



REPUBLIKA E KOSOVËS / REPUBLIKA KOSOVA / REPUBLIC OF KOSOVA

**ZYRA KOMBËTARE E AUDITIMIT
NACIONALNA KANCELARIJA REVIZIJE**

NATIONAL AUDIT OFFICE

Document No: 22.32.1-2016-08

AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF JUNIK
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 Junik 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* (team members) under the management of the Head of Audit Department, *Astrit Bllaca*.

TABLE OF CONTENTS

Executive Summary.....	4
1 Annual Financial Statements and other External Reporting Obligations	6
2 Governance.....	9
3 Financial Management and Control	13
Annex I: Audit Approach and Methodology	22
Annex II: Explanation of the different types of opinion applied by NAO.....	23
Annex III: Prior Year Recommendations	26
Annex IV: Letter of confirmation	33

Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2016 Annual Financial Report of Junik 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 25.11.2016.

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 some of the assets recorded in the cadastre were not recorded in the assets register KFMIS.

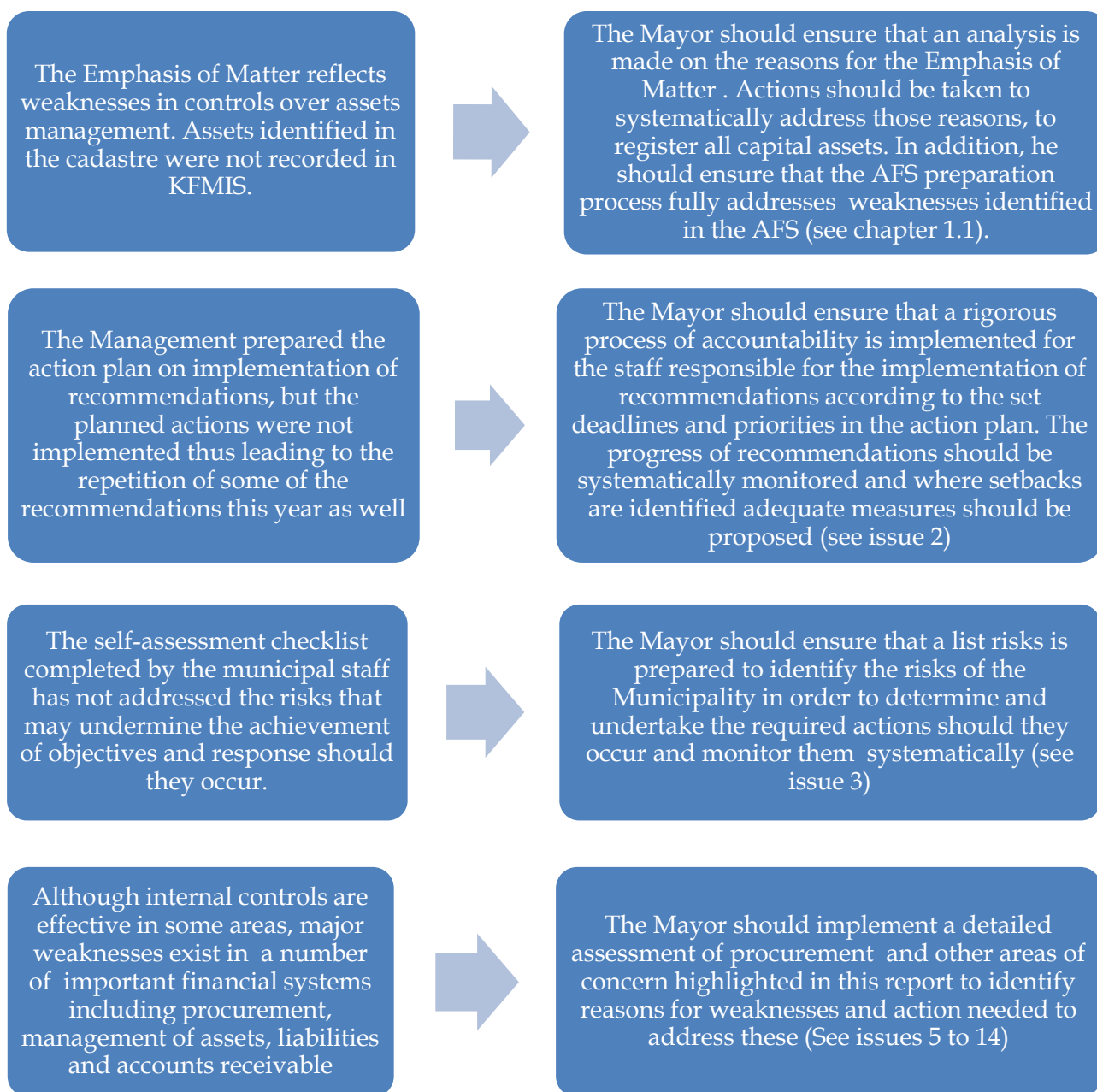
For more details, see Section 1.1 of this report.

