



**REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL**

Document No: 22.1.1-2014-08

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

Prishtina, June 2015

The Office of the Auditor General undertakes both Regularity and Performance Audits. The Acting Auditor General is the head of the Office of the Auditor General which employs around 145 staff. The Auditor General and the Office of the Auditor General shall be independent and certifies around 90 Annual Financial Statements each year, while undertaking other forms of audits.

Our Mission is to “Contribute to sound financial management in public administration”. We shall perform quality audits in line with internationally recognized public sector auditing standards and good European practices. We shall build confidence in the spending of public funds. We shall play an active role in securing taxpayers’ and other stakeholders’ interests in enhancing public accountability’

The reports produced by the Office of the Auditor General directly promote accountability as they provide a base for holding managers’ of individual budget organisations to account.

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

The opinion and report issued are a result of the audit carried out under the management of the Audit Director, Florim Beqiri, supported by Lavdim Maxhuni (Team Leader), Mexhit Ferati and Cyme Hoxhaj.

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Executive Summary

Introduction

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

The examination of the 2014 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 01.10.2014.

Our audit focus has been on:



The level of work undertaken by the Office of the Auditor General to complete the 2014 audit is a direct reflection of the quality of the internal controls implemented by management.

Opinion

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

The Auditor General’s opinion is:

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

Emphasis of Matter

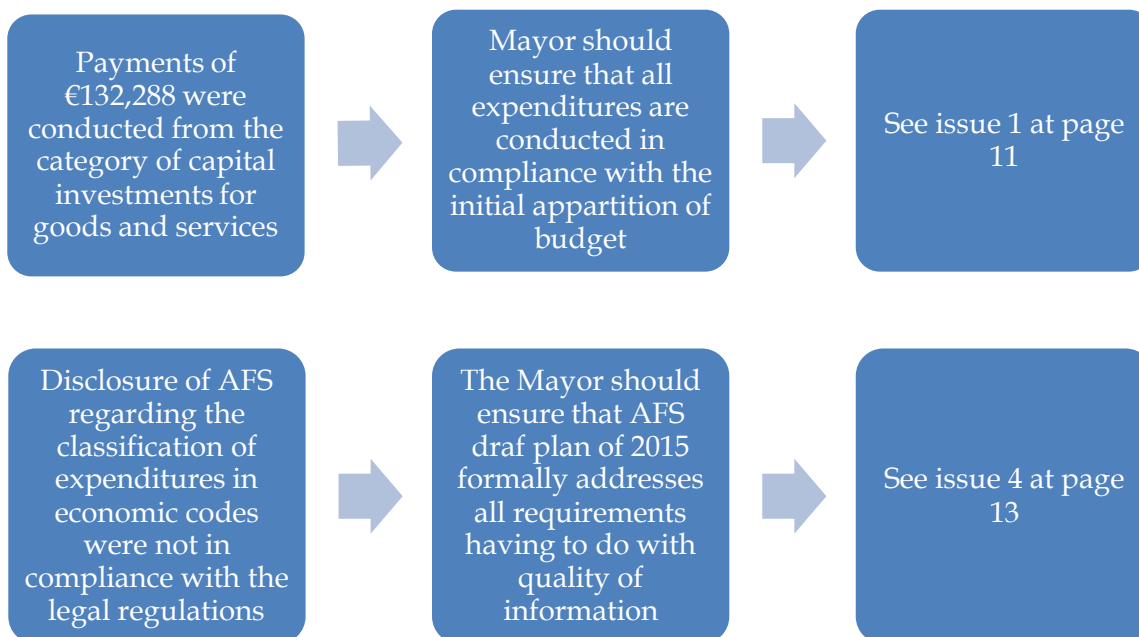
We would like to draw your attention to the fact the disclosure of Fixed Assets is still not complete and accurate. There are lands, flats and premises identified as public property but they are not registered in the assets accounting registry neither in AFS. The disclosure does not affect any of the two Annual Financial Statements (Cash Receipts and Payments and Comparison of Budget and Actual Amounts) in line with IPSAS Cash based accounting. **(ISSAI 200/1706 Unmodified Opinion with an Emphasis of Matter).**

