



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

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**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE**  
**MUNICIPALITY OF PRIZREN 31 DECEMBER 2009**

**Prishtina, June 2010**

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## List of Abbreviations

AG	Auditor General
AI	Administrative Instruction
CA	Contracting Authority
CHF	Cooperative Housing Foundation
DUCEP	Department of Urbanism, Cadastre and Environment Protection
DUSP	Department of Urbanism and Spatial Planning
EO	Economic Operator
IAU	Internal Audit Unit
IFAC	International Federation of Accountants
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
KFMIS	Kosovo Financial Management Information System
LPFMA	Law on Public Financial Management and Accountability
LPP	Law on Public Procurement in Kosovo
MPOE	Municipal Publicly owned enterprise
MTPT	Ministry of Transport and Telecommunication,
OAG	Office of the Auditor General
PPA	Public Procurement Agency
TSA	Treasury Single Account

## I. Executive Summary

The Office of the Auditor General (OAG) has performed an audit of the Financial Statements of the Municipality of Prizren (The Municipality) for the year ended 31 December 2009.

Our audit was carried out in accordance with international auditing standards issued by INTOSAI and included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements.

In our opinion the financial statements in all material aspects presents *a true and fair view* of the financial position and the results of operational activities for the year ended 31 December 2009, in accordance with the International Public Sector Accounting Standards (IPSAS) for “Financial Reporting under the Cash Basis of Accounting”. We would like to draw your attention to the fact that the following is not disclosed in the financial statements:

- Payments made by third parties and additional information for payables, receivables or other assets designated as non-financial assets; and
- Within Note 27 of the Financial Statements, the Municipality was not able to disclose an comprehensive register on its non-financial assets.

(ISSAI 400 *Unqualified Opinion with an Emphasis of matter*).

Our audit of financial statements, underlying financial transactions and financial management have identified weaknesses within all major areas, which should be addressed urgently by the management in order to improve the effectiveness and efficiency of the organization.

The audit performed has resulted in the following findings:

1. Improper and insufficient control related to the own source revenues of Municipality;
2. Advances for official travel are managed inadequately;
3. Shortcomings noticed within internal controls regarding the procurement, are extremely serious which considerably increases the risk of procurement process within Municipality against fraud, loss and misuse;
4. Outstanding liabilities in amount over €2,000,000 are not paid within the specified time limit;
5. The amount of €5,108 paid in 2009 was contingent liability;
6. The register of fixed assets si not completed; and
7. The functioning of Internal Audit needs to be strengthened.

Based on identified weaknesses within this report, we reached the overall conclusion, that further efforts are needed, improving the Financial Management and control within the Municipality Prizren.

A specific revitalization program should be organized especially addressing strengthening:

- The external reporting;
- The internal reporting;
- Clear and transparent and delegation and segregation of duties
- Management follow up; and
- The IA functioning.

The Management of Municipality of Prizren has been given the possibility to give comments on a draft of this report. A number of subsequently changes have been made in this report.

Outstanding questions were we as auditors and the audited body still have different views are given in Annex 2:

The Management has committed themselves to make every effort to address the recommendations given.

## **II. Introduction**

The Office of the Auditor General (OAG) is responsible for carrying out annual regularity audits of the public institutions of Kosovo.

It is the responsibility of the Municipality of Prizren (the Municipality) to prepare financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) for “Financial Reporting under the Cash Basis of Accounting”, in compliance with Administrative Instruction 20/2009, and to present it on time.

## **III. Audit Objective and Scope**

This audit of the Municipality of Prizren relates to the financial statements for the year ended 31 December 2009.

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.

#### **IV. Audit Approach**

Our audit approach has developed this year. We have adopted a new manual for our regularity audit better conforming with internationally recognized auditing standards. We have analysed our audit approach under four main areas as follows:

- Understanding the Entity – gaining a full understanding of the entity, including the operation of the framework of authorities and of key systems, in order to gain an understanding of the key issues which may have an impact on the financial statements;
- Identification of Risk – by gaining an understanding of the entity and from the results of previous audits, we identify risks that could lead to material misstatement in the financial statements or non-compliance with legislation;
- Internal Management Controls – where risks are identified, we look to identify the management and monitoring controls in place which may mitigate against those risks; and
- Use of Substantive and Analytical Procedures – to provide the required audit assurance with particular attention to areas where weaknesses in controls have been identified.

We are required to obtain an understanding of internal control sufficient to assess the risk of material misstatement. In line with this requirement and our work under the internal management controls heading indicated above, we document the management and monitoring controls to help us inform our judgement of the risks of material misstatement.

We plan and perform our audit to be able to provide reasonable assurance. We apply materiality to help us plan our audit and evaluate our audit findings. In general terms (as set out in auditing standards) we consider that a matter is material if its non-disclosure, misstatement, inclusion or omission would be likely to distort the overall view given by the financial statements to their intended users.

Under our revised audit approach we undertook an interim audit during the year. Interim audit should be understood as an audit starting already during the financial year under audit with the aim to give recommendations on how:

- earlier recommendations can be handled;
- the Annual Financial Statement should be addressed; and
- how financial management issues can be addressed during the current year.

This year we reported our conclusions and recommendations from interim audits in audit memos in January 2010.

In order to fulfil our responsibilities, we have undertaken the following activities:

1. Reviewed the Municipality financial statements against the approved budget for 2009;
2. Determined whether the Municipality Financial Statements were prepared in accordance with IPSAS “Financial Reporting under the Cash Basis of Accounting”;
3. Established a materiality level of 1% as a threshold for assisting in determining the type opinion to render on the financial statements;
4. Used a combination of judgment and random sampling to select transactions for testing;
5. Undertaken extensive substantive testing of financial transactions;
6. Relied on a combination of interviews, analytical reviews, document reviews, and physical verification to assess the validity and propriety of financial transactions; and
7. Assessed the quality of work of Internal Audit within the Municipality.

In this report we summarise this year’s audit and give a formal opinion on the Annual Financial Statement 2009.

In regard our audit opinion for the Municipality financial statements, the international standards set out specific criteria that govern the type opinion that can be rendered. Audit opinions can be unqualified, qualified, adverse or a disclaimer of opinion. These are set out more fully in Appendix 1.

## **V. Audit Opinion**

In our opinion the financial statements in all material aspects presents *a true and fair view* of the financial position and the results of operational activities for the year ended 31 December 2009, in accordance with the International Public Sector Accounting Standards (IPSAS) for “Financial Reporting under the Cash Basis of Accounting”. We would like to draw your attention to the fact that the following is not disclosed in the financial statements:

- Payments made by third parties and additional information for payables, receivables or other assets designated as non-financial assets; and
- Within Note 27 of the Financial Statements, the Municipality was not able to disclose an comprehensive register on its non-financial assets.

