



**REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA/REPUBLIC OF KOSOVA
ZYRA E AUDITORIT TË PERGJITHSHEM / KANCELARIJA GENERALNOG
REVIZORA/OFFICE OF THE AUDITOR GENERAL**

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**AUDIT REPORT
ON FINANCIAL STATEMENTS OF MUNICIPALITY OF PRIZREN
FOR THE YEAR ENDED ON 31 DECEMBER 2010**

Prishtina, June 2011

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List of Abbreviations

AC	Audit Committee
AFS	Annual Financial Statements
AG	Auditor General
AI	Administrative Instruction
CAO	Chief Administrative Officer
CBK	Central Bank of Kosova
EO	Economic Operator
IA	Internal Audit
IAU	Internal Audit Unit
IAS	International Accounting Standards
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
KFMIS	Kosova Financial Management Information System
LAI	Law on Internal Audit
LPFMA	Law No. 03/L-048 on Public Financial Management and Accountability
LPP	Law nr.02/L-99 on Public Procurement as amended and supplemented on 8th of February 2007. This includes the new Law no. 03/L-241 in place from 01 December 2010.
MEF	Ministry of Economy and Finance
OAG	Office of the Auditor General
SAI	Supreme Audit Institution
TSA	Treasury Single Account

Executive Summary

The Office of the Auditor General (OAG) performed an audit of the financial management of the Prizren Municipality for the year ended 31 December 2010.

Our audit is performed in accordance with international auditing standards issued by the INTOSAI and included such tests and procedures that we deemed as necessary to render an opinion on the financial statements.

In forming our opinion we have evaluated the overall adequacy of the presentation of information in the financial statements.

In our opinion the financial statements *in all material aspects* present a true and fair view.

We would like to draw your attention to the fact that the disclosed information on fixed assets and accounts receivables is incomplete and inaccurate;

In addition, the Municipality did not disclose payments from third parties adequately.

The incomplete disclosure of fixed assets and accounts receivables does not affect our opinion on the financial statements compiled in accordance with the IPSAS for Cash based accounting. (ISSAI 400: *Unqualified Opinion with an Emphasis of Matter*)

Our audit identified weaknesses within several areas of financial management. These weaknesses are described more thoroughly within this report, and should be addressed by the Management in order to improve the organization's performance.

In our audit report on Annual Financial Statements for the year ended 2009 were given 12 key recommendations. Out of these recommendations, four were fully addressed, whereas eight are in the process of implementation.

Our key recommendation to the Mayor is to propose a package of measures for further managerial improvement within the Municipality, and to ensure the review of control system.

We recommend you to especially ensure:

- Addressing of all given recommendations of the year 2009 and 2010
- Annual Financial Statements are prepared fully in accordance with the Treasury Guidelines;
- Sufficient and adequate controls on following up the revenues reconciliation process between departments and the finance department are increased;
- Particular attention is paid to the development of procurement processes and controls related to procurement;

- Adequate controls over the management of outstanding liabilities are established and contingent liabilities are correctly disclosed;
- Additional actions on asset management controls are taken; and
- A functional Internal Audit.

The Management of the Municipality has been given the opportunity to give comments on a draft of this report.

The Management has acknowledged our findings and conclusions presented in the audit report on the Annual Financial Statements for the year 2010 and have committed themselves to make every effort to address the recommendations given.

I. Introduction

This audit relates to the Annual Financial Statements of the Municipality of Prizren for the year ended 31 December 2010.

Further on, it is the responsibility of Prizren Municipality to prepare Annual Financial Statements in accordance with the Administrative Instruction (AI) 16/2010 and International Public Sector Accounting Standards (IPSAS) on “Financial Reporting under Cash Basis of Accounting”.

The Office of the Auditor General is responsible for carrying out annual regularity audits in the Prizren Municipality.

A Regularity Audit is defined as an attestation of financial accounting, involving examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements 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.

In the last quarter of 2010 we carried out an interim audit of the Municipality of Prizren. During that stage of the audit process we addressed the handling of recommendations given earlier and the quality of financial management. Based on this, we have given advices to the management related to the preparation of the Annual Financial Statements through an audit memo submitted in December 2010.