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

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

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

Key Conclusions and Recommendations



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 Junik 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. 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. With the support of DEMOS, the Municipality established the Commission for Property Valuation and Verification. The Commission has verified, measured and recorded 96 land parcels of 53.5 hectares, elementary schools and lower secondary schools, libraries, the Central Family Healthcare building, and many roads not recorded in KFMIS assets registered and consequently not presented in the AFS.

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;
- 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;
- Whether Nine-month Financial Statements were prepared in time;
- Procurement Plan for 2016; and
- Whether AFS have been prepared and signed by CAO and CFO in time.

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

A number of financial adjustments were required to the draft AFS of 2016 and we have also made other suggestions to improve them. The Management has considered our suggestions and improved the final AFS, except for the following issues:

- In Article 19.3.1 – Report on capital assets over €1,000 – the land value was not presented; and
- In Article 19.3.2 – Non-capital assets under €1,000 – the data for years 2014 and 2015 were missing, whilst Article 19.3.3 on Stocks did not contain data for any year.

1.3 Recommendations for the first part of the report

In the regard to the issues presented above we recommend:

Recommendation 1 The Mayor should ensure that an analysis is undertaken to determine the causes of the Emphasis of Matter. Actions should be taken to address the underlying causes in a systematic manner in order to record all capital assets. He should also ensure that the AFS preparation process fully addresses weaknesses identified in the AFS.

2 Governance

Introduction

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

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

The rest of the 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 especially establishment of the Audit Committee ; and
- areas of Financial Management and Control identified through our audit work including specific work directed at compliance issues in key income and expenditure systems (these areas are considered in Section 3 of this report)

Overall Governance Conclusion

There is a number of governance weaknesses within the Municipality particularly related to risk management. A key tool supporting effective governance is the implementation of audit recommendations. Last year, implementation of recommendations was not at a satisfactory level. Only six (6) out of 22 recommendations have been fully implemented.

The Municipality has made progress in financial management, mainly in reducing overheads and outstanding debts. Actions have been taken in building up contractual relations with different donors, thus resulting in a considerable budget amount from external donors.

Internal Audit had provided a clear overview on internal controls' level of assurance and had given recommendations for improving them.

In 2016, the Municipality used 94% of the final budget, an improvement of 3% compared to the previous year. This shows a positive trend in the overall budget management.

The Municipality did not present the risk register this year either. This is a requirement of procedure 4 in the Treasury document on Financial Management and Control.

Key area where most improvements are needed is the recording of municipal assets.

2.1 Progress in Implementing Prior Year Recommendations

Audit Report on the 2015 AFS resulted in 22 recommendations. The Municipality prepared an Action Plan stating how all recommendations will be addressed. By the end of the 2016 audit period, six(6) recommendations were implemented, eight (8) 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 October 2016.

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

Issue 2 - Implementation of Prior Year Audit Recommendations - High Priority

Finding Based on explanations above, only a proportion of prior year recommendations have been implemented because the Municipality has not implemented any formal process to manage and monitor the way that the Auditor General's recommendations are implemented.

Risk Failure to implement recommendations has resulted in continued weakness of management and other controls in key financial systems, thus resulting in incomplete assets register and lack of risks register.

Recommendation 2 The Mayor should ensure that a strengthened process of accountability is applied towards the staff in charge with the implementation of recommendations. Implementation progress should be monitored systematically and where setbacks are identified adequate measures should be taken.

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 3 – 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.

