



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

Document No: 22.30.1-2015-08

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

Prishtina, June 2015

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 shall be independent and certifies around 90 Annual Financial Statements each year, while undertaking other forms of audits.

Our 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.

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

The opinion and report issued are a result of the audit carried out under the management of the Audit Director, Florim Beqiri, supported by Ramadan Gashi (Team Leader) and Selvete Foniqi, team member.

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Executive Summary

Introduction

This report summarises the key findings from our audit of the 2014 Annual Financial Statements of Municipality of Mamusha which determine the Opinion given by the Auditor General. I would like to thank the Mayor and his team for their assistance during the audit process.

The examination of the 2014 Annual Financial Statements was undertaken in accordance with the internationally recognised Public Sector auditing standards (ISSAIs). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The approach taken is set out in our Audit Planning Memorandum dated 03.10.2014.

Our audit focus has been on:



The level of work undertaken by the Office of the Auditor General 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 by the Office of the Auditor General.

The Auditor General’s opinion is:

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 mention the fact that none of the Municipality’s assets were recorded in KFMIS.

Other issues

The Municipality made a wrong classification of expenditures, thus paying €47,534 for Goods and Services from Capital Investments category and made an irregular payment (€12,550) for a project that was not implemented.

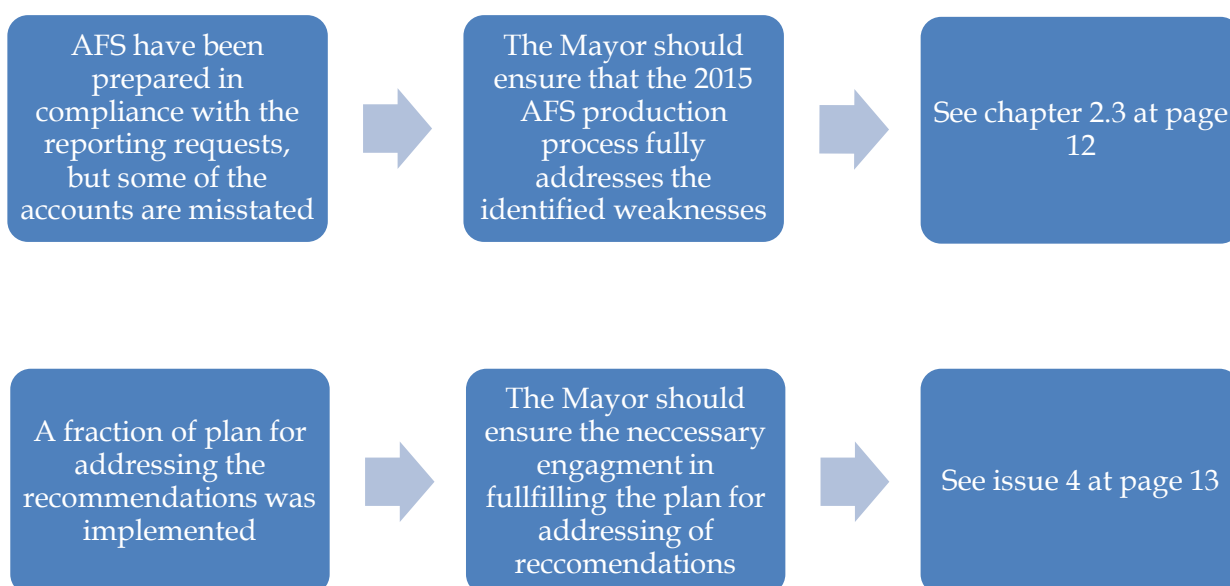
(ISSAI 200/1706 Unmodified Opinion with Emphasis of Matter).