**(ISSAI 400 *Unqualified Opinion with an Emphasis of matter*).**

## VI. Status of Prior Years Recommendation

Our audit report of financial statements for 2008 resulted in 7 key recommendations. Our current audit noticed that the Municipality of Prizren has partially implemented two of them, while five others still remained unimplemented.

Important areas which need to be addressed are:

- Monthly reconciliations between the data of Directorates and Finance Directorate data;
- Procurement procedures in accordance with applicable laws;
- Management of advances for official travel and implementation of financial rules;
- Complete registration of financial liabilities and their timely reporting within financial statements; and
- Recommendation for fixed assets registration in accordance with AI no.21/2009.

Failure to fully implement our recommendations resulted with same problems as earlier years. We raise our concern for all unimplemented recommendations.

## VII. Key Audit findings and recommendations

### VII. 1 Financial Outcome against the approved budget

Analysis of financial outcome against the Budget approved shows:

**Table 1:** Overview on budgets<sup>1</sup> and spending for 2009, 2008 and 2007

	Budget 2009			Execution	Execution	Execution
	Initial	Reviewed	Final	2009	2008	2007
Government Grant and Donations	18,534,000	18,875,000	19,348,000	19,133,000	13,801,000	12,144,000
Own source revenues	3,948,000	3,948,000	5,456,000	4,667,000	4,393,000	4,457,000
<b>Total</b>	<b>22,482,000</b>	<b>22,823,000</b>	<b>24,804,000</b>	<b>23,800,000</b>	<b>18,194,000</b>	<b>16,601,000</b>
Wages and Salaries	9,627,000	10,249,000	10,284,000	10,112,000	8,671,000	7,733,000
Goods and Services	2,074,000	2,009,000	2,589,000	2,145,000	2,369,000	2,056,000
Utilities	612,000	546,000	598,000	543,000	657,000	993,000
Subsidies and Transfers	316,000	316,000	371,000	347,000	314,000	293,000
Capital Investments	9,853,000	9,703,000	10,962,000	10,653,000	6,183,000	5,526,000
<b>Total</b>	<b>22,482,000</b>	<b>22,814,000</b>	<b>24,804,000</b>	<b>23,800,000</b>	<b>18,194,000</b>	<b>16,601,000</b>



<sup>1</sup> *Budget within the Table is presented based on round numbers*

The Municipal budget consists of Government grant, own source revenues, donations and other revenues. During 2009, the Municipality spent €23,799,656 or 95% of the approved budget. The above table shows that most of the budget is executed for capital investments and wages and salaries. In comparison with 2008, overall expenditures of municipality have increased for 30.8%.

According to analysis and analytical procedures, the sources of expenditures for 2009 were: the Government's grant in the amount of €18,744,727 own source revenues €4,667,359, internal and external donations in the amount of €387,570.

The unspent budget in the end of the year 2009 was €1,004,343. Out of this, funds were not spent out: from the budget €130,273, own source revenues €788,640 and donations €85,430.

## **Conclusion**

According to our evaluation, the Municipality has spent the general budget for 2009 as foreseen and ceilings set out by the Assembly of Kosovo. Budget execution rate was 95%. However, about two million of outstanding liabilities present a burden and irregularity for the budget 2010.

## **VII. 2 Financial Statements**

### **2.1 Information Quality**

Despite the use of an internal accounting program for registering of revenues and expenditures, the main source of information based on which the Municipality prepares financial statements is Free Balance.

Although, the Chief Financial Officer has signed the Declaration on presentation of financial statements, the Municipality has failed to prepare a draft of financial statements in English and Serbian language before the commencement and during our audit period.

The following inaccuracies have not been corrected by management and we are therefore reporting them to you in accordance with ISSAI 1260:

- The Statement of Cash Receipts and Payments has not been prepared according to Administrative Instruction 20/2009. The Article 9 (3) of this Administrative Instruction requires: the amount presented as receipt is the actual amount of payments made through TSA and presents the source of spent funds and the total amount of receipts should be equal to the total amount of payments in the Statement of receipts and payments”;

- In note 27 of Financial Statements, the Municipality has not disclosed any amount on property, premises and equipment.
- Changes within own source revenue in amount of €1,508,000 in Article 17 are not disclosed; and
- The payments made by third party as well as additional information for payables, receivables or other assets designated as non-financial assets are not disclosed.

## **Conclusion**

A weakness in internal controls related to financial reporting systems introduces improper and inaccurate presentation of financial data.

Third party payments due to non-registration within Free Balance and the possibility of other payments from foreign donations and their non-presentation within financial statements has an adverse impact when it comes to complete, accurate and reliable presentation of financial statements.

### **Recommendation 1**

#### **We recommend the Mayor to ensure that:**

- The financial statements are prepared in line with AI issued in the end of each year by MEF and are in accordance with International Public Sector Accounting Standards (IPSAS) for Financial Reporting under Cash basis of Accounting; and
- The financial statements contain all relevant information and those information are presented properly within the financial statements.

## **2.2 Compliance regarding the external reporting**

1. The Municipality failed to prepare FS totally in according to AI no. 20/2009 on Annual Reporting of Budget Organizations;
2. FS are signed on 02<sup>nd</sup> of February 2010 by Chief Administrative Officer and Chief Financial Officer;
3. FS are prepared in accordance with IPSAS for “Financial Reporting under Cash Basis of Accounting”;
4. FS were submitted to MEF / Treasury on 2<sup>nd</sup> of February 2010;
5. FS are prepared only in Albanian; and
6. No quarterly financial reports were submitted to the Minister of MEF during 2009.

## VII.3 Budget Execution

### 3.1 Revenue Management

According to the Treasury records, own source revenues of the Municipality for 2009 were €4,117 million while according to financial statements were €4,342 million.

Presentation and disclosure of revenues is not made according to AI no. 20/2009 on Annual Reporting.