Risk The lack of a register of risks that the organisation might face increases the risk the municipal set objectives will deviate from the plan, thus resulting in failure to achieve them.

Recommendation 3 The Mayor should produce the risks register and ensure that its management is delegated to a responsible person who will systematically coordinate actions and measures set forth therein and will report to the Municipality's Management on regular basis.

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 15 strategic documents setting forth the overall objectives and responsibilities for the coordination and development of the strategic plans and for calculating the costs of these strategies. Its relation to the Medium-Term Expenditure Framework was quite good. Annual plans were also based on its elements as well. Some of the produced strategic documents are: Local Economic Development Strategy 2014-2018, Waste Management Plan 2014-2019, Public Space Maintenance Strategy 2012-2017, Municipal Energy Efficiency Plan 2016-2022, Urban Development Plan 2009-2023.

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 identify operational problems. The Municipality has quarterly and annual financial reports that are approved by the Municipal Assembly.

We have no recommendations in this area

2.4 Internal Audit System

The Municipality has established the Internal Audit Unit (IAU) consisting of one auditor. In 2016, IAU planned and conducted five (5) regular audits. Reports were completed on time and the covered areas were: (1) Budget planning and execution, (2) Revenues, (3) Procurement, (4) Recruitment procedures in the directorat of health and social welfare and (5) Vehicles management.

Issue 4 - IAU not functioning - Medium Priority

Finding The Municipality has not appointed the Audit Committee this year either as required by the Administrative Instruction 11/2010 and the Establishment and Functionalization of the Audit Committee.

Risk The lack of an Audit Committee may result in failure to consider issues raised by the internal auditor and in ongoing ineffective practices, thus leading to failure to address control weaknesses.

Recommendation 4 In order to enhance oversight on the quality of internal audit services, the Mayor should ensure that the Audit Committee is established.

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 recognises the importance of a sound system of controls over expenditures and revenues. However, in respect to compliance, our audit has highlighted a number of compliance weaknesses related to procurement, revenues and other expenditures as a result of regulations and guidelines not being enforced. 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 revenues management.

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:

Description	Initial Budget	Final Budget	2016 Receipts	2015 Receipts	2014 Receipts
Own Source Revenues	91,000	91,000	83,989	77,573	83,865

Collected revenues were €83,989 or 92% of the planned budget, an increase of 7% compared to the previous year. This includes court fines and traffic fines. This revenues' collection level shows a good performance. Most of the own source revenues were spent on capital projects, whilst the remaining was spent on other categories.

Table 2. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2016 Outturn	2015 Outturn	2014 Outturn
Sources of Funds	1,170,878	1,686,106	1,584,965	1,785,539	1,340,425
Government Grant -Budget	1,079,878	1,190,878	1,179,419	1,241,339	1,174,805
Carried forward from previous year ³ -	-	16,458	13,442	20,850	19,116
Own Source Revenues ⁴	91,000	91,000	69,306	64,122	60,015
Domestic Donations	-	25,000	4,082	-	-
External Donations	-	362,770	318,715	459,228	86,489

The final budget was higher than the initial budget by €515,228. This was as a result of domestic donations of €25,000, external donations of €362,770, own source revenues carried forward of €16,458, budget review of €40,000 and Government decision of €71,000.

In 2016, the Municipality used 94% of the final budget, an increase of 3% compared to 2015 (91%). 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	1,170,878	1,686,106	1,584,965	1,785,539	1,340,425
Wages and Salaries	932,035	1,039,612	1,005,752	1,091,463	895,100
Goods and Services	125,298	218,900	11,927	291,150	114,697
Utilities	30,000	30,000	29,904	29,232	26,981
Subsidies and Transfers	5,755	5,755	5,460	7,000	6,880
Capital Investments	77,790	391,839	331,922	366,694	296,767

The budget for capital investments was increased by €314,049, whilst 85% were spent. Regardless of this, the performance in capital investments was quite good.

The Goods and Services budget increased by €93,602, whilst 97% of the final budget was spent.

There were no differences between the final and initial budget of Utilities. It was spent at 99%.

The Municipality also received grants of €387,770 from donors, whilst 83% was spent.

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.

3.1.1 Revenues

Revenues generated by the Municipality in 2016 totalled €83,990 or 92% of the planned budget, an increase of 7% compared to previous year.