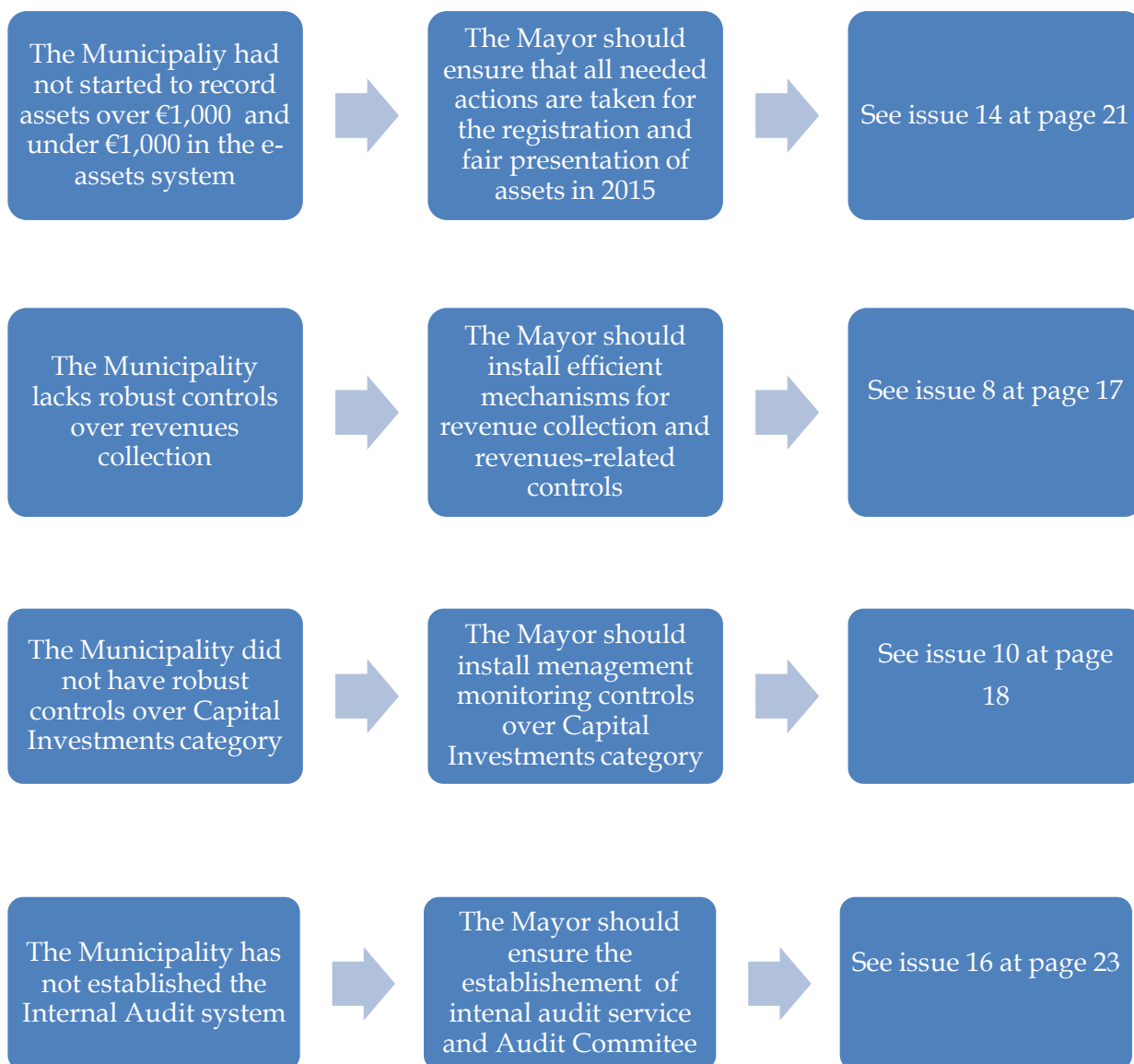
Overall Conclusion

The Management of Municipality has designed the internal control system at a satisfactory level. However, the system should be monitored to ensure that internal controls are in continuously operational.

Areas where the weaknesses have been identified are the following.

Our key conclusions and recommendations are:





Management response – audit 2014

The Management has agreed with all audit findings and committed themselves to address our recommendations.

We take it for granted the fact that the Mayor:

- Table the Audit Report for discussion in the Local Assembly; and
- During January/February 2016 initiate a discussion in the Local Assembly regarding the implementation of the Action Plan on audit recommendations, before AFS 2015 are submitted to Ministry of Finance.