Tests for Municipal own source revenues have resulted with the findings presented in the following points:

#### ***3.1.1 Improper Control regarding the calculation of compensation of construction land regarding the construction licenses***

While testing two samples related to the request of construction licenses, the calculation of compensation regarding the arrangements of construction land under same conditions, different prices were calculated.

a) In the first case, based on the conclusion no.04/4-353-850 the so called "Terrace" is calculated under price of €10/m<sup>3</sup> and the amount is deducted for 75%, and the final calculated amount is deducted once again for 14.55% to get the value for payment.

b) In the second case, under conclusion no.04/4-353-849 so called "Terrace" is calculated according to the price in first case, but with a difference that from the obtained amount, the amount of 7.5% is deducted and not the 75%.

c) In the three other premises according to the conclusion no. 04/4-353-40, 04/4-353-808 and 04/4-353-874 are, amounts calculated for payment in a plain paper by not including the calculation within the contents of the conclusion. In these premises, 1 m<sup>3</sup> per basement is calculated under a price of €3/ m<sup>3</sup> and a discount of 50%.

#### ***3.1.2 Supporting Documentation of own source revenues are not properly maintained***

International Public Sector Standards require that each own source revenue should be supported by a source document and be presented and maintained in details. We noticed that the Municipality of Prizren does not maintain the supporting documentation.

A receipt is requested and not provided, as well as our request for a detailed register of revenues was not executable.

### ***3.1.3 Non-reconciliation between the Directorate of Finance and Treasury***

We noticed that despite the monthly reporting of revenues, there is non-reconciliation between the Directorate of Finance and the Treasury. The amount of €855,416 was presented by DUSP while according to the Treasury, this amount was €847,398. Therefore, we have a non-reconciliation of €8,018. Such a situation related to the non-reconciliations was between the Directorate of Finance of Family Medicine Centres and Treasury data.

### ***3.1.4 The Control over the receivables is not functioning properly***

Despite the registration of contracts within the register and accounting records, we have found that the annual amount regarding two contracts in amount of €35,436 were not registered within the relevant account. Within the accounting register, the amount of €29,504 was registered, while within the register of Directorate of Public Services, was the amount of €28,332.

### ***3.1.5 Debt is not collected within specified time limits***

We reviewed unpaid invoices for property taxes which are related to Premises in use and debt in the end of 2009 was €301,631 while the debt carried forward for 2010 is increased for 26%.

The Municipality was not able to prepare accurate and reliable reports related to the level of collection or to follow-up the collection of revenues in a timely manner.

It is a practice of the Municipality to charge the property tax in the current year for all properties registered by February of the concerned year. For testing, we took 10 samples from the asset register and in this case we noticed that the registration of assets was made, however these assets were not taxed in 2009.

## **Conclusion**

Lack of adequate analysis of fees, inadequate and insufficient controls in relation to revenues and invoicing system increase the risk of presenting the revenues improperly or even to be misused;

The Municipality has not applied proper control mechanisms on revenues. In such a situation, is not possible to carry out reconciliations on revenues according to the accounting registers and invoicing system;

The low level of collection rate may impact in a possibility that the Municipality could carry out current activity and the development plan in the future.

## **Recommendation 2**

### **We recommend the Mayor to ensure:**

- The adequacy and applicability of the Regulation on tariffs and charges by Municipal Services and Activities, and clearly specify the responsibilities;
- That appropriate steps are undertaken to ensure the reduction of potential risk that comes from not protecting the original documents and the lack of registers. Information between the invoicing department and the one of accounting is reconciled;
- Regular reconciliations between the two systems in assigned period for all types of revenues. In cases where there are differences, they should be investigated and resolved within the assigned time limits; and
- That Municipal authority undertakes measures to increase the collection rate to an acceptable level.

## **3.2 Expenditure Management**

### **3.2.1 Wages and Salaries**

The Budget for category - Wages and Salaries for 2009 was €10,284,000, while the current payments for salaries during 2009 were €10,112,000. The number of employees within the Municipality in the end of 2009 was 3,127.

The expenditures for salaries paid in 2009 according to the Payroll system was: €9,522,025. The payments made for salaries presented within the financial statements were €10,112,310.

Based on our analysis of data within the financial statements, we have found a limited number of payments of wages and salaries, performed directly (outside the payroll system).

The Municipality has paid, although under a regular contract, 28 Teachers through the category of “Goods and Services”.

With aim to verify if the salary expenditures are in line with supporting documents, we tested 10 dossiers within the Personnel office. Based on testing of the amount of contracted amounts and amounts paid, we have noticed a difference of €4,576.

### **Conclusion**

This way of handling the additional payments is not transparent. In our opinion, finding other technical solutions for these types of payments should be taken into account. Although the above findings have no material effect on financial statements, lack of timely communication and approval from relevant authorities or the lack of documentation within the dossier may lead to discrepancies with legislation and Regulatory requirements.

### **Recommendation 3**

#### **We recommend the Mayor to ensure that:**

- Payments for all employees within the Municipality are made according to legal requirements and personnel dossiers are updated on timely manner; and
- The practice of paying the salaries from goods and services should be stopped. Salaries should be processed through the payroll system and paid from the Category Wages and salaries.

### **3. 2.2 Goods and Services**

The category of Goods or Services by populations in amount of €2,688,220- we tested 10 samples in a total of €467,883. From the tested samples, we have noticed these findings:

#### ***3.2.2.1 Demolition of premises constructed without licenses in Prizren***

Transport services are calculated by working hours, while these works as per the technical specifications are foreseen in m3. We did not find that works carried out with excavator (dredger) are recorded in any register.

#### ***3.2.2.2 Supply with fuel for schools of Prizren in amount of €139,190***

- Commitment of funds is made in the amount of €107,000, while the value of the contract is €139,190;
- The Procurement manager participates within the Bid Evaluation Committee and at the same time he was a Chairman of the Committee; and
- There is no evidence, why the Economic Operator with the lowest price than the winner of €8,990 was eliminated. The Evaluation Committee has only mentioned the contract award for EO without providing any comment on the other eliminated EOs.

### **Conclusion**

Non functioning of internal control system in the proper level resulted in the execution of payments without any evidence for the working hours or services performed by the entity. This however does not justify the expenditure of public money.

In general, internal controls are assessed as weak to provide assurance the Management that procurement processes and payments are in accordance with Laws and Regulations.

#### **Recommendation 4**

##### **We recommend the Mayor to ensure that:**

- Public money is being spent in a rational manner and in no case to make payments without justification for the works carried out;
- Selection and signing the contracts with most economically advantageous operators and EOs with lowest price;
- There are sufficient funds to implement projects and in no case to allow the signing of contracts without cover of funds; and
- Controls on the work of Evaluation Committees and development of procurement processes are strengthened in general.

### **3.2.3 Advances for Official Travels**

In 2009, €81,460 is paid on official travel expenses. In total, we have reviewed 9 cases of advances and in no case we have found that during the approval of requests for official travel an agenda for any visited country was attached.