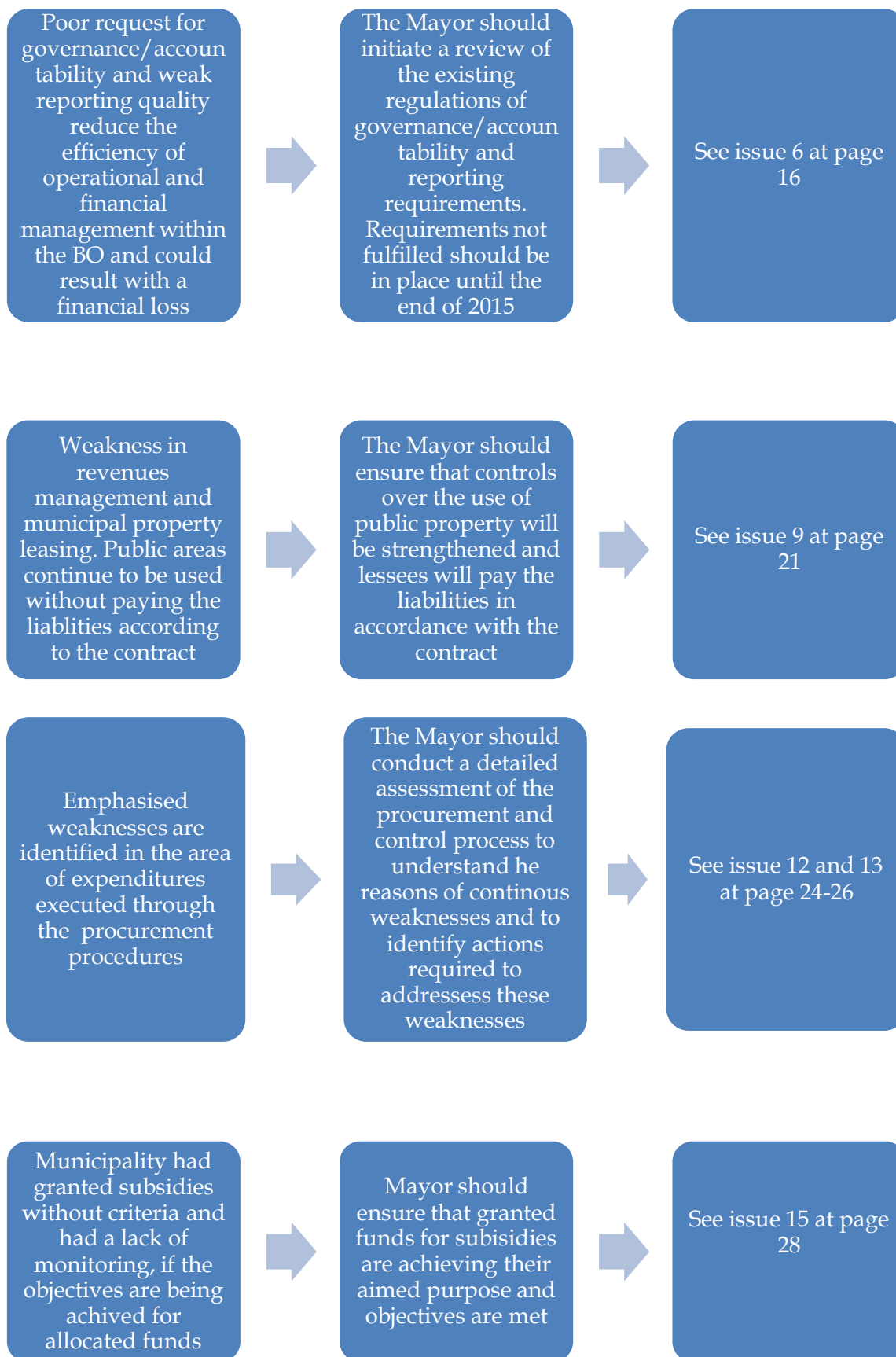
Overall Conclusion

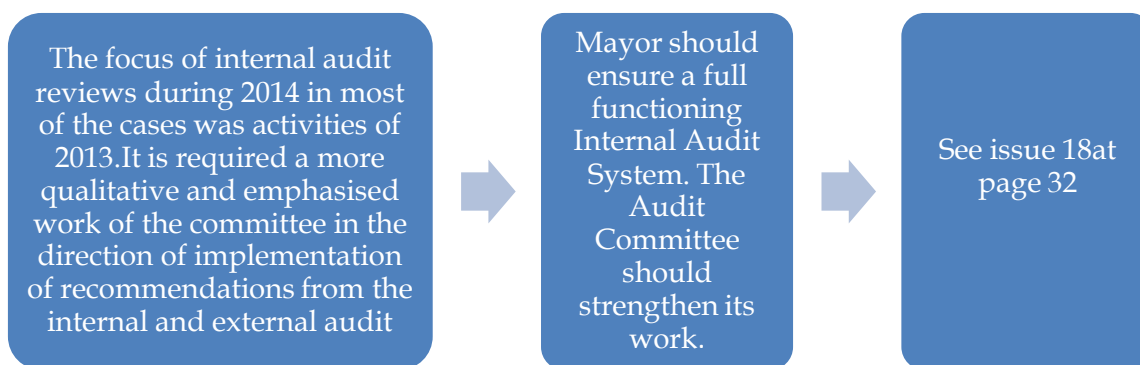
Based on the details presented in each part of this report, our general conclusion is:

Management of Municipality had designed the internal controls system, but these controls did not function in some important areas of financial management. These should continuously be monitored to ensure that they are functioning appropriately. Below are presented the areas were we noticed weaknesses:

Our key conclusions and recommendations are:







Management's response - audit 2014

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

We take it for granted that the Mayor:

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

1 Audit Scope and Methodology

It is the responsibility of the Municipality of Mitrovica to prepare Annual Financial Statements (AFS) under the International Public Sector Accounting Standards (IPSAS) for 'Financial Reporting under the Cash Basis for Accounting' and other specific requirements. The Office of the Auditor General (OAG) is responsible for carrying out a Regularity Audit which involves the examination and evaluation of the AFS and other financial records and expression of:

- whether the AFS give a true and fair view of the accounts and financial affairs for the audit period;
- whether the financial records, systems and transactions comply with applicable laws and regulations;
- the appropriateness of internal controls and internal audit functions; and
- all matters arising from or relating to the audit.

We have considered the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the Auditor General's (AG) opinion. Management activity also determines the focus of our compliance audit and good governance audit which do not directly impact on the opinion.

Our audit approach to governance is focused on evaluating the actions taken by management to secure effective financial management and control and the results of this action in efficiently delivering high quality operational outputs. For individual financial systems we seek to identify the level at which actual controls operate. This may, for example, be monitoring activity undertaken by senior management or lower level operational controls. We consider whether controls are well designed, have been implemented as planned and operate effectively. This requires an assessment of structures, processes and accountability lines introduced by management including the role undertaken by Internal Audit and Audit Committees as well as inbuilt system controls. It also addresses reporting obligations.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review. An assessment of how the Management have addressed recommendations made in the report on 2013 may be found in Annex II.

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

Our findings are defined as:

High Priority - issues which may result in a material weakness in internal control and where action will offer the potential for improvements to the efficiency and effectiveness of internal controls; and

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

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

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

2 Annual Financial Statements and other External Reporting Obligations

Introduction

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

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

Overall Conclusion

Our general conclusion regarding the AFS is that there are a number of errors at the assets disclosure and misclassification in inadequate codes, meanwhile regarding the external reporting requirements they were met.