1 Audit Scope and Methodology

It is the responsibility of Management of the Municipality of Mamusha 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. The Office of the Auditor General (OAG) is 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. 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.

For completeness we have included issues identified at the interim audit where they remain relevant. At the interim audit stage we provide advice to enable relevant action to be taken in advance of the AFS production and final audit.

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

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 Mayor 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

The Municipality has failed to address material errors in assets presented in the AFS because they were not recorded in KFMIS at all. In addition, the Municipality misstated expenditures on capital investments. Notwithstanding this, the quality of the AFS was generally good with only a small number of non-material errors identified and all reporting requirements were met.

2.1 Audit Opinion

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 mention the fact that none of the Municipality's assets were recorded in KFMIS.

Other issues

The Municipality made a wrong classification of expenditures, thus paying €47,534 for Goods and Services from Capital Investments category and made an irregular payment (€12,550) for a project that was not implemented.

(ISSAI 200/1706 Unmodified Opinion with Emphasis of Matter).

2.2 Significant Risks to the Annual Financial Statements

Description

Our Audit Planning Memorandum dated 03.10.2014 identified significant risks which accompany the Municipality. Significant risks are those of material misstatements that according to our judgment require special audit evaluation. These are risks of material misstatements that may result in a modification of the opinion.

Our approach reflects our audit response, as detailed in the Audit Planning Memorandum, and is summarised as follows.

Identified Risk

Issue 1 - Presentation of 3rd Party Payments

Audit response and Findings

We analysed the financing of projects and payments made by external donors to the Municipality. We conclude that the Management has undertaken concrete actions in addressing this risk and has presented 3rd Parties payments of €27,000 in AFS.

Identified Risks

Issue 2 - Failure to register all assets owned by the Municipality

Audit Response and Findings

We have assessed the controls implemented by the Management to prove the completeness of asset records in the context of capital expenditure in 2014 and in previous years. In our interim memorandum we provided advice to management on the action required to ensure that the assets figure in the AFS was correct. However the risk identified has materialised because the Management has been unable to implement the necessary improvements. Municipality has no assets recorded in KFMIS.

Recommendation 1 - High Priority - The Mayor should undertake measures to appoint an Assets Official. Having been appointed, the Assets Officer should immediately start recording assets in compliance with the Regulation no.02/2013 on Asset Management.

Issue 3 - Misclassification of expenditures in economic categories

Audit Response and Findings

We conclude that the Management has not undertaken concrete actions to address this risk, €47,534 have been paid for goods and services from the category of Capital Investments.

Recommendation 2 High Priority - The Mayor should undertake measures to ensure that all expenditures are processed through the adequate economic codes.

2.3 Compliance with AFS and other external reporting requirements

Description

The Municipality is required to comply with a specified reporting framework and other reporting requirements. It has fulfilled the reporting requirements as follows:

- Budget requests for financing the Municipality's expenditures;
- Quarterly reports including nine month financial statements in time;
- Operational (performance) reports;
- Draft and final procurement plans in time; and
- The reports on the debts' balance submitted to Ministry of Finance in time.

We have no issues to rise on these matters since Municipality has fulfilled all obligations for the external reporting and timing.

A number of financial adjustments were required to the draft AFS because the final budget, own source revenues collection and some disclosures were wrongly presented. We have also made a number of other suggestions for improvement. AFS were improved later. However, regardless the corrections made, the remaining shortcomings are described below.

Issue 4: AFS preparation Process - High Priority

Finding The Municipality made a misstatement of expenditures for capital investments in the AFS, thus paying €47,534 for goods and services from Capital Investments category;

The Municipality made an irregular payment of €12,550 from Capital Investments category for a project that was not implemented; and

Note 31: Summary of non-financial capital assets, the total of assets over €1,000 in AFS was zero.

Risk Incorrect presentation of AFS and identified errors in registered amounts leads to a misunderstanding of the financial position of the Municipality and has a potential negative impact on the accuracy of future budget requests.

