490,750 as they were in previous year to €1,423,500 at the end of 2016. Despite this fact, the Municipality faces contingent liabilities of €578,670. These outstanding liabilities and contingent liabilities are a direct burden to the 2016 budget, as it was the case with the execution of direct payments by the Treasury based on court decisions.

Finding There was no system in place to record and manage invoices received from EOs – from the acceptance to their payment - and this causes difficulties in managing them. According to the MoF Financial Rule no.01-2013 on Spending of Public Money, BOs is obliged to pay any valid invoice on delivered goods and services within 30 calendar days from the date of receipt of such invoice. In five (5) tested cases, liabilities €11,336 were not paid within the statutory deadline.

Risk High level of outstanding liabilities and increased contingent liabilities increase the risk for the budget being subject to direct executions by MoF and court decisions. This also undermines the Municipality's reputation.

Recommendation 22 The Mayor should critically review the balance of outstanding liabilities in order to come up with the necessary measure for addressing the identified issues and ensure that payments are made within the deadlines set out in the financial rules. In regard to handling contingent liabilities, the Mayor should, in coordination with the legal representative of the Municipality, undertake a review of the situation of liabilities in order to determine payment priorities and to avoid situations where payments are made directly by the MoF or upon court decisions.

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

ANNEX I: Audit Approach and Methodology

The responsibilities placed on the Auditor and Those Charged with Governance are detailed in the Opinion set out in Section 1.2 of this report.

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

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

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

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

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

Findings considered low priority were reported separately to finance staff .

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

Annex II: Explanation of the different types of opinion applied by NAO

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex III: Prior Year Recommendations

Audit Component	Recommendation given	Implemented	Under implementation	Not implemented
1.4 Compliance with AFS and other reporting requirements Recommendation 1	The Mayor should ensure that effective processes are in place to confirm that the 2016 AFS production plan formally addresses all issues raised. This should also include management review of the draft AFS with specific focus on high risk areas and those areas where errors have been identified. When it comes to third parties, cases of investments for 2016 made by Caritas, Kost and Rotary Club Gjakova should be accurately completed			AFS are corrected when it comes to assets; no decisions are taken regarding third party payments.
2.3 Payments according to court decisions Recommendation 2	The Mayor should ensure that a general strategy is established for handling outstanding debts, including their budgeting. Cases where the municipality challenges the regularity of payments by private bailiffs, it should process cases to the highest instance for review.		Treasury payments are still present, but in some case payments have been made to avoid payments of additional costs by private bailiffs.	
3. Previous years recommendations Recommendation 3	The Mayor should ensure that the action plan is implemented, reviewed and sets out a timetable for implementation of recommendations made by the AG with accountable staff appointed for rigorous monitoring of this process		There is progress in implementation, but there is room for improvement in some of the premises.	

2.5 FMC Self-Assessment Checklist Recommendation 4	The Mayor should ensure that a review of the processes for completing the self-assessment checklist and proactively addressing areas of weaknesses is implemented. A revised mechanism to confirm the accuracy of the checklist and ensure supporting documentation for answers confirmed is applied.		There is progress, given that it was completed with seriousness, but in some case it was not sufficiently self-critical.	
2.6 Specific Governance Review Recommendation 5	The Mayor should ensure that immediate responsibility for risk management is delegated to a respective Director who in coordination with Heads of Units will manage this process and report on regular basis on risks.			No list of risks has been prepared yet.
2.7 Internal Audit System Recommendation 6 and Recommendation 7	The Mayor should ensure that the Internal Audit System is operational and maximum benefits are taken from the assurance services provided by IA. Further on, to ensure that the human capacities in the audit unit, as well as the Audit Committee are in line with the rules on the functioning of IA.			It was not operational yet given its limited staff number based on the Municipality's budget and still they didn't establish Audit Committee.
3.3 Budget Planning and Execution Recommendation 8	The Mayor should ensure that budget performance is systematically monitored and take measures for executing the planned budget level.	There was a good budget performance execution.		