Issue 5 - Definition of the base for property tax invoicing - Medium Priority

Finding Referring to the applicable legislation, the property tax base is determined by the property's market value. One of the standards for defining this value is the quality of construction. According to AI no. 03/2011, the quality of construction is expressed by the coefficient, which depends on the state of the building (very weak, weak, average, good and excellent) increases or reduces the tax burden. Although the Municipal Property Tax Office has processed this data into the system, we have concluded that the tax burden was calculated without considering the quality of construction. This has resulted in the tax burden/invoicing of 2016 overstated in a total of €3,432, whilst on the other hand it is understated in a total of €1,616.

The Municipal Property Tax Office is obliged to conduct on-site verification of 1/3 of registered property, as required by the applicable Law no.03/L-204 on Immovable Property Tax and the Administrative Instruction. This is done in order to update the existing records. The Municipality of Junik, in 2016, verified only 13% of the total number of properties (153 out of 1,146).

Risk Failure to calculate the quality coefficient may lead to the overburden of those taxpayers owing low-quality properties and under-burden of those owing high-quality properties. Failure to verify properties on site may result in incorrect records and may lead to potentially lower or higher property tax base.

Recommendation 5 The Mayor should ensure that, when applying coefficients, legal requirements are consistently implemented in order to avoid the possibility of unfair reduction or increase of the tax burden. In addition, the verification of 1/3 of properties subject to property tax should be made on annual basis and according to the quotes as stipulated in the law.

3.1.2 Wages and Salaries

The planned budget for Wages and Salaries was €1,039,612, whilst expenditures were €1,005,752 or 97%.

Issue 6 - Shortcomings in recruitment process - Medium Priority

- Finding** For the position "Cleaning officer - technician", the procedures foreseen in AI no.14/2011 on establishing the employment relationship in the public sector were not adhered to. These procedures foresee a 15 days announcement of the competition in the media. Although the Directorate for Education, Culture, Youth and Sports issued a decision to announce the vacancy on 10.11.2016, no evidence of the advertisement in the media was provided. In addition, referring to the AI, the competition must be repeated if at least three candidates have not met the competition criteria. The municipality has selected and established employment relationships for this position, even though only one candidate had applied.
- Risk** Irregularities in the recruitment process and failure announce vacancies may result in unfair competition, non-transparency and employment of inadequate staff.
- Recommendation 6** The Mayor should ensure that staff recruitment is conducted according to the applicable legislation.

3.1.3 Goods and Services and Utilities

The final budget of Goods and Services and Utilities in 2016 was €248,900, out of which €241,631, or 97% were spent, an increase of 5% compared to the previous year (in 2015 it was 92%).

Issue 7 – Special Service Contracts – Medium Priority

Finding During 2016, the Municipality engaged seven (7) officials on Special Service Contracts. Notwithstanding the requirements of the Law on income tax, the source withholding tax was not applied to none of the engaged staff 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.

Recommendation 7 The Mayor should ensure that the source withholding tax to persons engaged through special service contracts is applied in line with the applicable legislation.

3.1.4 Subsidies and Transfers

The final budget of Subsidies and Transfers was €5,755, out of which €5,460 or 99% were spent in 2016, the same level of expenditures compared to the previous year (2015).

Issue 8 – Lack of a regulation on subsidies – Medium Priority

Finding Municipality, either this year did not manage to issue an internal regulation on allocation of subsidies. As a result, subsidies were allocated based on the Mayor's decisions and most of expenditures related to subsidies allocated to different sports clubs.

Risk Lack of an internal regulation on allocation of subsidies creates obscurities in defining the criteria on the eligibility of subsidy beneficiaries, the amount and purpose these subsidies would be allocated for.

Recommendation 8 The Mayor should produce an internal regulation on subsidies setting forth clear criteria and procedures on subsidies and have it approved by the Assembly. Given that many municipalities already have such regulations in place, we suggest to use them as a model and adapt them to the Municipality's needs.

3.1.5 Capital Investments

The final budget of Capital Investments was €391,839, out of which €331,922 or 85% were spent in 2016, an increase of 9% compared to the previous year (in 2015 it was 76%).