Recommendation 3 The Mayor should ensure that the AFS production process fully addresses the identified weaknesses. The Declaration made by the Mayor and Chief Financial Officer, when the draft AFS are submitted to MoF should be signed only after a comprehensive review by management in regards to the content and accuracy of AFS is made.

3 Prior Year Recommendations

Overall Conclusion

The Municipality prepared and submitted a plan for addressing prior year recommendations. However, only a proportion of prior year recommendations were implemented.

Description

Our Audit Report on the 2013 AFS of the Municipality resulted in 12 recommendations. By the end of our audit for 2014, one (1) recommendation was fully addressed, six (6) were partially addressed, and five (5) have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex II.

Issue 5 - Addressing Prior Year Audit Recommendations - High Priority

Finding Only a proportion of prior year recommendations have been implemented because the Municipality did not apply any formal process to manage and monitor the way the AG recommendations are implemented.

Risk The continuous weakness in management controls and other controls over key financial systems have resulted with the same problems as in the previous year such as; recording of assets in KFMIS, delays in improving controls over revenues collection, payments made before the projects were delivered, payments not made from adequate economic codes etc.

Recommendation 4 The Mayor should ensure that a revised action plan clearly sets out a timetable for addressing the recommendations made by the AG with accountable staff members identified and with initial focus on those of greatest significance. The implementation of this plan should be systematically reviewed by the Mayor.

4 Governance

Overall Conclusion

A range of internal controls are applied by Management to ensure that financial systems operate as intended. It is important that these include appropriate reporting to management to enable an effective and timely response to identified operational problems. The Municipality has not carried out the self-assessment and did not have a risks register.

However, the main areas where most improvements are required are: capital investments budget planning and execution, classification of expenditures, detailed reporting on the capital investment progress, assets recording and reporting and the establishment of Internal audit system.

4.1 Good Governance

Issue 6: Management controls – High priority

Finding Our review of the management controls applied to the Municipality's key financial system highlighted weakness in high level control. As such, overall governance arrangements need to be consolidated, particularly regarding: capital investments budget planning and execution (misclassification), detailed reporting on capital investments progress, assets recording and reporting, non-establishment of the IUA, lack of personnel's electronic files and the staff appraisal.

In addition, advance payments in cash have not been supported with requests and adequate reasoning.

The lack of regular reporting on the Municipality's daily flow of operations has caused significant management weakness leading to the abovementioned irregularities.

Risk The weak quality of internal reporting to the senior management reduces the Management's ability to actively manage the Municipality's operations and undermines effective control over budget.

Recommendation 5 The Mayor should take immediate measures to ensure that a suitable governance structure is applied and a developed internal reporting system wherewith the senior management is informed about results, costs and control weaknesses forming a base for active management.

4.2 Budget Planning and Execution

Description

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

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

Description	Initial Budget	Final Budget ¹	2014 Outturn	2013 Outturn	2012 Outturn
Sources of Funds	1,272,609	1,401,944	1,301,902	1,051,000	1,057,000
Government Grant -Budget	1,209,609	1,285,920	1,264,363	973,000	1,003,000
Carried forward from previous year ² -	0	30,478	0	58,000	48,000
Own Source Revenues ³	63,000	63,000	17,987	19,000	6,000
Domestic Donations	0	5,150	5,150	1,000	0
External Donations	0	17,396	14,402	0	0

The final budget was €129,335 higher than the initial budget. This increase is as a result of External and Domestic Donations of €22,546€, revenues €30,478 carried forward from the previous year and an increase in the Government grant of € 76,311.

In 2014, Municipality used 93% of the final budget or €1,301,902, an improvement of 19% compared to 2013.

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

Description	Initial Budget	Final Budget	2014 Outturn	2013 Outturn	2012 Outturn
Spending of funds broken down by economic categories	1,272,609	1,401,944	1,301,902	1,051,000	1,057,000
Wages and Salaries	710,000	786,311	784,127	682,000	694,000
Goods and Services	102,636	127,586	114,566	94,000	160,000
Utilities	21,800	24,600	21,289	22,000	23,000
Subsidies and Transfers	3,000	3,000	2,976	3,000	3,000
Capital Investments	435,173	460,447	378,944	250,000	177,000

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 Budget own source revenues of the Municipality

Explanations for changes in budget categories are given below:

- Despite the increase in budget for capital expenditure, only 82% of the budget was spent.
- The increase of the budget for Wages and Salaries by €76,311, and Goods and Services by €24,950 was as a result of revenues carried forward from the previous year.
- Despite this, the level of outstanding liabilities was €25,400.
- The 2014 budget execution was 93%, a significant improvement compared to 2013 (83%).