In order to fulfil our responsibilities for the audit of the Municipality of Prizren, we have undertaken the following activities:

- Reviewed the Annual Financial Statements of Municipality against the approved budget for 2010;
- Determined whether the Financial Statements were prepared in accordance with IPSAS “Financial Reporting under the Cash Basis of Accounting”;
- Established a materiality level, for the category of revenues and expenditures as a threshold for assisting in determining the type opinion to render on the financial statements;
- Used a combination of judgment and random sampling to select transactions for testing;
- Undertaken extensive substantive testing of financial transactions;
- Relied on a combination of interviews, analytical reviews, document reviews, and physical verification to assess the validity and propriety of financial transactions; and
- Assessed the quality of work of the Municipality’s Internal Audit.

In this report we summarise this year’s audit and give a formal opinion on the Annual Financial Statements 2010.

In regard to our audit opinion for the Municipality Financial Statements, the international standards set out specific criteria that govern the type of opinion that can be rendered.

These are set out more fully in Appendix 2.

II. Audit Opinion

In our opinion the financial statements *in all material aspects* present a *true and fair view*.

We would like to draw your attention to the fact that the disclosed information on fixed assets and accounts receivables is incomplete and inaccurate;

In addition, the Municipality did not achieve to disclose payments from third parties.

The incomplete disclosure of fixed assets and accounts receivables does not affect our opinion on the financial statements compiled in accordance with the IPSAS for Cash based accounting. (ISSAI 400: Unqualified Opinion with an Emphasis of Matter)

III. Status of prior years recommendations

Our audit report on the Financial Statements for 2009 resulted in 12 key recommendations. Out of these recommendations, four are fully addressed as:

- Sound managing of advances;
- Functional Audit Committee
- Supporting documents of own source revenues are kept; and
- The report of received goods before the certification of payments.

Whereas the other, in the following, are in process of implementation, as in the following:

- Strengthening of controls over management of the revenues from public property;
- Monthly reconciliations between the records of Directorates, bank registers and General Ledger (Treasury Department);
- Development of procurement procedures in accordance with applicable laws;
- Complete registration of outstanding financial liabilities and their reporting within Annual Financial Statements;
- Registration of fixed assets in accordance with AI no.21/2009; and
- A more functional Internal Audit Unit.

Failure to fully implement our recommendations resulted in the same problems as earlier years. We express our concern for all unimplemented recommendations.

IV. Financial outcome against the Approved Budget

The analysis of the Outcome in the Financial Statements versus the Approved Budget shows:

Table 1: Overview of budgets and spending in (€)

Description	Initial Budget	Reviewed Budget	Final Budget	2010 Outcome	2009 Outcome
Government Grant - Budget	20,947,394	21,449,846	21,661,557	21,119,192	18,745,000
Own Source Revenues	4,964,235	4,964,235 ¹	5,227,091 ²	3,768,470	4,667,000
Domestic Donations	0	0	382,777	284,122	318,000
External Donations	0	0	456,899	58,000	70,000
I. Total of revenues and transfer of Donations	25,911,629	26,414,081	27,728,324	25,229,784	23,800,000
Wages and Salaries	10,415,849	10,902,631	11,250,649	11,129,125	10,112,000
Goods and Services	2,208,223	1,936,908	2,475,979	2,340,381	2,074,000
Utilities	557,764	658,898	658,898	616,553	614,000
Subsidies and Transfers	350,000	350,000	382,002	372,004	348,000
Capital Investments	12,379,793	12,565,644	12,960,796	10,771,721	10,652,000
Reserves	0	0	0	0	0
II. Total of Expenditures	25,911,629	26,414,081	27,728,324	25,229,784	23,800,000

In 2010 the Municipality spent €25,229,784 or 91% of the approved budget. Most of the budget was spent on Capital Investments and Wages and Salaries. Compared to 2009, the overall expenditures of the Municipality increased by 9.4%.

The third column of the table shows that the final budget was €27,728,324. The final budget was €1,816,695 higher than the initial budget. The difference is justified by the fact that own source revenues and foreign donations up till now have not been estimated in the budget preparation process, while the rest of the difference from the General Fund refers to the budget increase for salaries decided on government level.

¹ Planned revenues for 2010

² Revenues received in 2010. Out of which, €792,658 are revenues carried forward from 2009, whilst €1,434,433 are revenues collected in 2010.

The unspent budget at the end of 2010 was €2,499,029. We have noticed a trend of increasing expenditures on capital investment at the end of the financial year. In the last quarter 33% of the total costs of this category were spent.

