



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

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AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF THE
MUNICIPALITY HANI I ELEZIT
FOR THE YEAR ENDED 31 DECEMBER 2015

Prishtina, June 2016

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

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

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

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

The opinion and report issued are a result of the audit carried out under the management of the Audit Director, Astrit Bllaca, supported by Fejzullah Fejza (Team Leader) and Ernes Beka.

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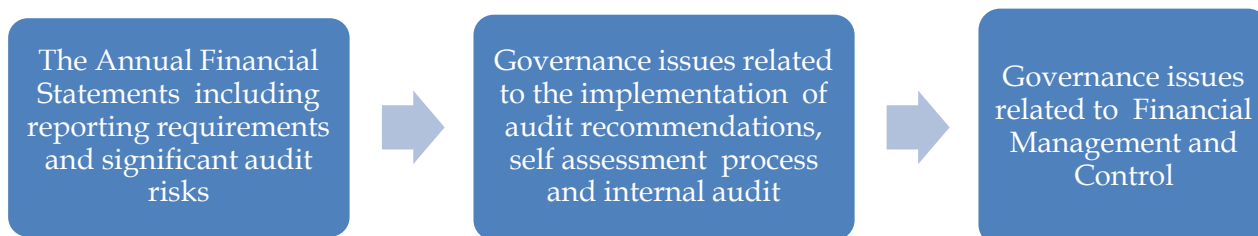
Executive Summary

Introduction

This report summarises the key findings from our audit of the 2015 Annual Financial Statements of Municipality Hani i Elezit which determine the Opinion given by the Auditor General. I would like to thank the Mayor and his team for their assistance during the audit process.

The examination of the 2015 annual financial statements was undertaken in accordance with the internationally recognised Public Sector auditing standards (ISSAIs). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The approach taken is set out in our Audit Planning Memorandum dated 21.11.2015.

Our audit focus has been on:



(For more details, see Annex I of this report.)

The level of work undertaken by the Office of the Auditor General to complete the 2015 audit is determined from the quality of the internal controls implemented by the Management.

Opinion

Annex II explains the different types of Opinions applied by the Office of the Auditor General.

The Auditor General's opinion is:

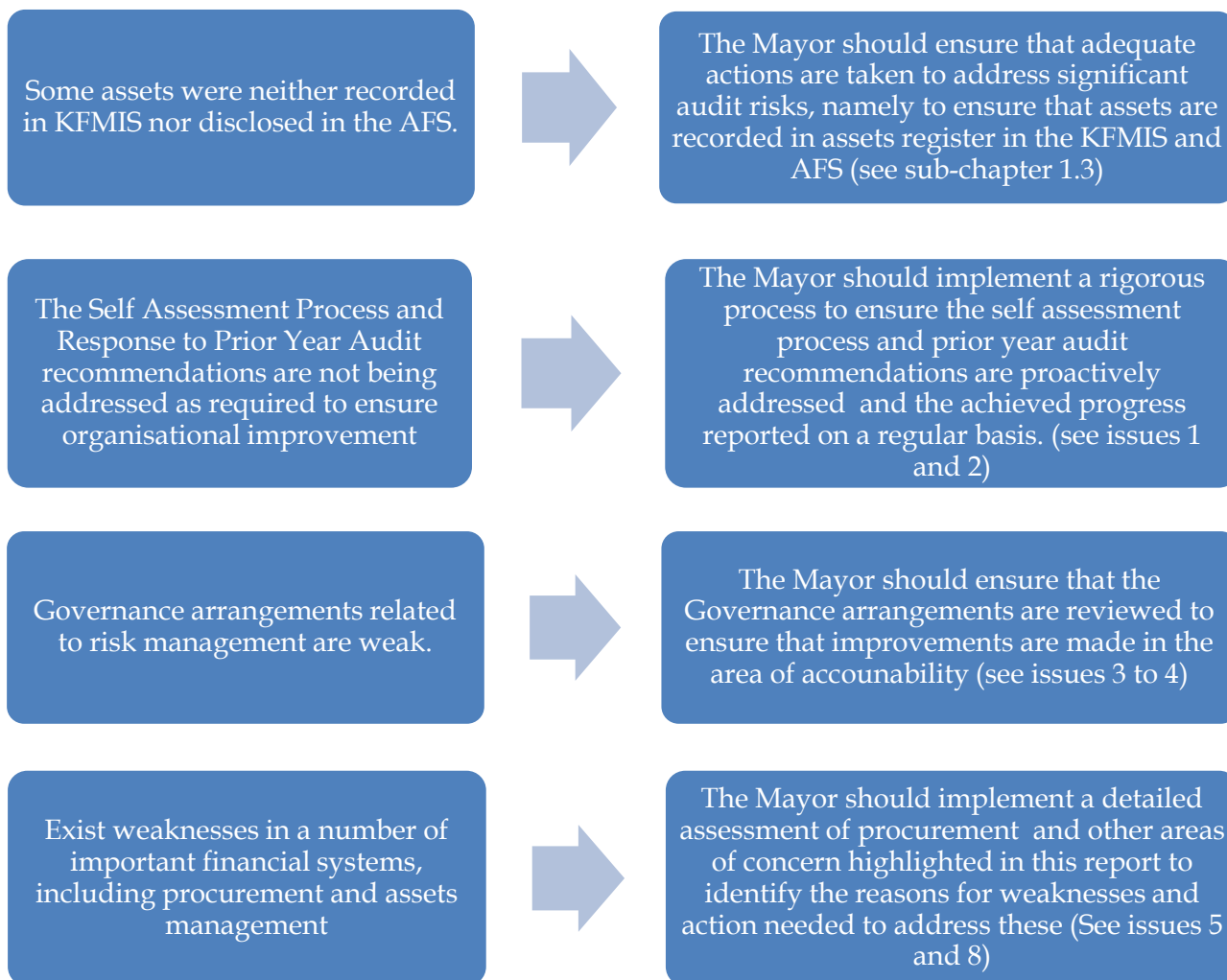
“Unmodified Opinion with Emphasis of Matter”, because there are uncertainties on the complete presentation of assets value. Moreover, assets of €34,243 were not recorded in KFMIS accounting register.

A full wording of the opinion is detailed in Section 1.2 of this report

Overall Conclusion

The internal control system established by the municipality is effectively operating in some areas, but there are weaknesses in some important governance areas.

Our key conclusions and recommendations are:



Management response – audit 2015

The Mayor has taken into consideration and agreed on the audit findings and conclusions in this report and committed to address the recommendations given.

We take it for granted that the Mayor:

- Will discuss the audit report in the Municipal Assembly; and
- By the end of January 2017, will also discuss the progress made on the implementation of the Action Plan on audit recommendations in the Municipal Assembly, before the AFS 2016 are submitted to the Ministry of Finance

1 Annual Financial Statements and other External Reporting Obligations

1.1 Introduction

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

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

1.2 Audit Opinion

We have audited the Annual Financial Statements of the Municipality of Hani i Elezit for the year ended on 31.12.2015, which comprise of the Statement of Receipts and Payments in Cash, the Statement of Comparison of Budget and Actual Amounts, Explanatory Notes in the AFS and Disclosures.

In our opinion, the Annual Financial Statements present a true and fair view in all material aspects of receipts, payments and executed budget of the Municipality of Hani i Elezit for the year ended on 31.12.2015 in compliance with International Public Sector Accounting Standards (Cash Based Accounting), Law no.03/L-048 on Public Finance Management and Accountability (as amended and supplemented), and Financial Rule no.03/2013 on the AFS of Budget Organisations issued by the Ministry of Finance.

Basis for Opinion

We conducted an audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Financial Statements section of our report. OAG is independent of the municipality in accordance with the ethical requirements that are relevant to our audit of the annual financial statements of budget organisations in Kosovo and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.