Table 3. Own Source Revenues collected for the Municipality's budget- outturn against budget (in €)

Description	Initial Budget	Final Budget	2014 Outturn	2013 Outturn	2012 Outturn
Own source revenues	63,000	63,000	62,498	40,000	43,000

Own source revenues generated during this period were 99% of the planned amount for 2014, and have significantly increased by €22,498 or 36% compared to 2013.

Issue 7 - Budget Execution - High Priority

Finding Budget execution of 93% presents an enviable performance. Budget execution presented herein is nearly the same over the years and highlights a lower level of execution at the capital investments (82%). There was a similar level of spending in 2013.

Risk Budget under spending will result in inefficient use of Municipality's financial resources. It also reduces the efficiency of Municipality's plans of spending for capital projects.

Recommendation 6 The Mayor should initiate a systematic assessment of the reasons behind the setbacks in capital investments budget execution for 2014 and determine the practical options to improve the execution in 2015.

4.3 Revenues (including own source revenues)

Description

Revenues collected by Municipality of Mamusha in 2014 totalled to €62,498. Most of the revenues were collected from the property taxes of €27,629 and other administrative fees of €24,493.

The Municipality has established controls over revenues collection and reporting. However, some processes need to be improved in order to support the accuracy and completeness of revenues collection.

Issue 8 - Failure to update Businesses Register and weak revenues collection - High Priority

Finding

The Municipality collected €2,206 from the business activity tax. The Municipality's Businesses Register was not updated. According to the business activity tax officials, there were no accurate records on the number of businesses operating in the Municipality of Mamusha. Although the Municipality has a software program, it was not functional and cannot generate reports (financial cards) for the taxpayers.

We tested three samples and found that the Municipality did not charge businesses with business activities taxes in accordance with the annual charge as foreseen with the regulations for taxes, fees and municipal charge.

The Municipality verified 1/3 of the immovable properties as required by the applicable Law no.03/L-204 on Immovable Property Tax and Administrative Instruction. We found that the Municipality did not manage to update the system with data because there were delays in entering these properties. Only 44 properties were entered in the system.

Risk

The lack of accurate records on the number of businesses operating within the territory of Municipality, non-operational software program and charges not applied in line with regulations have resulted in a failure to collect taxes from the businesses operating in the territory of Municipality.

Failure to record the verification for 1/3 of the properties have resulted in the Municipality not having accurate and complete information on the actual properties, and may potentially lead to lower property tax revenues than projected.

Recommendation 7 The Mayor should ensure that register of active business is updated on regular basis, the software program is developed and that accurate records on the number of businesses owing to the municipality are established. Verification and registration of taxable property should be performed in timely.

Issue 9 -Delays in depositing cash in bank - Medium Priority

Finding We found that the cash from collected own source revenues were deposited with delays. Receipts were kept up to 15 days in the Municipality's safe rather than being deposited in the bank.

Risk Keeping the cash receipts e safe in the Municipality's safe rather than depositing them in the bank increases the risk for cash being lost or misused.

Recommendation 8 The Mayor should ensure that all cash from taxes and fees are deposited in the nearest bank within the statutory deadline.

4.4 Expenditures

4.4.1 Procurement

Description

Capital investment projects were generally in compliance with the budget tables. In one case, we found that funds for a certain project were taken from another project without following the procedure of reallocation of funds.

Issue 10 – Payments made before works were finished – High Priority

Finding

The Mayor signed an agreement with the Regional Environmental Center for Central and Eastern Europe (REC), on ‘Supply with a street cleaning truck’ in amount of €60,000. The Municipality’s share was €20,000 or 33% of the project’s amount. Procurement procedures were supposed to be conducted by REC provided that funds were transferred to the REC account. The payment was made on 02.07.2014 whilst the truck was received on 17.10.2014.