Conclusion

According to our assessment, the Municipality spent the overall budget for 2010 in accordance with the projections and ceilings set by the Assembly of Kosova.

The low level of implementation of the program for capital investment shows that there are weaknesses in the processes of planning, managing and monitoring the execution of contracts for Municipal capital investment.

Recommendation 1

We recommend the Mayor to ensure that:

- Internal control over the use of budget in compliance with planning is strengthened; and
- Controls over planning, managing and monitoring of capital investments are strengthened in order to achieve higher efficiency of contract execution in a specified time.

V. Financial Statements

V.1 Compliance regarding the external reporting

Based on the requirements in LPFMA No. 03/L-048 and Administrative Instruction 16/2010, we have identified the following:

- The Municipality failed to prepare AFS fully in compliance with to AI no. 20/2009 on Annual Reporting of Budget Organizations;
- FS have been signed on the 31st of January 2011 by Chief Administrative Officer and Chief Financial Officer;
- FS were submitted to MEF / Treasury on 18th of February 2010 because of the differences in section 10 column C (Outcome) after the foreseen date;
- FS are prepared in hard and electronic copies; and
- Quarterly financial reports were submitted to the Minister of MEF during 2010 but, only on Capital Expenditures.

V.2 Information quality

The draft Financial Statements of the Municipality prepared on 31.01.2011 for the year ended 31 December 2010 were not prepared in accordance with Administrative Instruction no. 16/2010. They contained misstatements and they were inaccurate, therefore during the audit process we asked the Municipality to correct the initial version of Financial Statements.

After our request, the Financial Statements were corrected during the audit process and were sent to the Treasury for the second time. But, still several mistakes remained uncorrected in the final AFS.

The following inaccuracies were not corrected by the Management:

- Note 27, Summary of non-financial assets in financial statements is not completed in accordance with AI 16/2010;
- Note 28, the receivables were not presented, and
- The payments from third parties, additional information on payables, receivables or other non-financial assets are neither presented nor disclosed.

Conclusion

Failure to present the receivables and payments from third parties in the Financial Statements has a negative impact on completeness of reporting and as such the Statements are incomplete and not fully reliable.

Recommendation 2

We recommend the Mayor to ensure that:

- Upon preparation of Financial Statements, all information in the end the year required under the Administrative Instruction is included, by handling the necessary disclosures that are not part of budget categories; and
- The Management provides additional training on preparation of AFS in case of lack of sufficient knowledge.

VI. Budget Execution

VI.1 Revenues (including own source revenues)

According to Treasury, the revenues received in 2010 were in the amount of €5,227,091. Out of which, the own source revenues carried forward from 2009 were €792,658, whilst the revenues collected in 2010 were in the amount of €4,434,433.

These revenues are mainly collected from building permits, property tax, administrative taxes, co-payments in education and health, and other revenues.

The key findings related to several samples tested from the category of revenues are the following:

Failure to reconcile balances between bank accounts and General Ledger

The own source revenues in the Municipality's bank account are presented in the amount of €4,055,104. According to the Treasury they were in the amount of €4,046,404. The Municipality's officials were not able to explain the difference of €8,700 between the bank account and General Ledger.³

Registration in wrong codes

During the audit we found that revenues from issuing birth certificates and marriage certificates were registered in one economic code.

Lack of own source revenues registers

Apart from revenues from business licences, the Municipality's Management does not keep any register or lists of debtors for different taxes. This makes it difficult for the municipality to effectively collect tax revenues.

Property tax

The new property tax program still remains incomplete as a result of problems that occurred in MEF. This program still fails to provide information and access for municipal officials to review and monitor all receipts from taxpayers.

According to Treasury records on property taxes of Prizren Municipality, it is ascertained that the billings amount is €1,125,454 and the amount collected for 2010 was €1,167,778. Debts carried forward from previous years are €3,157,065.

^{3 3} In the Municipalities' bank accounts are not included penalties. They go to TSA

Business Tax

Based on the reports of the Directorate for Economy and Finance, the collected amount is €42,788. The uncollected debt for this year is €270,642.

Further, during the audit we noted that the municipal officials have, on behalf of the business tax in 2010, distributed 1797 warnings letters to businesses having liabilities toward the Municipality. But, there have never been taken any other penalty measures as required under Regulation No. 01/011-4099 on Fees and Charges, which foresees a penalty of €200 and the cancelling of Business Licences issued by the Municipal Assembly.