Emphasis of Matter

We draw your attention to the fact that assets disclosures in the AFS are understated, because assets of €34,243 were not recorded. In addition, disclosures of assets under €1,000 were understated by €4,224. The main reason for this error is that the municipality had not taken adequate measures to record them. We have not qualified the opinion in respect of the abovementioned issues.

Responsibility of Management and Those Charged with Governance for the Annual Financial Statements

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

The Mayor and Chief Financial Officer are responsible for overseeing the municipality's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our responsibility is to express an opinion on the annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

1.3 Significant Risks to AFS

Description

Our Audit Planning Memorandum dated 21.11.2015 identified two significant risks to the AFS. These are risks of material misstatement, which may result in modification of the opinion or in an Emphasis of Matter. The risk that related to recording of assets has materialised because no actions were taken by the Management to address the identified risk.

We found that the municipality had not yet managed to record all purchased assets. There was a difference of €34,243 between expenditures report and KFMIS assets register. In addition, expenditures for equipment/furniture under €1,000 were not fully presented in the AFS, where the amount of €4,224 was not included in the register of assets under €1,000.

While the second significant relating to the material misclassification of expenditures in different categories has not occurred as the municipality had taken adequate measures to eliminate the risk.

1.4 Compliance with AFS and other reporting requirements

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

- Compliance with Financial Rule no.03/2013;
- Requirements of LPFMA no. 03/ L-048 as amended and supplemented;
- Budget requests;
- Whether the AFS have been signed by the CFO and the Mayor;
- Whether the AFS have been prepared in Albanian and Serbian;
- Submission of regular quarterly reports to the Municipal Assembly; and
- Final procurement plan on time.

DECLARATION BY THE MAYOR

Given the above, the Declaration made by the CAO and CFO when the draft AFS are submitted to the Government can be considered to be correct, except for the abovementioned issues which are not material to modify the opinion.

1.5 Recommendations

Recommendation 1 High Priority – The Mayor should ensure that an analysis is undertaken to determine the causes that led to Emphasis of Matter. It is necessary to undertake to be undertaken appropriate actions to address the causes behind non-recording of assets in the KFMIS and correct presentation of assets in the AFS.

2 Governance

2.1 Introduction

Effective governance arrangements are fundamental to Municipality Hani i Elezit for successfully managing the challenges faced and ensuring that service delivery is optimised to the benefit of taxpayers and other service users.

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

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

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

2.2 Overall Governance Conclusion

There is a number of governance weaknesses within the municipality, particularly related to risk management, and the quality of management reporting. The self-assessment checklist completed by the municipality only partially recognises this situation with some positive comments about existing arrangements. Other arrangements that would support the development of governance such as an effective response to audit recommendations are not placed as needed. In addition, the lack of a list on risks faced by the municipality is an indicator that the governance over the key management systems is not yet at the desired level.

2.3 Prior Year Recommendations

Our Audit Report on the 2014 AFS of Municipality Hani i Elezit resulted in eight key recommendations. The Municipality had prepared an Action Plan stating how all given recommendations will be addressed. At the end of our 2015 audit, four recommendations have been implemented; two have been addressed; and two have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex III.

The Audit Report on 2014 was discussed in a Municipal Assembly session.

Recommendation

Issue 1 - Addressing Prior Year Audit Recommendations - High Priority

Finding Notwithstanding that the largest portion of recommendations have been handled by the management, not all issues raised were addressed by the prior year audit because the municipality has not implemented a formal process to manage and monitor the way AG's recommendations are implemented.

Risk The continued weaknesses of management and in key financial systems and other business areas have resulted in:

- Occurrence of weaknesses in the procurement process and achievement of value for money; and
- Impossibility for the management to confirm the completeness of assets in the AFS.

Recommendation 2 The Mayor should strengthen control measures and responsibilities to the persons appointed to address fully recommendations so that actions foreseen under the Action Plan are implemented, particularly in the areas of high risk and with the timeframes specified.