#### **Conclusion**

Lack of agenda for official travels and other evidences on the justification of travels do not provide assurance that all official travels are conducted in terms of capacity building or other benefits from these travels.

#### **Recommendation 5**

##### **We recommend the Mayor to ensure that:**

Proper policies and procedures have been developed regarding the approval of requests for official travels and abroad travel itself has a positive result in gaining knowledge and taking best practices which would be implemented by the Municipality personnel.

### **3.2.3.0 Capital Investments**

In 2009, the Municipality of Prizren has signed around 290 contracts with various EO. The total amount of signed public contracts was €15,219,681 while paid for the Capital expenditures was €10,652,420.

As part of our audit, from the category of capital investments, we tested 38 samples or contracts covering the amount of €4,555,416.

**3.2.3.1 The Project on Renovation of the building of the Prizren Municipal Assembly in the amount of €385,214**

The performance security and tender security were not requested.

The works are not finalized yet and no penalty was applied as foreseen by the Contract special conditions. The second payment was made on 18.03.2009, a date when the works should have been finalized. According to the claims of procurement officer, the project was not finalized on time due to the change of bill of quantity regarding several positions.

**3.2.3.2 Construction of the Road starting from Employment Office up to Benaf in amount of €986,089**

A contract was signed in amount of €986,089, while funds committed for this project were €200,000 implying that the project had no financial cover.

The bidder with the lower price than the winner in amount of €19,000 is eliminated. Further on, the Procurement officer participated within the Bid Evaluation Committee and the performance security and tender security were not requested.

The firm did not execute the project according to the dynamic plan and in no case the penalties for delays were applied when it comes to project implementation.

The value of planning for this project was the amount of €838,000.

**3.2.3.3 The Construction of the Elementary school in the village Nashec- Prizren- phase II in amount of €332, 017**

An economic operator when it comes to the construction project for the Elementary School in Nashec has bided in the amount of €541,658 while the contract was signed in amount of €332,017. Within the tender dossier, there is no request and bill of quantity for the project and according to statements of procurement officer, the reduction of the tender price has incurred as a result of lack of funds committed for this project. The contract foresees that the amount available for this project will be €208,000. In this project we found that there is no performance security as it required by LPP. The same officer signed the report for receiving of goods and service of goods and also carried out the certification of payment.

**3.2.3.4 The Construction of Health Centre in Zhur in amount of €295,141**

The contract specifies that the works may be carried out up to the amount of €100,000 while the rest of work after the commitment of funds is made under the written order of the Director regarding the work continuance. The contract was signed under the value of commitment. The performance security and tender security were not requested from the winning company.



### ***3.2.3.5 The construction of Elementary School annex - village Zhur in amount of €121,622***

This project is funded by the Municipality (57%) and CHF donor (43%). By reviewing the payment of €70,000 paid by the Municipality, we have not found a work receipt report from the oversight body.

In the second project regarding the construction of Elementary School Annex in the amount of €149,450 which was also a joint- financing with the foreign donor- CHF - we have not found the work receipt report from the oversight body.

### ***3.2.3.6 Supply with vehicles for the needs of Municipality***

The contract for the supply with vehicles for the needs of the Municipality was signed on 30.10.2008 in the amount of €90,000. The commitment of funds for these vehicles was €45,000 which means that the Municipality had insufficient funds for these supplies. We have not reviewed the procurement procedures for 2008; therefore we cannot give assurance that procurement activities are conducted in accordance with the LPP regulations. We have not found minutes of meeting of the Committee for receiving of vehicles.

### ***3.2.3.7 The Construction of the road Kojush - Gorozhup in the amount of €1,392,221***

We could not find the agreement of the Municipality and MTPT on joint-financing in which the Municipality participated with only €120,000 while the rest of funds were provided by MTPT.

The economic operator was eliminated, whose price was lower than the winner for €153,303. The Bid Evaluation Committee has awarded EO on scoring basis, where the winning EO scored 88 points, one point more than the EO with lowest price, which scored 87 points.

### ***3.2.3.8 The Construction of the road with concrete paving blocks within village Lubizhda in the amount of €120,417***

Also, in this project the Municipality has not requested the tender security and performance security. Despite the delays in execution, the penalties on the delays were not applied.

The Procurement Manager participated within the Evaluation Committee.

The commitment of funds for this project was only €15,000.

### ***3.2.3.9 The Construction of the road and infrastructure of "Bajram Curri neighbourhood and Marash Bridge"***

The Evaluation Committee has awarded the economic operator which had a higher price for €50,000 comparing to other Operator.

The performance security and tender security were not requested as foreseen by LPP.

The value of contract was €1,032,030 while the commitment of funds for this project was €69,297.

## **Conclusion**

The findings identified above are a result of weak controls by the Management of the Municipality. The abovementioned procurements of the Municipality have violated the procurement regulations. Deficiencies noticed regarding the internal controls in terms of procurement, are extremely serious and in a large-scale increase the risk of Municipality procurement to fraud, loss and misuse.

### **Recommendation 6**

#### **We recommend the Mayor to ensure that:**

- Procurement procedures are conducted in accordance with legal requirements and regulations and to take necessary steps for better performance of procurement activities;
- When establishing an Evaluation Committee, to appoint individuals who have certain profile and meet professional standards in terms of evaluation of bids;
- There is sufficient funding for implementations of projects and in no case the Municipality should not enter into obligations without financial cover;
- All companies which shall be awarded with the contract, to provide performance security before signing the contract;
- The controls on the work of Evaluation Committees and development of procurement processes are strengthened in general and award with contracts more competitive and economically advantageous operators;
- The penalties on delays are applied for non-completion of works within the time limits foreseen by all EO according to the terms of the contract;
- Actual actions were undertaken to complete the contracted works. The Control on certification of payment should be strengthened to prevent such actions. Also, not to allow execution of any payments without ensuring that the works are completed.
- All decisions on awarding the contract are documented in regard to the basis for selection of the winning economic operator and if the bidder with the lowest price is not selected, clear reasons for elimination should be given.

## **3.4 Subsidies and Transfers**

The total amount of expenses for subsidies and transfers in 2009 according to the FS were €346,705. We tested 10 samples, in value of €114,696.

Expenditures from this category were made primarily for assistance to the martyrs' families, scholarships for students, Non- Governmental Organizations (NGOs) and support to certain individuals.

Subsidies paid to a certain individual or a private enterprise should be based on a formal (official) agreement between the budget organization and the beneficiary.