Issue 9 – Failure to Apply the Construction Book – High Priority

Finding In the framework contract of €14,610 "Rehabilitation and maintenance of local roads", we found that the municipality had not applied the construction book in case of execution of the works. The operator had more works than the contract value, but we were not able to obtain assurance on whether progress payments were correct and free of errors. The Law no.04/L-110 on Construction and AI no.15/2013 on Conditions of Keeping the Book and Construction Diary governs the form, manner and conditions for maintaining the construction book.

Risk Lack of a construction book and failure to check stages and reconcile them with the contracted quantities increase the risk of exceeded progress payments foreseen in the contract and lead to additional or irregular payments.

Recommendation 9 The Mayor should ensure that when making progress payments of future new projects or ongoing ones the construction books are applied and the same are reconciled with the stages in order to verify the accuracy of executed works and payments made. Project managers should be reminded that future activities should be carried out in compliance with the Law no.04/L-110 on Construction and AI no.15/2013 on Conditions of Keeping the Book and Construction Diary.

Issue 10 – Misclassification of expenditures – Medium Priority

Finding The payment of €3,898 executed through court decision was classified as capital expenditures, but this payment was made through wages and salaries because it was made to compensate the difference in the salary of the auditor.

Risk Use of funds in contradiction with budget allocations may result in overstatement of the same category and understatement of the other. Inadequate disclosure may have a negative impact on users of AFS information.

Recommendation 10 The Mayor should ensure that expenditures are classified under adequate economic categories as set forth in the accounting plan in order to reflect the fair presentation of expenditures in the AFS.

3.2 Assets

3.2.1 Capital and Non-Capital Assets

The value of assets over €1,000 presented in the AFS was €1,709,251, whilst the value of assets under €1,000 was €102,607. All significant issues on assets are handled in Section 1.1 – Audit Opinion.

Issue 11 – Weaknesses in the Recording of E- Assets – High Priority

Finding The E-Assets register was not accurate because purchases from Health and Education sector are not recorded in this software, as foreseen in the Article 6 of the Regulation 02/2013 on the Management of Financial Assets.

Finding Weaknesses in complete assets recording, not including all purchases, makes the assets verification to confirm their existence, origin and ownership difficult.

Recommendation 11 The Mayor should ensure that all assets are recorded in the E-assets module, as required in Regulation 02/2013 on Assets Management.

Issue 12 – Weaknesses in vehicles management – Medium Priority

Finding In auditing official vehicles, we found that in two (2) cases the forms for the use of vehicles were not completed, as required by the Administrative Instruction No. 03/2008 on the Management of Official Vehicles. In completed forms, passed kilometres, return time, vehicle user signatories, driver's signature, authoriser's signature were missing.

Risk Lack of reporting on the use of vehicles increases the risk that vehicles will not be used for official purposes and may lead to high/unjustified expenditures on fuel, servicing and maintenance.

Recommendation 12 The Mayor should ensure that controls over the use of vehicles are put in place in order to provide for adequate accountability by each user of vehicles and to prevent irregular use of them.

3.2.2 Receivables

Accounts receivable in the AFS by the end of the year were €170,000. Accounts receivable consist of property tax and business tax. In general, the value of accounts receivable increased compared to last year. (in 2015 it was €160,000).

Issue 13 - Handling of Accounts Receivable - High Priority

Finding While testing property tax receivables, we found 13 cases where 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. Based on the tested samples, accounts receivable were understated in a total of €210. These differences exist among all taxpayers whose debts value at the yearend was not zero. Therefore, the total value for which accounts receivable are understated is €1,226.

Risk Lack of accurate records on accounts receivable may lead to higher/lower charges to citizens if not identified in time and may lead to an untrue and unfair presentation of these values in the AFS.

Recommendation 13 The Mayor should put in place more effective controls over these accounts by checking and placing the accurate amounts and should take actions to ensure as higher collection of these amounts as possible.

3.3 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2016 was €73,250. These liabilities related to capital investments of €43,250, goods and services of €21,000, utilities of €9,000 which are carried forward to be paid in 2017.

Issue 14 - Delayed Payment of Liabilities - Medium Priority

Finding According to the MoF's Financial Rule 01-2013 on Expenditure of Public Money, budget organisations must pay every valid invoice received for goods and services within 30 calendar days from the receipt of the invoice. Based on reporting, in five (5) tested cases, liabilities amounting to €7,275 were paid in delay.