2.4 FMC Self-Assessment Checklist

The Ministry of Finance has produced a detailed self-assessment checklist for Budget Organisations to support effective governance arrangements. We have tested the quality of FMC self-assessment checklist submitted to the ministry by the municipality and assessed some key questions in each component of the checklist. This is not intended to give a commentary on the quality of the whole self-assessment questionnaire submission but will provide a ‘snapshot’ across a number of key questions to support the Ministry of Finance in enhancing effectiveness of the process and developing FMC system as a whole.

Issue 2 –Self Assessment Checklist – High Priority

Finding As part of our audit, we have considered some key questions related to the five components of the self-assessment questionnaire. For the questions considered we found that:

1. Expected risk management procedures are not in place and this is considered in more details in section 2.5.1;
2. The Municipality has drafted the Strategic Plan. The strategic document does not fully determine the financial costs for the implementation of the objectives;
3. No clear action plans for addressing of recommendations have been prepared with the timetable and accountable persons for addressing these recommendations.

Furthermore, the action taken to address issues identified by the 2014 self-assessment is limited. This situation has occurred due to lack of clarity within the municipality that relates to the importance of this checklist, and the official who is responsible that uses these mechanisms to support operational improvements.

Risk Lack of governance arrangements weakens strategic and operational processes and reduces the quality of services provided to citizens through inefficient and ineffective activities.

Recommendation 3 The Mayor should ensure that a review of the processes for completing the self-assessment checklist and proactively addressing areas of weaknesses is implemented.

2.5 Specific Governance Reviews

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

2.5.1 Risk assessment

All Budget Organisations are expected to implement risk assessment. The guidance set out in the FMC procedures requires the risk register covers all components that important for managing. The risk register should be complete to support and address challenges and management’s response relating to them, that serve effective operational and strategic management.

Recommendation

Issue 3 – Failure to Implement Risk Management Requirements – High Risk

Finding The self-assessment questionnaire completed by the municipal staff acknowledged that the municipality has not yet identified the risks that would undermine the achievement of objectives and their impact should they occur.

Risk The absence of a register of potential risks, and actions to manage them can reduce the effectiveness of the municipality and result in non-achievement of objectives.

Recommendation 4 The Mayor should ensure that, after having drafted the list of risks with respective levels, immediate responsibility for risk management is delegated to a named director who, in cooperation with the heads of units, will manage and regularly report on the progress of the process.

2.6 Internal Audit System

Even in 2015, the municipality had not established the IAU and had not used internal audit services from outside (Ministry of Finance). However, at the beginning of the year the municipality filed a request to MoF, namely the Central Harmonisation Unit to carry out an audit for 2015, but this issue was not considered by the MoF and the 2015 audit had started in 2016.

Issue 4 - Internal Audit - High Priority

Finding Even in 2015, the municipality had not established the IAU and had not used internal audit services from outside (Ministry of Finance). Failure to establish the internal audit unit has resulted in lack of assurance for the management that activities and internal control systems have been effective in prevention of possible weaknesses and omissions.

Risk Failure to establish the IAU reduces management's assurance regarding the functioning of financial systems. This may result in unidentified weaknesses and continuity of inefficient practices that can result in financial losses.

Recommendation 5 The Mayor has to consider the possibility of obtaining internal audit services, in order to test appropriateness, effectiveness and functioning of organization's internal controls.

3 Financial Management and Control

3.1 Introduction

Our work on Financial Management and Control (FMC) outside of the areas of Governance referred to above in Chapter 2 reflects the detailed work undertaken on Revenue and Expenditure Systems. As part of this, we consider budget management, issues of procurement and human resources as well as assets and liabilities.

3.2 Financial Management and Control Conclusion

Municipality's procurement remains a segment that needs greater attention which always requires implementation of relevant regulations of this area, in the context of financial statements, as well as to pay greater importance to assets management.