2.1 Audit Opinion

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

Emphasis of Matter

We would like to draw your attention to the fact the disclosure of Fixed Assets is still not complete and accurate. There are lands, flats and premises identified as public property but they are not registered in the assets accounting registry neither in AFS. The disclosure does not affect any of the two Annual Financial Statements (Cash Receipts and Payments and Comparison of Budget and Actual Amounts) in line with IPSAS Cash based accounting.

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

2.2 Significant Risks to the Annual Financial Statements

Description

Our Audit Planning Memorandum dated 01.10.2014 we identified three significant risks: one of the registering of all assets having impact on AFS, third party payments and misclassification of expenditures in adequate codes.

These are risks of material misstatement that may result in a modification of the opinion.

The risks of material misstatement that we identified relating to the registration and presentation of assets, as well as misclassification of expenditures in AFS occurred because no management action was taken to address the highlighted risk.

Identified Risk

Issue 1 – Misclassification of expenditures in inadequate economic codes

Audit response and Findings

We have tested if the Municipality had correctly classified expenditures made from the economic category of capital investments and we concluded that also during this year there were cases of expenditures misclassification, having to do with contracts inherited from the prior year. From the category of capital investments €132,288 were paid for goods and services

Recommendation 1 High Priority -To avoid the misstatement of expenditures according to the economic categories, the Mayor should ensure that all actions have been undertaken that budget spending and expenditures registering is conducted strictly according to the budget apparition and according to the adequate economic codes.

Identified Risk

Issue 2 – Lack of the registry of assets owned by the Municipality

We have identified that Municipality had problems with registering of its assets, and this could result in a material underestimation of assets values in AFS.

Audit Response and Findings

We have assessed the controls implemented by management to prove if all assets owned by the Municipality are registered in the respective registries. In our interim memorandum we provided advice to management on the action required to ensure that the assets figure in the AFS was correct. Management had undertaken some measures and had applied controls on assets over €1,000, where each payment made met the criteria to be registered as an asset were registered in the accounting register, but still there are unregistered assets such as: flats, premises and

properties. E-assets system did not function and no report from this system was provided. Municipality possesses a register for assets under €1,000, in Excel. Municipality had established a commission for inventory and this commission had prepared reports over the assets conditions. Further on, it remains challenging the setting of additional controls in order of registering all assets in required registers and then to conduct a fair presentation in AFS

Recommendation 2 High Priority - The Mayor should ensure the continuity of the process of assets registry, where the key role in this process shall be from the Directorate of Cadastre by ensuring /providing all data on public properties owned by the Municipality. Afterwards, we would suggest that a certain commission should conduct the assessment and a report should be submitted to the Assets' Official to process the necessary registries in KFMIS. To functionalize the use of E-assets module in order of confirming accuracy and completeness of all assets. All activities shall be finished before the 2015 AFS are submitted.

Issue 3- Presentation of 3rd party payments in AFS

During our audit we have noticed that Municipality had fairly disclosed third party payments, the presentation made in AFS was fair and correct.

2.3 Compliance with AFS and other reporting requirements

Description

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

- Compliance with the Financial Regulation no.03/2013;
- Requirements of LPFMA no. 03/ L-048;
- AFS were prepared within a legal framework and submitted to Ministry of Finance (MoF);
- AFS are signed by the Mayor and CFO;
- AFS are received in Albanian;
- Draft plan and final plan of procurement were prepared in time; and
- AFS are prepared in hard copy and electronically

AFS were prepared in compliance with the requirements of Financial Regulation no. 03/2013, except the issues as follows:

Issue 4- Process of statements preparation- High Priority

Finding Municipality made misclassifications of expenditures. From the funds of capital investments paid for goods and services in the amount of €132,288 was paid. These misclassifications occurred due to the contracts inherited from 2013.

Based on the register provided by Directorate of Urbanisation on leased properties, there are identified lands, flats and premises not registered in the assets accounting registry.