Risk Delays in payments execution increases the risk of getting exposed to potential lawsuits and impairment of Municipality's reputation.

Recommendation 14 The Mayor should ensure that all received invoices are firstly archived in the book of incoming invoices and then paid according to deadlines set forth in the financial regulations.

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
<p>1.4 Compliance with AFS and other reporting requirements</p> <p>Recommendation 1</p>	<p>The Mayor should ensure that an analysis has been made to determine the reasons for the qualified audit opinion and emphasis of matter paragraph. Action must be taken to address material weaknesses in a systematic and pragmatic order to mitigate those weaknesses as disclosed in the basis for qualified opinion paragraph</p>			<p>AFS are corrected, but there are still evident weaknesses in assets recoding.</p>
<p>Recommendation 2</p>	<p>The Mayor should take appropriate action to ensure full regulatory compliance of the process of preparation of annual financial statements (AFS). The Declaration made by the Mayor and Chief Financial Officer when the AFS are submitted to the Government should only be signed after a comprehensive management review has been undertaken on the content and accuracy of the AFS.</p>			<p>AFS are sent to MoF, but following our advice they were sent for correction.</p>
<p>Recommendation 3</p>	<p>The Mayor of the Municipality must ensure that Municipality submits monthly reports related to outstanding liabilities as required by reporting regulation and submission of the annual financial statements in Serbian language.</p>		<p>In process of implementation. Reports on liabilities are sent every month and reports to the Assembly, but also this year the financial statements were prepared only in Albanian language.</p>	

Prior year recommendations Recommendation 4	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		The action plan was sent NAO in the foreseen deadline, whilst the implementation of some recommendations was under process.	
FMC Self-Assessment Checklist Recommendation 5	The Mayor should ensure that the self-assessment checklist is completed with objectivity and documented in order to identify the weaknesses and mitigated appropriately as required by the Ministry of Finance of the Republic of Kosovo		The self-assessment checklist was sent of MoF but in some points they were not self-critical thus giving maximum scores.	
Accountability arrangements Recommendation 6	The Mayor should ensure that a review of the existing requirements of accountability and reporting of municipal departments and ensure improved arrangements to achieve specific targets within a year.	Considering the size of BO meetings with directors were regularly held.		
2.6 Risk Management Recommendation 7	The Mayor should ensure that procedure and systems of risk management are established and operational. Furthermore the responsibility for risk management is delegated directly to a relevant director and provides monthly reporting on the implementation of the requirements in this field and the risks are being managed.			No delegation of the relevant officer regarding risk management responsibility

<p>2.7 Management reporting</p> <p>Recommendation 8</p>	<p>The Mayor should review existing measures of general governance and the quality of internal reporting of the Municipality. Unimplemented requirements need to be addressed by the end of 2016. The quality of the reporting and budgetary surveillance must be reviewed critically and systematically to ensure the achievement of the Municipality's objectives.</p>		<p>Regular meetings should be more informing, from planning to budget execution; setbacks in processes and failure to implement projects, the form and way of collecting revenues, AFS preparation should be more qualitative, municipal assets management and recording.</p>	
<p>3.3 Internal Audit</p> <p>Recommendation 9</p>	<p>The Mayor should ensure that Audit Committee is appointed and execute its duties required by law. The Audit Committee should establish appropriate policies and procedures to ensure a high standard of monitoring the implementation of internal control system, the process of financial reporting and overseeing the work of internal audit department. Furthermore the Mayor must ensure that future activity of IA should be directed towards the development and implementation of audit strategy based on risk. Furthermore, in order the benefits to be visible, the Mayor should take measures to implement the IA finding within the Municipality.</p>		<p>Even though the audit unit did the audit and fulfilled the audit plan, Municipality of Junik also this year did not appoint the audit committee.</p>	