### **Findings**

- 100 scholarships for students were planned in amount of €50,000 while the amount paid for these scholarships was €56,740;
- When it comes to, assistance for NGO, the terms and conditions for selection of the beneficiaries were missing. As a winner, within the contract is specified an NGO for organizing the celebration, without having a true competition;
- The amount of €10,000 awarded to a beneficiary in relation to the traditional manifestation “A week of Remzi Ademaj” was made without any foreseen criteria.

### **Conclusion**

Exceeding of payments on scholarships represents inefficient planning of the Municipality on one hand, and decisions on payment of an organization without any real competition may have subjectivity and unfair transparency in the other hand. Non- implementation of financial rules and criteria does not provide assurance that public money is being spent on the best possible way.

#### **Recommendation 7**

##### **We recommend the Mayor to ensure that:**

- Appropriate plans are prepared and all subsidized projects have a justification and do not discriminate eventual competition;
- The Municipality establishes professional committees on evaluation, monitoring and supervising of executed projects financed by funds designated for subsidies;
- The Municipality establishes adequate assessment of all projects’ applicants and not violate basic principles which are determined according to prescribed criteria, however the beneficiary of these to be the project that meets all the requirements and criteria set forth by the Municipalities.

### **3.5 Procurement Management**

Findings reported in the previous sub-chapters demonstrate that the Municipality of Prizren has undertaken procurement procedures, which are not in accordance with Regulation 2007/20.

### **Conclusion**

The Municipality of Prizren has inadequate approach to its procurement processes, increasing the risk for bad business, misuse and losses. We found irregularities in almost every procurement audited.

### **Recommendation 8**

#### **We recommend the Mayor to ensure that:**

- A specific program is developed securing internal guidelines on procurement including clear segregation of duties, combined with efforts training applicable officers for a better implementation of the procurement processes; and
- A strengthen managerial control of the implementation of procurement processes.

## **VII.4 Asset Management**

### **4.1. Current Assets**

The unspent money of own source revenues in the end of 2009 was €874,070.

According to analytical procedures, we have found that the amount of unspent funds from own source revenues was €788,640 and unspent donations €85,430. Outstanding liabilities within the financial statements were presented in amount of €2,082,724.

### **Conclusion**

The outstanding liabilities in the end of the year represent a serious problem for the implementation of plans and achieving of objectives for 2010 and at the same time irregularities of projects planned for 2010.

### **Recommendation 9**

#### **We recommend the Mayor to ensure that:**

The budget appropriated for each fiscal year covers all obligations and that there would be no initiation and planning of project before the funds are available.

### **4.2. Fixed Assets**

No disclosure of fixed assets in financial statements was made.

The Municipality did not disclose the required information for premises, property and equipment in the financial statements. The Municipality has established an Inventory Committee which was under process of asset registration and evaluation of fixed assets such as: land, premises and roads. Also, the Municipality has no detailed and comprehensive register yet, including documentation on real estate in the name of the Municipality.

## Conclusion

The lack of a comprehensive registry of property, premises and equipment makes it impossible to have controls on Municipal property. This could lead to misuse of assets and non-identification of these misuses on time.

### Recommendation 10

**We recommend the Mayor to ensure that the Municipality will consider the following:**

- To maintain a comprehensive register of property, premises and equipment;
- To include additional resources within the registration and assessment of municipal assets; and
- To make regular physical inventory to ensure the existence of assets and their condition and reconcile the counting results with the data in accounting register.

## 4.3. Liabilities Management

The amount of €5,108 paid in 2009 flowed as a contingent liability since 2005. This liability paid based on the Court decision was not presented and disclosed in the prior years financial statements.

Therefore, the financial statements have not been consistent from 2005 till 2008.

According to data presented within Financial Statements 2009, The Municipality has disclosed unpaid liabilities according to the categories:

Goods and Services	€501,381
Utilities	€51,980
Subsidies	€20,003
Capital Investments	€1,509,360

Department of Finance and Accounting Service within the Municipality are responsible for verifying the accuracy of the received documents by other departments, registration, monitoring and reporting.

According to the information above, the analysis and review of payments regarding the liabilities were not carried out.

The Administrative Instruction no. 02/2002 specifies: All invoices received for goods and services to be paid on time. The standard date for payment is within 30 calendar days from receipt of the invoice submitted appropriately.

### **Conclusion**

Lack of appropriate policies on liabilities reduces the ability of management for control and proper and effective decision-making in regard to penalties when there are delays of payments. Moreover, contingent liabilities may bring the Municipality in the unexpected financial trouble.

#### **Recommendation 11**

**We recommend the Mayor to ensure that:**

- The Accounting has all information for outstanding liabilities and actions to be taken in case of delays of payments;
- These liabilities are presented fairly and accurately within financial statements, as required by AI 20/2009 or other instructions in the following year; and
- Outstanding liabilities should be disclosed, estimated and budgeted for the coming year.

### **VII.5 Internal Control Systems**

We have identified weak management and controls in the following areas as set out in the sections above,

- Prior years recommendations were not implemented in the expected level;
- Managerial shortcomings associated with many irregularities are being repeated from year to year;
- Improvements in public financial management are very slow;
- Development of procurement procedures by violating the rules arising from LPP and signing contracts with operators without securing funds;
- Application of fees with double standards in determining the value for construction license; and
- Inadequate systems for registering and monitoring of fixed assets.

### **Conclusion**

There are deficiencies within the internal control systems of Municipality. There is a need to carry out a system functional review. Consequently, internal controls established by management of the municipality for prevention, detection and correction of errors, irregularities and potential fraud have not operated sufficiently.

In general, we consider that the level of financial control is inadequate and must be improved by addressing the recommendations raised together with implementing those outstanding from the previous year.

## **5.1. Internal Audit**

Within the Municipality of Prizren there is an IAU consisting of one Director. The main role of Internal Audit Unit is to provide assurance for management that internal control system is functioning as intended.

IAU did not draft an audit plan for 2010. During 2009 there were four reports completed, out of which, two include the period of 2009. The reports, which are carried out by IAU as objective had the assessment of revenues from property tax and recruitment procedures. In its scope are not included the high risk areas for audit, such as the procurement sector. We noticed that the IAU has no independence in the scope of work. Audit Committee is established, but we didn't noted any important contribute on developing of internal audit.

### **Conclusion**

We evaluate that while IAU does not prepare audit plans based on a detailed analysis of the risk assessment and does not focus the audit on areas with higher risk, we could not rely upon the results of this unit for purposes of our audit. Moreover, neither the management of municipality could expect the internal audit to provide assurance on the functioning of controls.