Non – reconciliation of revenues between directories

We noticed that despite the monthly reporting on Revenues, there is no reconciliation done between the Directorate for Finance and the Department of Public Services. According to the records of Directorate for Finance the liabilities of the entities for the use of markets are €176,071 while, based on the records of the Department of Public Services the amount of liabilities is €231,438.

Failure to collect revenues

In one case we noted that the Department of Public Services terminated the contract with the economic operator due to failure to pay debt of €25,601 from the rent. However, the same department committed a violation by entering into a new contract with the same EO notwithstanding the existence of outstanding liabilities toward the municipality.

Directorate for Geodesy and Cadastre

We noticed that this Directorate has failed to comply with the AI issued by the Cadastral Agency and Internal Regulation of Prizren Municipality in providing its services. In one case, Division of Parcels over 0.50h, the fee for municipal services and activities is €100 according to the Regulations on fees, charges and penalties. On the other hand, the fee for the same services is €50 according to the AI of Cadastral Agency. Similar differences we have noticed in considerable number of services provided.

Conclusion

Lack of accurate records on receivables, inappropriate and inadequate controls over revenues and billing system increases the risk of inappropriate presentation of revenues. The municipality did not apply proper mechanisms of control over the state of revenues. In such situation it is not possible to make reconciliations on revenues according to accounting records and billing system. Lack of accurate reconciliations undermines confidence in the figures and lead to uncertainty as to what the real numbers are.

In such circumstances, the Municipality is unable to plan for reliable and safe budget. Neither it is able to report on the collection scale or to follow up the collection of own source revenues in timely basis.

Recommendation 3

We recommend the Mayor to ensure that:

- All revenues are registered in accordance with the respective economic codes, because the current practice does not enable a fair view of the revenues situation;
- Proper reconciliation between the bank account and Treasury are made;
- Monthly reconciliations between Billing and Accounting Departments are made;
- Controls over and commitment to collection of outstanding debts are strengthened; and
- Penalties are put in place and applied on clients' arrears.

VI.2 Expenditures

2.1 Purchase through procurement

We have tested 124 samples that cover the amount of 6,950,315€ of the payments of capital expenditures run through the procurement procedures. We have noted that the Municipality has undertaken procurement procedures which are not in accordance with the Law on Public Procurement:

Contract entered into in the absence of committed funds and contract execution guarantee

We have noted that the following contracts were signed without complete commitment of funds:

In the case "Construction of elementary school" in Nashec village in Prizren – Funds were committed in the amount of €15,000, whilst the contract was signed in amount of €347,322. The Notice given in the contract stated that the work should be executed to the same amount of funds committed. This Notice has been disregarded. In addition, there was no Contract execution guarantee provided.

In the case "Construction of sewerage" in Hasi village - the amount of the Contract was €108,432. The amount of committed funds was €5,000.

In the case "Supply of paving cubes and gravel" for the roads in Pllanjane-Jabllanice villages - the value of the contract was €80,985. The amount of committed funds was €25,853. This contract did not include the Contract execution guarantee;

Contract entered into for projects that were not planned under the Public Procurement Plan

In several cases we have noted that some contracts signed were not foreseen under the procurement plan, such as:

- “Construction of Culture Centre” in Zhur village - the value of the contract was €26,210;
- “Construction of water tank” in Hoqa village – in the amount of €3,928; and
- “Construction of sidewalk” in the “Shaip Spahiu” street – in the amount of €146,982.

Failure to complete works under the contract deadline

In the case “Construction of concrete elements and sewerage” in “Aleks Buda” in Prizren, in amount of €11,404, we noticed delays in completion of works for 45 days.

Conclusion

The cases mentioned above indicate failures in internal control processes by the Municipality. Investments in capital projects are not managed efficiently and transparently. Internal controls of the Municipality do not provide sufficient assurance that procurement procedures are implemented in accordance with legal requirements. Failure in implementation and control of procurement procedures initiates a general lack of good governance within the procurement field.

Recommendation 4

We recommend the Mayor to ensure that:

- A thorough analysis is carried out of the current procurement procedures;
- Sufficient funds for project implementation are available and that the Municipality does never enter into liabilities without having financial coverage beforehand;
- Execution guaranteed are applied in all projects and penalties are applied in cases of delays in completion of projects;
- The general requirements of LPP on procurement plans are met by planning in time all the annual procurement activities; and
- Relevant administrative measures are taken when procedures have been mismanaged.