Budget execution Recommendation 10	The Mayor should systematically and frequently monitor the budget performance and identify and address constraints to planned levels of budget execution. The Mayor of the Municipality should ensure that the implementation plan for own source revenues constitutes a realistic plan and coincides with the capabilities of the Municipality to collect revenues. Furthermore it should be ensured that all actions have been taken for collection of this revenue		There is progress in budget execution of revenues, but there are still setbacks in donations.	
Procurement Recommendation 11	The Mayor has to identify the root causes of the deficiencies and take appropriate action to ensure procurement requirements are fully implemented		There is progress compared to previous year the contract were not signed without the commitment or provision of funds disputes, contract management is still a municipality challenge.	
Other expenditures Recommendation 12	The Mayor should ensure that the Municipality takes further steps to improve controls over expenses and payments and strictly comply with the laws and local regulatory requirements			Based on sampling, we still found payments made without acceptance reports.
Personnel files Recommendation 13	The Mayor should ensure that the Municipality takes further steps to improve controls over personnel files in order that files are properly organized and completed and take measure regarding the signing of payroll lists.	There is considerable improvement.		

<p>Subsidies and Transfers</p> <p>Recommendation 14</p>	<p>The Mayor should ensure that the Municipality takes further steps to improve controls over subsidies and transfers and strictly comply with the laws and local regulatory requirements</p>			<p>Regulation on subsidies was not approved yet.</p>
<p>Revenues from property tax, rent and other revenues</p> <p>Recommendation 15</p>	<p>We recommend the Mayor to take these steps:</p> <p>To improve the billing and accounting systems in order to ensure safe, efficient and effective controls on the billing and the revenue. Improvement of the procedures related to such 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.</p> <p>To ensure that surveys, assessment and conditioning of provision of services are done as required with Administrative Instructions No. 03/2011 and No. 07/2011 and dhe 04/2011.</p>	<p>Yes</p>		
<p>Recording of capital assets</p> <p>Recommendation 16</p>	<p>The Mayor should ensure the following timely and accurate recording of all assets in the relevant registers in accordance with the requirements of regulation 02/2013. It also should ensure that capital assets register contains complete information, including the date when the asset was put in use, so that the calculation of depreciation can be performed accurately. As well as determine the ownership status.</p>			<p>Not implemented, assets still most of the capital assets remains not recorded, and not presented in the AFS.</p>

Stocktaking of capital assets Recommendation 17	The Mayor must ensure that the stocktaking of nonfinancial capital assets was conducted in accordance with the Regulation in force for non-financial assets of Budget Organizations and ensure that stocktaking is conducted on an annual basis	Stocktaking commission were established		
Disclosure of non-capital assets under EUR 1,000 Recommendation 18	The Mayor must ensure that the Municipality maintains accurate and complete information in relation to non-capital assets and ensure that they are presented in the financial statements		Except for the disclosure of non-capital assets under EUR 1,000 in Education Directorate and MFMC, necessary disclosures were made in other areas	
Lack of ownership documentation and information's for the investments made by third parties Recommendation 19	We recommend the Mayor to ensure that the Municipality is making maximum efforts for the obtainment of data from third parties, with particular emphasis on those parties known to have carried out significant investments in the municipality. The data obtained should be correctly presented in the asset register of the Municipality. Best practice would require that on an annual basis reconciliation of data is made between third parties and the Municipality for investments in the Municipality for the respective year	Yes		
Cash deposits Recommendation 20	We recommend the Mayor ensure that daily cash deposits and controls are performed as required by the legislation in force	Yes		

Aging of Receivables Recommendation 21	<p>The Mayor should ensure that accounts receivable are disclosed in a sufficient and detailed manner and the sufficient documents and information is retained. Furthermore the Mayor must ensure that the Municipality takes further actions for the collection of revenues and that the necessary controls exist which ensure that old balances disclosed collected by the respective parties</p>			<p>Receivables are not minimised this year either</p>
Outstanding debts Recommendation 22	<p>The Mayor should ensure that the Municipality will take further steps and develop action plans to execute the payments within the required period</p>			<p>Based on AFS we found that there were payments not paid within the legal deadline.</p>

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 Junik, 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 KOSOVA
KOMUNA JUNIK - OPŠTINA JUNIK- MUNICIPALITY OF JUNIK

LETËR E KONFIRMIMIT

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

Për: Zyrën Kombëtare të Auditimit
Vendi dhe data: Junik, 24.04.2017

I nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për Auditimin e Pasqyrave Financiare të Komunës së Junikut, 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.

Kryetari:
Agron Kuci