### **Recommendation 12**

**We recommend the Mayor to ensure that:**

- IAU plans and performs its annual activities focused on the current year and to use a risk based approach.
- Internal Audit should submit regular reports to Management give advices, and recommendations on identified shortcomings in the implementations of the ICS..

## **VII.6 Overall conclusion on the Management of the Municipality of Prizren**

Overall conclusions are that the management should strengthen general controls. Compared with the previous year, when 7 recommendations are given; findings and recommendations of this year (12) are higher, indicate that controls require further substantial improvement. It should be paid a special attention to the improvements particularly in compiling financial statements, development of procurement procedures, finding the mechanisms to collect debts from property tax and strengthening controls on assets.

Based on identified weaknesses within this report, we reached the overall conclusion, that further efforts are needed, improving the Financial Management and control within the Municipality Prizren.

A specific revitalization program should be organized especially addressing strengthening:

- The external reporting;
- The internal reporting;
- Clear and transparent and delegation and segregation of duties
- Managemnet follow up; and
- The IA functioning.



## Annex 1

### Different types of Audit Opinions applied by OAG in the Annual Audit Report 2009 (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.

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 bases and policies which have been consistently applied;
- (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; and
- (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.

## Annex 2

Management of Prizren Municipality was given the opportunity to give comments on this draft report. Management has given a number of comments which have clarified some of the raised issues and then some of these issues were changed. Unfinished issues, for which we as auditors and the audited entity still have different point of view, are presented in the following:

### Comments of Prizren Municipality and OAG conclusions

No	Reference	Comments of Prizren Municipality	Final conclusions of OAG
1.	<b>2.1 Information Quality</b>	<p>a) In recommendation no. 1, that Financial Statements should be prepared according to article 9 point 3 of AI 20/2009 where its stated that all receipts should be equal with payments, whereas in this table are presented all receipts until the end of the year, but also all planned payments. Therefore, regarding this recommendation we will be more cautious and we assure you that we will provide data according to AI 20/2009.</p> <p>b) Regarding the recommendation for registration of fixed assets and evaluation of assets according to AI 21/2009, we notify you that the committee for fixed assets evaluation was established in 2009. The Committee is working and this data by the committee will be presented in the following Financial Statements (page 10).</p> <p>c) On page 10 is stated that the amount €1,508,000, was not disclosed, explanations were clear, however we</p>	<p>Municipality's Management agrees that weaknesses exist, therefore, has started undertaking actions to make necessary corrections. In our next audit we will follow-up on the level of implementation.</p> <p>We concluded that the Municipality has not disclosed note 27 of Financial Statements, which requires that all non-financial assets in possession of Municipality should be summarized.</p> <p>Non-disclosure and non-presentation in Financial Statements means that Financial Statements do not contain all relevant information and this data was not presented properly in the Financial Statements.</p>

		<p>notify you that this amount presents: Own Source Revenues carried from 2008 in amount of €1,114,000 and the increase of Own Source Revenues from those planned in amount of €394,000 which totally add up to €1,114,000+€393,000=€1,508,000, values are rounded.</p> <p>d) On page 25. Contingent liabilities paid on 2009 in amount of €5,108, this amount was as a result of 2005, and this liability was not presented at the end of the year in our office.</p>	Audit findings remain unchanged.
2.	<b>3.1.1 Improper Control regarding the calculation of compensation of construction land regarding the construction permit</b>	<p>Regarding the testing of two samples related to request on construction licenses, for calculation of compensation regarding the arrangements of construction land were calculated different prices for this reason:</p> <p>In the first case, conclusion No: 04/4-353-850, as investment is the construction of lodge house in Prevala in cadastral plot No. 144/4 with plot size S=270m was deducted from the final amount 14,55%, according to the abovementioned party it was taken from possession respectively from property 14,55%, this is according to the decision of Municipal Assembly with No. 01/011-4 of date Dec 28 2006. Whereas in the second case, according to the conclusion with No. 04/4-353-849 for construction of lodge house in Prevala in the cadastral project No. 150/5 with a cadastral size No. 271 m<sup>2</sup> was deducted from the total amount 7.5% because that is the</p>	<p>a) Responsible Officials, even with the attached documentation they have not provided evidence such as the decision of the Municipal Assembly which is mentioned in the report of the Department for Spatial Planning as evidence for verification.</p> <p>b) Decisions are fully effective and they will be implemented when approved by the competent bodies.</p> <p>Municipality's comments do not change our conclusion.</p>

		<p>size that was taken from the ownership respectively from the property.</p> <p>b) Whereas when it comes to calculations of 50%, 75%, 25% authorities of this body made a proposal for amendment and supplement of Regulation on tariffs, charges and fines from services and Municipal activities for the part of Department of Urbanism and spatial planning, respectively to fulfil article 6.3 section 1.3 and 4 in order to include surface for attic 50%, 75% balconies, and terraces 25% of the price on use of construction land on a zone that belongs to the building.</p>	
3.	<b>3.1.2 Supporting Documentation of own source revenues is not safeguarded</b>	<p>Each own source revenue has to be supported by a source document, this source document is a Bank Statement where all revenues are recorded based on a document that is presented by the parties in the Bank. Based on this document the Bank records revenues in the statement based on the name of the client and based on the type of revenue-Bar-code (UNIREF according to MEF guidelines). This document for recording- Bank Statement is presented to us on daily basis by the Free-balance system where revenues of all banks are specified. These documents are archived in MA for 7 (seven) years as foreseen by Law of Public Finance. Any information that was requested by you related to recording of revenues was presented in time.</p>	<p>Audit team was knowledgeable about the system you have commented, so the issue here is that you were lacking a daily and detailed register of source documents that generate revenues, as basis for attestation that Municipality is in possession of its Own Source Revenues.</p> <p>Comments do not change our conclusion.</p>
4.	<b>3.1.3 Non-</b>	<p>Reconciliation between the Department of Finance and Treasury is done on monthly basis, whereas, quarterly is</p>	<p>In relation to non-reconciliation we have concluded that there were not reconciliations between departments which</p>