2.2 Remunerations (wages and salaries)

The budget of Wages and Salaries category was €11,250,649. Based on the records in the AFS, 11,129,125€ or 99% of approved budget was spent for the same category.

We noticed that the Municipality paid 40 education employees from the Goods and Services category rather than from the Wages and Salaries category. An amount of €10,703 was

presented in FS as outstanding liability on behalf of Wages and Salaries in the Department of Education. We found 10 cases where employment contracts do not match the amounts paid.

Conclusion

This way of handling the additional payments is repeated from year to year and it is not transparent. Lack and timely communication and the approvals by the relevant authorities or the lack of documentation in file may lead to payments that are not in accordance with Law and Regulations. This undermines the basis for monitoring and controlling spending and makes the information quality in AFS weaker.

Recommendation 5

We recommend the Mayor to ensure that:

- All employees' salaries are paid from the Wages and Salaries category rather than from Goods and Services category; and
- All salaries are paid in accordance with the amount stated in the employment contracts.

2.3 Subsidies and Transfers

The budget of Subsidies category was €382,002. According to the records within AFS €372,004 or 97% were spent for this category.

The budget of the Subsidies category has not been used transparently by the Municipality. Subsidies paid to a designated entity or a private company should be based on a formal agreement between budget organization and the recipient of the subsidy. During the testing of this category we ascertained:

Unplanned Spending of Subsidy

The subsidy of €2,173 spent by the Department of Agriculture was not planned. This amount was spent from the funds allocated for other programs.

Lack of information in the file on progress of particular project implementation.

According to the Memorandum No-01/165 dated on 30.10.2009 on implementation of the mutual project of the International Civilian Office and the Institute for Protection of Monuments for placing information (touristic) tables on Prizren cultural heritage, the Municipality has participated with amount of €3,000. The memorandum foresees that the user of the subsidy is obliged to inform the municipality on the project implementation progress. In the documentation concerning this payment such information was not presented to us.

Lack of projects

One of the criteria in the application for subsidies was the existence of the project. We noticed that the following projects that were missing in the files for subsidising of projects “regular visits to all schools” in the amount of €2,000.

Conclusion

Failure to apply financial and regulations criteria set by the municipality does not provide assurance that public money is being spent at best.

Recommendation 6

We recommend the Mayor to ensure that:

- Proper project plans are prepared and all subsidized projects are justified;
- Adequate assessment of all applicants is made and that the basic principles set according to foreseen criteria are adhered to; and
- The user of subsidy submits clear reports to the Municipality’s Management on the way the subsidies are spent.

VI.3 Assets and Debts

3.1 Capital and Non-Capital Assets

The Municipality’s Management was unable to provide any accurate evidence on the physical counting of assets on 31st December 2010. As a consequence, we were not able to make a verification of the accounting records with the physical counting ones. We have noticed that the Mayor has established the Inventory Committee and the Assets Valuation Committee on 13.01.2011, but assets valuation process is still ongoing. We still do not have any report on the activity of this Committee. The inventory has been completed, but not within the deadline. Due to the nature of these records, the Municipality was not able to perform a detailed reconciliation of the records resulting from the counting and the current accounting records.

Conclusion

Failure to adhere to the AI 21/2009 does not ensure an effective management of government assets, and risks that assets get misused.

Recommendation 7

We recommend the Mayor to ensure that:

- An overall registration of property, buildings, and equipments is made and the same are recorded and disclosed in the next year's AFS; and
- Regular physical counting is carried out in order to ensure the existence of and reconcile the counting results with the accounting records and asset register.

3.2 Debts

Debt Management

According to date presented in the Financial Statements 2010, the Municipality disclosed outstanding liabilities at amount of €3,488,830. These liabilities are carried forward to be paid in 2011.

Further, we have reviewed the debts presented in FS and found that a contract without any number, at amount of €9,700, was presented as a debt. Such Contract was not signed by the contracting parties.

Management of contingent liabilities

We found invoices paid in 2010 that were not presented in the Financial Statements of 2009 as contingent liabilities. The liabilities in the amounts of €3,535, €5,799 and €1,599 were paid directly from the Treasury based on the Court decisions to pay the aforementioned amounts.

Conclusion

In order to give an accurate presentation of its financial position at the year end, the Municipality must (among other things) present an accurate figure for liabilities – including contingent liabilities. To do this the Municipality should have systems in place to accurately record liabilities and to identify contingent liabilities.