Risk Except the complete disclosure of assets and expenditures classification in inadequate economic codes, the AFS are in compliance with the standards and Financial Regulation no. 03/2013.

Recommendation 3 The Mayor should ensure that the 2015 AFS production plan formally addresses all compliance requirements related to the quality of information. The Declaration made by the Mayor and the CFO should not be submitted unless a final check has been carried by the Management out on draft AFS.

3 Prior Year Recommendations

Overall Conclusion

Our Audit Report on the 2013 AFS resulted in 24 key recommendations. Management of Municipality prepared an Action Plan stating how all recommendations will be addressed and carefully treated prior year recommendations. We appreciate the engagement, but the management still needs to strengthen the process of accountability in addressing of recommendations in each of the areas where control weakness have been identified.

Description

At the end of our 2014 audit, eight (8) have been fully addressed; eleven (11) are partially addressed; and five (5) have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex II.

Issue 5- Addressing Prior Year Audit Recommendations - High Priority

Finding Only a third of prior year recommendations have been implemented, the Management of Municipality has not implemented any formal process to manage and monitor the way that the AG's recommendations are implemented. It is not clear if the management understands enough the importance of the issues raised from the audit.

Risk Continuous weakness of management's controls and other key financial system controls such as: budget execution, tenders separation, failure to respect the criteria of tender's dossier, allocation of subsidies and continuous misclassification of expenditures have resulted in continuous organizational inefficiency, poor value for cash in procurement procedures, misstatement of expenditures and poor management with assets.

Recommendation 4 The Mayor should initiate an analysis of causes behind unaddressed audit recommendations are not being addressed. An action plan for addressing of recommendations of this report and prior recommendations should be drafted until 31 July 2015, determining all actions, responsible staff and time frame within which the plan would be implemented. We suggest a direct monitoring of the process by the Mayor.

4 Governance

Overall Conclusion

Sound governance procedures require that strategic activities as well as those operational are implemented and monitored effectively. We have assessed some activities which have contributed to the sound governance to determine the possibilities for further improvement.

It is worth mentioning that comparing last year, in terms of management, the municipality had made progress in some areas such as the preparation of annual financial statements, own source revenues and asset's management, but still the Municipality has to commit to a more efficient management and effective.

The key aspects of the Governance framework have been addressed by the Municipality of Mitrovica as follows:

- Self-assessment – Municipality had drafted the self-assessment and submitted a report to MoF, even though in the future the Municipality should be more critical towards the assessment of achieved results;
- Risk Management – The Municipality still did not establish formal and documented procedures of identification and risk management at the organization's level which would reduce the exposure to the risks regarding finances and results;
- Lack of formalised management reporting; and
- In 2014 Internal Audit has mainly taken into consideration activities of 2013 and as a consequence did not support the management in efficiency assessment of all internal system controls for the upcoming year.

As such overall governance arrangements require strengthening. We also found that while controls over revenue and over a number of expenditure areas require further improvement to prevent the Municipality's financial loss, poor value for money and ineffective capital project management. The main areas where most improvements are required are: revenues, procurement, subsidies, budget execution.

4.1 Good Governance

Description

A range of internal controls are applied by the Management to ensure that financial systems operate as intended. It is important that these include appropriate reporting to management to enable an effective and timely response to identified operational problems.

Issue 6 - Accountability Processes - High Priority

Finding

After the review of managerial controls implemented in the key financial system of the Municipality for 2014, there were weaknesses in reporting. Reporting to the Mayor is conducted as requested and there are no regular reports in written form from the Directors regarding their work and activities. After raising this issue in our nine months memo, the Management started to implement our advice. the reporting is now being conducted on weekly basis in written form by the Directors. We did not rely in the functioning of high level controls at some economic categories such as: revenues, goods and services, subsidies and transfers, capital investments.