<p><b>reconciliations between the Department of Finance and Treasury</b></p> <p><b>Justification related to auditing of revenues of 2009 in MFMC in Prizren</b></p>	<p>drafted the reconciliation process between the Central Office of Treasury and Finance Department, Economy and Development. This is a report which we presented before and we will attach it to this response.</p> <p>Non-reconciliation between some of our codes and the Treasury codes is because we could not decode the type of revenue on time. These corrections on our side are done in the MA, while in Free-Balance we do not have access to correct them. However, despite all this the total of revenues completely reconciles with Treasury.</p> <p>Reason behind non-reconciliations of Own Source Revenues of MFMC in Prizren in 2009 deposited on Municipality's account and the transfer from the Municipality to Treasury is discontinuance before the end of the month and the same difference was carried regularly for few months, however in the end of the year this difference is being reconciled which indicates of a technical failure. We will be careful in the future so that this occurrence does not happen again, since all this was presented from all the above reasons as unintentional.</p> <p>We ask for your understanding and our given explanations to be accepted as justifiable. We greet you and thank you.</p>	<p>generate revenues and the Finance Department.</p> <p>Therefore, recommendations given in this report will be useful so that the municipal officials will take them into consideration and implement them.</p>
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5.	<b>3.1.4 Control on receivable accounts is not functioning properly</b>	<p>We do not have information regarding which contracts it concerns, therefore we cannot give clarification. Way we do it is, the charges are done based on the base document of the respective Department presented at the Finance Department (in this case was mentioned Public Services Department). Some explanation, it does not concern property tax invoices, but for rent of premises.</p>	<p>Issue was discussed and it concerns contracts for renting of premises in the Public Services Department.</p> <p>Comments do not change our conclusion.</p>
6.	<b>3.1.5 Debts are not collected within set time frame</b>	<p>Debt on the end of the 2009 for renting of premises was 301.631.00. Carried debts on 2010 were 301.630.12. The difference between liabilities of 2009 registered in 2010 is 1.30 and not 26% as stated in the report. As an attachment we send you the list of liabilities for premises for 2009.</p> <p>Reports for collection of revenues are prepared on daily basis and are accurate because they have to be reconciled with Bank Statement, under these conditions there is no possibility for non-reconciliation not even in cents let alone in Euro's, this issue was presented during the control, where is also seen the reconciliation report with Treasury for each period and in the end of the year.</p> <p>It is true that properties that are registered until February of the respective year are taxed.</p> <p>Permanent Office of property tax in MA of Prizren for 2009 has registered new properties, regardless of this; these properties are not entered into the system for taxation.</p>	<p>Carried debts from 2008 in 2009 were €238,844,39, whereas carried debts from 2009 in 2010 were €301,631,42 which indicates a tendency of increased debts of 26%.</p> <p>Municipality's Management does not disagree with report findings, however, they are explaining under what circumstances they have occurred.</p> <p>We expect the implementation of recommendation in regard to this issue.</p>

	<p>Reason behind this is that the program was not functional because Property Tax Department in cooperation with Swedish SIDA have developed a new software (program) for property tax and as of 12.02.2009 until the end of May of 2009 due to the transferring process of data from the old software into the new software, we were unable to enter any type of data into the system. This data was transferred as from the month of June.</p> <p>Article 9.1 of Regulation on taxes of immovable property No.2003/29, states that all properties that are registered until the first of March or before the 1<sup>st</sup> of March are subject to taxation.</p> <p>Therefore, due to above mentioned obstacles some properties that were entered into the system from the June were not taxed for 2009 because the legal deadline has passed, therefore properties are taxed for 2010.</p> <p>Efforts are permanently made so that all revenues are controlled and recorded properly, in the future we will also consider Auditor's recommendations.</p> <p>Department of Economy, Finance and Development have made continuous efforts so that the collection is done in full compliance with Tariffs Regulation, Charges, and Fines from Municipal Services and Activities and every time the collection level was reached and exceeded based on the set objectives by the MA.</p> <p>In the future we will consider Auditor's Recommendations by acting in full compliance with</p>	
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		applicable laws and Administrative Instruction issued by MEF.	
7.	<b>3.2.1 Wages and Salaries</b>	Salary increase in value of €4,576 was done after the request approval of the Department of Education and Science No. 504/2009 of date 21.05. 2009, which request by the Municipal Assembly in their session held in July 2009, has approved this increase and as such this difference does not have a decreasing affect on the Municipal budget, since the increase is also approved by the Ministry of Finance and approved by the Ministry of Public Administration. Also this increase is approved by two ministries, based on official works volume. In relation to payments of 28 Teachers executed through the code (subprogram) of Goods and Services are sometimes by the suggestion of an agreement between the Ministry of Finance and Treasury department, due to impossibility for payment from the salaries code through the Ministry of Public Administration. By the decision of the Government of Kosovo this number of Teachers was legalized and regulated in Teachers payment according to the payroll.	<p>We have reviewed 10 personnel files and the primary objective was to find out whether these files contain all possible changes of salaries or of multipliers.</p> <p>During the comparison of salaries expenditure paid through payroll and the contracts, the tested samples resulted with a difference of €4,576. When auditing we have not concluded a reconciliation between the contracts signed by the Officers and salaries that were paid through the Payroll System. Therefore, our conclusion remains unchanged.</p>
8.	<b>3.2.2.1 Destruction of buildings built without permit in Prizren</b>	Respective Department has carried out payments itself and the procurement sector did not have access on these. The procurement sector in the future will respect recommendations of Auditor General.	<p>Each payment for work or services which derived from procurement procedures should be signed by the person assigned by the procurement for preparation of purchase order based on terms of the contract.</p> <p>Audit conclusions remain unchanged.</p>



9.	<b>3.2.2.2 Supply with Fuel(heating purposes) for Prizren schools</b>	Based on a conclusion given by the Office of Prizren municipality No. 3616 of date 02.06.2009 related to fuel supply, when the Auditor General has presented its remarks related to fuel supply (page 15 No. 3.2.2.2). First committee has evaluated in accordance with procurement rules, whereas by suggestion of procurement office was established another committee which has re-evaluated certain tenders and the tender was awarded to EO with a higher price than the one evaluated by the first committee.	We repeat once more that it has become a routine not to have evidence of EO that were eliminated from the competition. It was verified that you have no written evidence of all EO eliminated from the competition with a reason behind the elimination. We have not found that the second committee was for re-evaluation, therefore, the recommendation given in this report remains unchanged by hoping that the given recommendation is clear.
10.	<b>3.2.3.3 Construction of premises for Elementary school in village of Nashec, Prizren- phase II</b>	<p>Point a.</p> <p>Pursuant to article 60.1. of LPP promulgated on Regulation No.2007/20 is stated: Contracting authority shall require an economic operator that has been awarded a contract to post performance security as a precondition to the signing and entry into force of such contract if (i) such contract is a works contract, (ii) such contract is a service contract for software development services, (iii) there is a risk that a breach of such contract ? would cause substantial damage to the contracting authority</p> <p>Point b.</p>	<p>Request for performance security is not conditioned with giving of advance to the EO, however we will quote part of LPP, that is:</p> <p>Article 60.2 of LPP states: A contracting authority shall require an economic operator that has been awarded any other medium or large value contract to post performance security as a precondition to the signing and entry into force of such contract.....</p> <p>b ,c ) Municipality does not disagree with finding, it only gives a reason for it. Furthermore, conclusions in our report intend to find shortcomings in internal control systems and</p>