Recommendation 8

We recommend the Mayor to ensure that:

- All accounting information on outstanding liabilities is available and the same are accurately and properly presented and disclosed in the Financial Statements as required under AI; and
- Outstanding liabilities are disclosed, valued and budgeted for the incoming year.

VII. Management Control

VII.1 Internal Control Systems

The Chapters described above indicate evident weaknesses in the Municipality's internal control. Control improvements measures are necessary to be taken. As a consequence internal controls put in place by the Municipality's Management to prevent, detect, and correct errors and mistakes are not sufficiently functional.

Conclusion

In general, we consider that the level of financial control is inadequate. Existing controls do not provide sufficient assurance that the management objectives are adequately met.

Recommendation 9

We recommend the Mayor that:

- The level of financial control and overall controls is improved, by addressing the recommendations given in this report and by implementing the last year's recommendations.

VII.2 Internal Audit

Prizren Municipality has established the IAU managed only by the Director of Internal Audit. IAU has prepared annual audit plan. It planned to conduct six audits. During this year, it achieved to draft five reports, four reports foreseen under the annual plan and an ad-hoc report with the request of the Mayor.

The objective of audit reports produced by the IAU was the assessment of property tax revenues, expenditures management by the Emergency Department, management of municipal property, procurement procedures for the first six months of 2010, and management of expenditures in the Education Department.

IAU has a limited staff to conduct quality audits.

IAU did not follow-up on its reports. We have noticed that the Audit Committee in the Municipality of Prizren, after consultations in the interim stage of the audit, has now become more functional. This Committee held two meetings where the auditor's reports were reviewed and the action plans of respective Directorates on the implementation of OAG and IA given recommendation were finalized.

Conclusion

The IAU has a limited staff in relation to the Municipal budget. We noticed that only two out of four reports have an implementation plan for given recommendations.

Recommendation 10

We recommend the Mayor to ensure that:

- The IAU is more functional in terms of having a sufficient number of auditors;
- Findings and recommendations are properly addressed and measures are taken for their correction and implementation;
- The Audit Committee role is further strengthened; and
- Regular meetings are held by the Audit Committee in order to assure proper supervision on audit plans and outcome.

VIII. Overall Conclusion over the Municipality's Management

Overall conclusion

Weaknesses identified within this report about the information quality, budget execution, public procurement system, management of liabilities, and asset management led to a general conclusion that further efforts are needed to improve financial management and control within the Municipality of Prizren.

Overall Recommendation

We recommend the Mayor to ensure that:

- The Controls system is reviewed and a set of measures is proposed regarding further management improvements within the Municipality.

Annex I. The Prizren Municipality comments and OAG response

The Management has acknowledged our findings and conclusions presented in the audit report on the Annual Financial Statements for the year 2010 and have committed themselves to make every effort to address the recommendations given.

Annex II. Different types of Audit Opinions

(Extract from ISSAI 400)

9. An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse (paragraph 14) or a disclaimer (paragraph 15) of opinion (paragraph 15).

10. An unqualified opinion is given when the auditor is satisfied in all material respects that:

- (a) The financial statements have been prepared using acceptable accounting basis and policies which have been consistently applied (sustainable);
- (b) The statements comply with statutory requirements and relevant regulations;
- (c) The view presented by the financial statements is consistent with the auditor's knowledge of the audited entity;
- (d) There is adequate disclosure of all material matters relevant to the financial statements.

11. Emphasis of Matter. In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references which are meant as "emphasis of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

12. An auditor may **not be able to express an unqualified opinion when** any of the following circumstances exist and, in the auditor's judgement, their effect is or may be material to the financial statements:

- (a) There has been limitation on the scope of the audit;
- (b) The auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or
- (c) There is uncertainty affecting the financial statements.

13. Qualified Opinion. Where the auditor disagrees with or is uncertain about one or more particular items in the financial statements which are material but not fundamental to an understanding of the statements, a qualified opinion should be given. The wording of the opinion normally indicates a satisfactory outcome to the audit subject to a clear and concise statement of the matters of disagreement or uncertainty giving rise to the qualified opinion.

It helps the users of the statements if the financial effect of the uncertainty or disagreement is quantified by the auditor although this is not always practicable or relevant.

14. Adverse Opinion. Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.

15. Disclaimer of Opinion. Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

16. It is customary for SAIs to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.