The payment of €12,550 made on 30.12.2014 for building the Municipality Administrative building was executed before the work was finished. As a counter value for this payment, EO provided to the Municipality a security for work execution confirmed by the bank.

Risk

Payments made by the Municipality to donor’s accounts up front in accordance with an agreement are not optimal and to the (EO) without progress payments and works acceptance reports produced increases the risk that funds spend from the Municipality will not achieve the intended purpose or even to projects not be delivered at all. Municipality should credit the co-financers because such payments are in contradiction to the law on LPFMA and Treasury Rule 01/2013 stipulating that expenditures from Capital Investments category shall incur only when the following documents are submitted: purchase request, copy of a contract signed by the Procurement Officer, purchase order, receiving report, payment order and the original invoice.

Recommendation 9 The Mayor should ensure that such practice of financing is not repeated and that all payments are executed only after the required documentation is completed as foreseen by law.

Issue 11 - Poor controls over contract implementation - High Priority

Finding We tested the implementation of the contract on construction of local roads in Mamusha in amount of €34,556, signed on 16.06.2014. In testing two payments we found that while the bills did not respect the contracted price for some items the Municipality still received and paid them. Cases when billed prices were higher than the contracted ones are the following: in the first progress payment; the third stage was offered by €0.10 but paid by €0.30, whilst in the second progress payment; the eighth stage was offered by €0.10 but paid by €0.30, total overpayment of €1,251.

Risk The identified controls weaknesses increase the risk for contract overpayment or for some stages not being implemented. Failure in such controls leads the Municipality to the financial loss of funds.

Recommendation 10 The Mayor should ensure an effective control system in order to prevent contractual terms from being overlooked in both goods receiving and prices paid for them. The above mentioned cases should be investigated whether it was a mistake or find the reasons behind the unlawful payments.

4.4.2 Remunerations (Wages and Salaries)

Description

The final budget for the category of Wages and Salaries was €786,311, whilst the expenditures were €784,126 or 99.7%.

We have audited recruitment, overtime, officials who have terminated their employment, and maternity leave.

Municipality does not possess electronic registry on employees, just hard copies. Staff appraisals for 2014 were missing in the files.

Issue 12 - Recruitment without vacancy announcement - High Priority

Finding In the Directorate of Education, two teachers were hired (substitutes), one for Physics/Chemistry on 03.02.2014, and the other one for English Language on 01.01.2014. For these two teachers, we did not obtain any evidence that there was a public vacancy announced by the Municipality.

Risk Recruitment of employees without a public vacancy announcement indicates low level transparency in the recruiting process and increases the risk that, due to lack of open competition, job positions may not be offered to the best candidates.

Recommendation 11 The Mayor should ensure that all recruitments of teachers is done by a public vacancy announcement and in compliance with the relevant law.

4.4.3 Subsidies and Transfers

Description

In 2014, the Municipality planned to spend €3,000 in the category of Subsidies and Transfers, whilst €2,955 or 99% were spent.

We have tested 5 samples of €1,155 and identified the following issues:

Issue 13 - Regulation on subsidies not drafted - High Priority

Finding The Municipality does not have an internal regulation on allocation of subsidies and transfers. Due to this, subsidies are allocated based on the Mayor's decisions.

Risk The lack of internal regulation increases the risk that subsidies are allocated without procedures and criteria.

Recommendation 12 The Mayor should prepare a regulation, which should be approved in the Assembly, by clearly specifying the criteria and procedures for subsidies.

4.5 Assets and Liabilities

4.5.1 Capital and Non Capital Assets

Description

Assets management in the Municipality continues to be a challenge. The Municipality did not register assets over €1,000 in KFMIS and assets under €1,000 in the E-asset program. There was only an internal register in Excel.

Issue 14 - Registration in KFMIS and E-Asset - High-Priority

Finding Given that the Municipality does not have an Assets Officer, it had not started to record the assets over €1,000 and useful life of more than one year in KFMIS. In addition, the Receiving Officer did not record purchases in the accounting registers which budget organizations should keep in the E-asset program.