	<p>1. We as contracting authority never gave advances whenever entering a contract,</p> <p>2. Economic Operators after they start executing the project, actually they have already entered in performance security since the contracting authority has not given advances for execution of project,</p> <p>3. Contracting Authority of Prizren Municipality with any Economic Operators that has entered into a contract so far had no problem in execution of a contract.</p> <p>4. For clarification of article 60.1 of LPP we ask you to contact PPRC in Prishtina and to clarify that Prizren Municipality has not violated public procurement law and has acted conform LPP.</p> <p>Since we as contracting authority cannot stimulate economic operators to give advances and we have not requested works performance security.</p> <p>Point c.</p> <p>Based on remarks given by Auditors that in none of the cases was noticed that the Municipality has managed to finish a project according to the dynamic plan as specified in the Contract. We as a procurement sector were never asked by the respective Department who have executed projects that dynamic plans were not respected and should apply penalties towards the economic operators under the terms of the contract.</p>	<p>the risks these shortcomings might bring. We encourage the Mayor of Municipality to initiate the preparation process of policies and formal procedures of how is information going to flow within departments.</p> <p>We also re-emphasize our recommendation that there should be sufficient funds for execution of projects and Municipality in no case will have liabilities without having financial without cover, which can lead to loss of control over liabilities, as well the penalties in case of payment delay.</p> <p>Audit findings remain unchanged.</p>
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		<p>Point d.</p> <p>Why were contracts signed without having all means for execution of project: we as a contracting authority with quite a large budget and with participation of citizens in most of the projects, we could not allocate means completely, therefore this was the reason why we entered into contracts for as many means as allocated. If the contracting authority did not enter into contracts even without insufficient allocated means, then most of projects would not take place.</p>	
11.	<b>3.2.3.4 Construction of Culture House in Zhur</b>	<b>We gave our response on point A and B</b>	Our conclusion remains unchanged.
12.	<b>3.2.3.5 Construction of sanitary accessories in village Zhur</b>	<p>This project was enabled by CHF and MA Prizren. However procurement sector does not have any type of document concerning this project.</p> <p>Regarding the construction of sanitary accessories in the Elementary and High School "Dëshmoret e Zhurit" in Zhur, who was supervised by CHF, also an investor of a portion of means and receiving report exists in the case 390/ 09 paid on 12.10.2009 and this is a report in english language, which report was not consulted by the auditor the day they reviewed documentation in MDES. We attach the report to our response.</p>	We have ascertained that participations in these two projects were co-financed between the municipality and the external donor. However, in these two cases we have not found any type of report prepared by the supervising body for executed works and payments based on this report.

13	<b>3.2.3.6 Supply with vehicles for Municipality needs</b>	Payment was not processed through the procurement sector and as such, we have no information of received vehicles.	<p>We re-emphasize conclusions in our report, their intention is to identify deficiencies in the internal control systems and the risks that these deficiencies might bring.</p> <p>This moment is a paradox that the procurement sector has no information of this, where we know that procurement procedures are guided by two sectors</p>
14.	<b>3.4 Subsidies and Transfers</b>	<p>a) In relation to scholarship expenditures they were given under the decree No. 01/011-1827 of date 10.03.2009, based on which was established a committee in consistence of five (5) members where the scholarships amount €50,000 was specified. One additional scholarship was awarded for minorities by the decision of Department of Education in amount of €500, while the other amount of €6,240 by suggestion of Municipality's Mayor and the decision of Ministry of Education and Science they were awarded to the twins of little Krusha and to several other kids which were cases of extreme poverty.</p> <p>b) The amount of €10.000 was given based on a conclusion No. 01/06-2709, of date 21.04.2009 signed by the Mayor of the Municipality and the decision taken by the Department of Education towards the firm "Bogdani" whose intention was easement of procedures for cash payments that were supposed to be given to schools for organizing this celebration. Department of Education and</p>	<p>Municipality does not disagree with the finding, it only gives the reason behind it.</p> <p>Our conclusion remains unchanged due to the fact that in the scholarship plan were only 100 scholarships for students, whereas, were awarded more than planned.</p> <p>We re-emphasize our conclusion that; failure to respect financial rules and criteria does not provide security that the public money is being spent at its best.</p>

		<p>Science, as host of this celebration has also established a committee to supervise this celebration and for assessment of financial cost, and each expense was documented with respective invoices. We also notified the audit committee, which are archived in MDES, our suggestion are in compliance with audit office recommendations of No 7 page 21.</p> <p>These expenditures were incurred from subsidies, and the payment was carried out through the respective firm, in order not to fail in organizing of this traditional celebration.</p>	
15.	<b>5.1 Internal Audit</b>	<p>Even though more solid comments would be given by the respective Department where the recommendations were given by the Auditor General, where in consultation with the senior management was given the assurance that it will increase the efficiency in form of internal control by the Department office along with internal auditor's office, even though this office has insufficient number of staff, only one auditor (1).</p> <p>In relation to the finding that IAU does not have a internal audit plan for 2010-in your document regarding to audit for fiscal year 2009, in point 12 you have requested Audit Plan for 2009 and that was delivered by us, regarding to audit plan of 2010 I had no information that it was requested by your officials since IAU has that</p>	<p>We did not state that you do not have Audit plan, but were not prepared Audit plans based on detailed analysis of risk assessment and you were not focused in auditing those fields with high risk,</p> <p>Audit focus on the fields with high risk by the Internal Auditor it is a recommendation that should be implemented, and we believe that this will aid Municipality's management, where the efficiency will increase as well the form of internal control of the respective Department.</p>

		plan drafted based on which has carried an audit (management of municipal assets) and is in the completion phase of second audit (municipal revenues). Although I hope that there was a misunderstanding or misinformation when it comes to your request.	
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Furthermore, Municipality's Management has committed to make all efforts for addressing all of our given recommendations.