3.3 Budget Planning and Execution

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

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

Description	Initial Budget	Final Budget ¹	2015 Outturn	2014 Outturn	2013 Outturn
Sources of Funds	2,051,844	2,268,599	2,094,367	1,902,070	1,877,073
Government Grant -Budget	1,795,586	1,904,162	1,901,743	1,620,495	1,525,696
Carried forward from previous year ² -	0	44,242	44,134	27,144	60,262
Own Source Revenues ³	256,258	256,258	94,536	233,030	229,881
External Donations	0	63,937	53954	21,401	61,235

The final budget is higher than the initial budget by €216,755. This is as a result of increased Government Grant by €108,576 (out of which €10,000 upon Government's decision and the other

¹ Final Budget - the budget approved by the Assembly as adjusted by the Ministry of Finance.

² Municipality's Own Source Revenues unspent in previous year and carried forward into the current year.

³ Receipts used by the entity to finance its budget.

part for remuneration of work experience), revenues carried forward in the amount of €44,242, and external donations in the amount of €63,937.

Municipality In 2015 has executed 93% of the final budget, almost the same level compared to 2014. Budget remains at a satisfactory level, with the exception of capital investments, and below are given explanations for the current position.

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

Description	Initial Budget	Final Budget	2015 Outturn	2014 Outturn	2013 Outturn
Spending of funds broken down by economic categories	2,051,844	2,268,599	2,094,367	1,902,070	1,877,073
Wages and Salaries	1,358,378	1,368,293	1,366,432	1,239,194	1,067,784
Goods and Services	149,000	267,500	264,566	147,697	202,151
Utilities	37,817	48,138	48,061	35,918	33,551
Subsidies and Transfers	37,817	50,082	47,640	37,163	27,477
Capital Investments	456,649	534,586	367,669	442,098	546,111

Explanations for changes in budget categories are given below:

The Municipality has shown good performance in budget execution of all categories, with a proximate percentage to that planned, with the exception of the category of Capital Investments where was not achieved a good performance, which expressed in progress is about 69% of funds that were not spent, but that were also affected by the lack of collection of revenues planned.

Table 3. OSR for the municipality's budget - outturn against budget (in €)

Description	Initial Budget	Final Budget	2015 Receipts	2014 Receipts	2013 Receipts
Own source revenues	256,258	256,258	223,521	233,030	229,881

The revenues plan for 2015 was implemented at 87%. The reasons behind incomplete implementation or deviation from the plan by 13% could have been influenced by the Government's decision to pardon debts. A considerable amount of own source revenues (€129,094) have been carried forward in 2016 as unspent revenues.

Recommendation

Issue 5 - Poor Budget planning - Medium Priority

Finding The Municipality has made some budgetary changes during 2015, but the overall budget requests for expenditures have not been established adequately, particularly in capital investments, furthermore, revenues projections should be revised.

Risk Inadequate budget planning and low budget execution level in the category of Capital Investments will result in a failure to meet organisational objectives and result in current year obligations being funded from future year budgets, thus reducing the possibility to achieve future objectives of the municipality.

Recommendation 6 The Mayor should ensure that budget performance is systematically monitored and that barriers to planned levels of budget execution are identified and addressed.

3.4 Procurement

Procurement rules are intended to ensure that public funds are used in a transparent and efficient manner to achieve value for money. The legal framework clearly defines the rights, duties and responsibilities of all parties involved in procurement processes. This includes the requirement to mitigate the risk of non-completion of contracts and poor contract execution. This is achieved through the implementation of a regime of penalties related to poor performance and execution security.

Recommendations

Issue 6 - Systematic weaknesses in procurement - High Priority

Finding The Municipality has prepared and submitted the preliminary procurement plan to the CPA late. The Municipality had prepared a preliminary plan on 22.01.2015 after the publication of the budget law, namely 83 days late. The importance of preparing and submitting a preliminary plan in the CPA is that it enables the Agency to review and identify commonly used procurement items through joint procurement procedure on behalf of CAs.

In two procurement procedures, we noticed that three bids of EOs are irresponsive, as none of the bidders had completed the Form for Presentation of Prices. Consequently the tender is irresponsive and the CA should have cancelled the procedure and start with new procurement procedures.