Risk The lack of asset's registers makes it difficult to identify the assets in order to confirm their existence as well as the value of assets owned by the Municipality. It also increases the risk of assets misuse, loss or alienation.

Recommendation 13 The Mayor should undertake measures to appoint the Assets Official. Having been appointed, the Assets Officer should immediately start recording assets in compliance with the Regulation no.02/2013 on Asset Management.

4.5.2 Handling of Receivables

Description

Municipality did neither issue nor applied any adequate policy for the collection of previous year's debts from property tax and business tax.

Issue 15 - Treatment of accounts receivable - High Priority

Finding According to the data, the debts towards the Municipality were in the amount of €165,811. The majority of these accounts receivable are related to the business tax in amount €90,930, and property tax in amount of €74,881.

Risk Failure to collect charged revenues may result in the Municipality's inability to meet the expenditure plan and in further difficulties to collect charged revenues.

Recommendation 14 The Mayor should initiate a reassessment process, where all accounts will be analysed in terms of aging, significant amounts, real possibilities for collection and exercising administrative measures needed.

4.5.3 Handling of Debts

Description

The Municipality was able to manage well the debts. Our audit conclusion is that handling of debts and controls over them are generally functioning well.

The statements of outstanding liabilities to suppliers at the end of 2014 were in amount of €25,412. These liabilities are carried forward to be paid in 2015. Liabilities for Goods and Services are in amount of €18,545, for Utilities are €5,666 and for subsidies €1,200.

Recommendations

We have no recommendations in this area.

4.6 Internal Audit System

Description

The Internal Audit system is a key part of internal control, therefore the non-existence of Internal Audit Unit (IAU) and the Audit Committee, as an important part of internal control, leads to shortcomings in giving assurances regarding the fulfilment of the audit committee and Municipality's management objectives.

Issue 16 - Internal Audit System not established - High Priority

Finding The Municipality of Mamusha did not establish the IAU.

Risk Lack of internal audit system limits the Management ability to have a clear view of the quality and efficiency of controls.

Recommendation 15 The Mayor should ensure the establishment of the IAU and the Audit Committee in compliance with the Law no. 03/L-128 on Internal Audit or looking for another solution in providing such service

Annex I: Explanation of the different types of opinion applied by the OAG

(Extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705 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
2. Financial statements	In AFS all necessary disclosures to be presented		Partly	
3. Prior years recommendations	The Mayor should ensure that a revised action plan clearly sets out a timetable for addressing the recommendations with accountable staff members identified and with initial focus on those of greatest significance.		Partly	
4.3 Planning and execution of revenues	The Mayor should regularly monitor the budget performance on a monthly basis and identify and address barriers to the planned levels of budget execution		Partly	
4.4 Revenues	Improvement of procedures related to these systems would enable the management to monitor and manage significant risks, and to ensure that decisions related to budgeting, planning and collection of revenues are properly carried out.		Partly	
4.5 Expenditures	We recommend the Mayor ensures that the Municipality shall take 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.		Partly	
4.5.3 Wages and salaries	The Mayor should ensure that the Municipality maintains complete documentation regarding its employees.		Partly	

4.5.4 Subsidies and transfers	The Municipality should establish sufficient and adequate control procedures that would enable an effective monitoring over the compliance with the applicable laws and regulations regarding subsidies and transfers			Not addressed
4.6 Assets	We recommend the Mayor to involve additional resources in the registration, 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.			Not addressed
3 rd Party payments	The Mayor should ensure 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.	Fully addressed		
4.6.2 Handling of cash	The Mayor should ensure that the cash will be deposited and controlled regularly at the end of the day.			Not addressed
4.6.3 Handling of receivables	The Mayor should ensure that a process will be designed and built which would enable the registration of receivables upon issuance of every invoice and that the remaining amounts are followed regularly.			Not addressed
5 Internal Audit System	The Municipality did not establish the Internal Audit Unite and the Audit Committee.			Not addressed