3.4 Procurement Recommendation 9	The Mayor should hold persons into account who have allowed the above failures and financial losses. Procurement Office should be more careful when determining items/stages, and such mistakes are not repeated. A detailed planning is necessary and units should fairly evaluate procurement requirements			Splitting of tenders was quite emphasised this year as well, particularly in the development of procurement procedures with minimal value due to requesting units failure to plan.
Recommendation 10	The Mayor should consider the reasons why procurement regulations have not been applied consistently in the abovementioned cases and strengthen controls measures in order to prevent such failures from repeating. In the case of health staff training in the future, the Mayor should look into options of training from its staff. The works should be supervised continuously and payments are made only after assuring that stages are executed and other shortcomings in the procurement process are not repeated		Some of the requirements are implemented but in the tested samples, we still noticed negligence in the supervision of contracts as it was the case with the payment for executed works.	
3.5 Expenditure not related to Procurement Recommendation 11	The Mayor should ensure that measures taken when it comes to supervision of co-financing agreements including clear reporting requirements during the implementation and monitoring of the project, in line with the requirements arising from the agreements and rules for spending public money. The case of EUROPEAN should be particularly monitored in terms of confirming financial evidence. And, in the case of the new arrangements additional controls should be applied so that no payment is made before the works or services are performed	Have been implemented in the tested samples		

Recommendation 12	The Mayor should ensure that in case of any excess of the limits of mobile telephony, the expenses are paid from salaries of respective officers and a review of all expenditure for 2015 is made where all over-spending is returned to the Kosovo budget, officers who have unjustifiably spent these funds.	There is improvement. Payments have been withheld in cases of excesses.		
3.5.2 Compensations (wages and salaries) Recommendation 13	The Mayor should ensure that candidates are recruited in accordance with applicable laws and regulations. In the case of night shift in health, it should ensure that officials in charge with payments comply with requirements arising from regulation and will not certify payments if the conditions are not met.	One implementation was noticed this year		
3.5.3 Subsidies and Transfers Recommendation 14	The Municipality should stop this phenomenon of paying operating expenditures to the different beneficiaries, while the case for payment should have the relevant documentation in place. The heating case should be continuously monitored. Moreover, procurement procedures should be overlooked in none of the cases where they can be applied		There is progress in the monitoring, appropriation and allocation of subsidies.	
3.6 Revenues Recommendation 15	The Mayor should ensure that during budget review, planning of revenues collected is adjusted based on the trend of previous periods and complexity of existing operations. Further on, sufficient resources should be made available for verification of taxpayers' property.		There was a better performance in the collection of property tax revenues, but there are still setbacks in some areas such as failure to find solution to the property problem, non-inclusion of new property taxpayers.	

3.7 Assets and Liabilities 3.7.1 Capital and non-capital assets Recommendation 16	The Mayor should ensure that a comprehensive asset registration process will continue and that a final Municipality's assets register is produced within an optimal time. The Asset management Officer and officials involved in receiving goods/assets should communicate effectively to avoid non-implementation of the Regulation on asset management			It still faces difficulties in recording municipal assets into the assets register. In addition, the e-assets system in Education Department and MFHC was not operating
3.7.2 Handling of receivables Recommendation 17	The Mayor to ensure that the Economic Development Department sufficiently supervises the business tax history. Disclosures in the financial statements in the next year should be subject to a detailed control and significant controls should be put in place when it comes to the leases. Each lease should be supported by strong contractual basis and its execution is continuously supervised			Regardless of the Municipality's efforts, the balance of receivables in all categories was not accurate.
3.7.3 Handling of debts Recommendation 18	The Mayor should install a registration system for every invoice received by the municipality. Further on, she should ensure that formal confirmations of unpaid invoices are made by the departments responsible in relation to the requests of the CFO			We found invoices that were not archived. Due to lack of budget invoices are paid after the deadline.

Annex IV: Letter of confirmation

[Put the Municipality's logo]

LETTER OF CONFIRMATION

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

To: National Audit Office

Venue and date:

Honoured,

We hereby confirm that:

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

Mayor:

XXXXXX



REPUBLIKA E KOSOVËS/ REPUBLIKA KOSOVA/ REPUBLIC OF KOSOVO
KOMUNA GJAKOVË
OPSTINA DJAKOVICA/ MUNICIPALITY OF GJAKOVA



Data/nr	11.04.2017
Për:	Zyrën Kombëtare të Auditimit
Përmes:	Znj. Mimoza Kusari – Lila, Kryetare e Komunës së Gjakovës
Nga:	Z. Teki Shala, Drejtor i Drejtorisë për Buxhet dhe Financa, KK Gjakovë
Tema:	LETËR E KONFIRMIMIT

I nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për Auditimin e Pasqyrave Financiare të Komunës së Gjakovës, për vitin 2016 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Me respekt,