In two cases, we noticed that the decision to establish the committee for evaluation of bids was prepared only by the procurement manager, without the approval of the CAO.

We noticed that in 13 cases the municipality had entered into contracts with price per unit without specifying the amount and the estimated supply value, despite the fact that the requesting unit in its request had made an assessment of needs of the estimated quantity of supplies.

Risk

The failure to prepare the preliminary plan on time has a direct impact on shortcomings of the final plan, non-inclusion of sufficient quantity of supplies, and use of prices per unit poses a risk for the municipality as it may enter into contracts with higher prices. Furthermore, establishing evaluation committees without the approval of the CAO poses a risk as they may be inadequately composed, and the arrangement of limited procedures for projects to have a higher cost. All these can pose a risk over the complete implementation of projects and achievement of poor value for money.

Recommendation 7 The Mayor should initiate a thorough analysis in order to determine why weak procurement practices were applied in these cases and enhance controls, which ensure that: procurements reflect needs; tender specifications reflect current requests of departments. In general, the procurement controls need to be strengthened.

3.4.1 Remunerations (Wages and Salaries)

Wages and Salaries are paid through a centralised system. The key controls that confirm accuracy and completeness of payments as well as improvements and entry into the list salaries of new employees, verification of the permitted number and other accompanying controls are administered by the Ministry of Finance. The level of budget approval for wages and salaries is done by the municipal assembly, while the approval of salary allowances as well as necessary changes in this cycle up to the signing of lists is done by the respective line managers.

Issue 7 - Inadequate application of the regulation for compensation of night shifts - High Priority

Finding The Municipality had adapted the internal regulation for compensation of medical staff night shifts, with the organic regulation issued by the Ministry of Health. According to the organic regulation, night shifts should be paid within the basic salary, whilst the municipality had included in the basic salary the allowance of €44, then in this total has calculated night shifts. Night shifts for 2015 were overstated by €1,379.

Risk Each regulation that is applied by the municipality and which needs to receive an approval by the municipal assembly should be reviewed for reconciliation with relevant legislation and organic regulations. Due to lack of a review can result in inaccuracies and errors upon calculation of payments.

Recommendation 8 The Mayor has to review the internal regulation applied so far by the municipality, and correct the same in accordance with organic regulations and apply it adequately in order not to "hurt" the municipal budget.

3.4.2 Subsidies and Transfers

Subsidies are one-sided transfers which are not related to goods and services. They are mainly divided into public and private entities and natural persons. Controls placed by the municipality are determined by the internal rules and general guidelines for spending of public money. During 2015 the controls in this area have not operated satisfactorily, while from the samples tested we have not noticed any irregularities.

We have no recommendations in this area.

3.5 Own Source Revenues

Revenues generated by the municipality in 2015 totalled to €223,521. These mostly relate to property tax, construction licences, rent revenues and administrative fees. There is a need for improvement in some processes and controls that relate to planning and collection of revenues, in order to increase revenues, areas which have been addressed in the (subchapter 3.3 planning of budget revenue.

We have no recommendations in this area

3.5.1 Capital and Non Capital Assets

Assets Management is an important part of Financial Management and Control in the public sector. A sound assets management requires the municipality to have a complete view of assets, management and control procedures and to update them on on-going basis.

The net value of assets in 2015 was €12,493, 489 and was disclosed in the AFS.

All significant issues related to assets are handled in section 1.3 Significant Risk to the Annual Financial Statements.

We have no recommendations in this area

3.5.2 Handling of Receivables

The structure of Accounts Receivables consists primarily from property tax, revenues from rent and business fees. The municipality during the year had undertaken activities to collect the debt. The balance of Accounts Receivable at the end of the year was €498,000. However, it is worth mentioning that the law on pardoning of debts could have contributed to the decline of collection of outstanding debts from previous years.

We have no recommendations in this area

3.5.3 Handling of debts

The statement of outstanding liabilities at the end of 2015 was €29,688. According to the statements of the municipality the same have remained outstanding due to lack of budget, even though these liabilities could have been settled with the declared surplus of own source revenues. In addition, the municipality has also disclosed some contingent liabilities in an estimated value of €72,000.

Recommendation

Issue 8 – Ineffective process of reporting of outstanding liabilities – Medium Priority

Finding The balance of liabilities reported in the AFS for 2014 was not reconciled with the balance of invoices received by the municipality. Comparing the municipal system and the notes in the KFMIS has revealed outstanding invoices that were not reported in the AFS in the previous year.

Our audit identified two payments in the amount of €2,950, which were not reported as liabilities in the AFS for 2014, and as such and were paid in the following year.

Besides the abovementioned liabilities, the municipality faces also contingent liabilities in the amount of €72,000, out of which the amount of €66,000 relates to claimants of the debt from the municipality.

Risk Outstanding liabilities and contingent liabilities pose an increased risk, as the budget may be subject to direct payments carried out by the MoF, as well as court decisions. Relying solely on formal and undocumented reporting processes of financial obligations, increases the risk where the financial position of the municipality may be hindered in its future operations, and the AFS not to reflect the real situation.

Recommendation 9 The Mayor should ensure full reporting of liabilities and strengthen controls and discipline of officials responsible for forwarding of outstanding invoices to the finance department. For handling of contingent liabilities in coordination with the municipal legal representative should undertake a review of the condition of liabilities, in order to determine the priority of payments, by avoiding direct payments from the MoF.

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

ANNEX I: Audit Approach and Methodology

The responsibilities placed on the Auditor and Those Charged with Governance are detailed in the Opinion set out in Section 1 of this report.

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

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

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

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

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

Findings considered of low priority were/will be reported separately to finance staff .

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

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

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex III: Prior Year Recommendations

Audit Component	Recommendation given	Implemented	Addressed but not implemented	Not addressed
2.3 Compliance with AFS and other reporting requirements	The Mayor should ensure that the 2015 AFS production plan includes complete and accurate presentation of assets under €1,000 and stocks at the end of the period. The performance report, as statutory requirement of municipality should be published within a reasonable time.			X
3 Prior Year Recommendations	The Mayor should ensure that an action plan for 2014 clearly sets out a reasonable timetable within which accountable staff members and practical activities are set for addressing the recommendations made by the AG with initial focus on those of greatest significance. We would suggest that the implementation of this plan should be monitored by the Mayor directly.		X	
4.1 Good Governance	The Mayor should review current governance arrangements. Since it is a quite complex document, we would suggest that municipality takes an approach in drafting a development strategy, and approve the same within reasonable time period, within 2015. Procedures for the annual budget approval should start in time and should refer to municipalities Midterm Budget Framework. In addition, as an important part of the internal control, the municipality should establish an Internal Audit System (internal audit service and AC).	X		

4.2 Budget Planning and Execution	The Mayor should ensure that, prior to the budget approval, both budget revenues and expenditures are well analysed, and that the cash flow plan is harmonised to the dynamics planned for expenditures. In addition, improvements are needed also with the procurement process, and tendering of capital project should be done in time.		X	
4.3 Revenues (including own source revenues)	The Mayor, when drafting annual revenues plan, should ensure that the revenue trend during the recent years is considered, and that the overall municipality developments (economic development, new constructions, and potential of collection of previous debts) and other factors that may impact on the enlargement of the basis for the increase of revenues are taken into account.	X		
4.4.1 Procurement	The Mayor should determine why requirements are not met before the initiation of projects, and should commit sufficient funds before the initiation of any capital project.			X
4.5.2 Handling of Receivables	The Mayor should ensure that a comprehensive review is carried out of the approach applied for receivables and identify barriers in the improvement of the collection rate. Debts considered aged and not collectable should be written off (proving reasons why) while for the other part; an early and effective approach should be applied, including legal actions.			
4.6 Internal Audit System	The Mayor should ensure that all actions required are taken to establish an Internal Audit System.		X	