Failure to develop effective communication in the Municipality has resulted in a poor coordination and weak arrangements of controls in the areas of procurement, subsidies as well as revenues from municipal property leasing; and

Request to apply the self-assessment and registries of risk are only partly addressed since their importance as funds to support the effective management was not identified completely. There is no formal register of risk or process of risk management, which would clearly identify risks on operational objective's achievement and would decrease them.

Risk

Poor request for governance/accountability and weak reporting quality reduce the efficiency of operational and financial management within the BO and could result with a financial loss.

Recommendation 5

The Mayor should initiate a review of the existing regulations of governance/accountability and reporting requirements. Requirements not fulfilled should be in place until the end of 2015. Quality and content of internal reporting should be revised in critical manner to demonstrate positive changes in operational management and achievement of strategic objectives.

4.2 Budget Planning and Execution

Description

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

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

Description	Initial Budget	Final Budget ¹	2014 Outturn	2013 Outturn	2012 Outturn
Sources of Funds	14,625,427	16,505,287	15,051,981	16,398,203	17,718,664
Government Grant -Budget	12,312,991	13,783,560	13,477,762	14,654,588	15,491,288
Carried forward from previous year ² -	-	130,407	125,102	235,901	443,509
Own Source Revenues ³	2,312,436	2,312,436	1,391,035	1,239,425	1,387,880
Domestic Donations	-	203,324	45,270	163,331	127,368
External Donations	-	75,560	12,812	104,958	268,619

The final budget is higher than the initial budget by €1,879,600. This increase is a result of Government's decision for increase of wages and salaries by 25% in amount of €1,470,309, revenues carried forward €130,407, as well as internal and external donations €278,884.

Final budget of 2014 was executed by 91% of the planned level.

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

Description	Initial Budget	Final Budget	2014 Outturn	2013 Outturn	2012 Outturn
Spending of funds broken down by economic categories	14,625,427	16,505,287	15,051,981	16,398,203	17,718,664
Wages and Salaries	8,892,313	10,372,660	10,299,754	8,842,940	9,792,508
Goods and Services	1,934,231	2,020,444	1,565,467	1,380,404	1,545,347
Utilities	402,740	402,740	344,815	425,406	433,447
Subsidies and Transfers	877,000	881,400	816,527	787,854	773,744
Capital Investments	2,519,143	2,828,043	2,025,418	4,961,599	5,173,618

¹ Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

² Own Source Revenues unspent in previous year carried forward into the current year.

³ Municipal revenues planned and collected in the current year, used for self-financing

Explanations for changes in budget categories are given below:

- The biggest change occurred at the category of wages and salaries. The Government since April 2014 has decided to increase the wages by 25% for all categories of public sector;
- Only 21 % of the budget for Donations was spent. Municipality failed to use donations due to the inability of setting budget controls over projects financed by internal and external donors. Municipality received grants from internal and external donors in amount of €278,884, meanwhile only €58,082 were spent;
- In the category of goods and services, the budget was spent by 77%. The reason of remaining 23% of unspent funds is that planned revenues dedicated for this economic category was not executed. Therefore the budget could not be spent according to the plan;
- In the category of capital investments there is a budget increase of €308,900. This increase is as a result of revenues carried forward from the prior year by €40,000, and determined grants of donors by €268,900;

Issue 7 - Budget execution- High Priority

Finding	the budget execution has decreased, from year to year has a decrease, and this reflects a reduction of Municipality's activities. A very low degree of expenditures is noticed at the capital expenditures, where the planned funds were spent only a 72%. Also, poor planning is noticed the municipal expenditures, where the deviations from the plan were 14%, meanwhile the unspent funds for subsidies were over 7%. Due to poor management, about 80% of external and internal donations failed to be materialized in concrete projects by the Municipality.
Risk	Weaknesses in budget planning and execution decrease the efficiency of Municipality's plans, and will result in non-achievement of determined objectives. Current level of execution can result in reduction of Government's grants and in financing of current year obligations from the budget of the upcoming year. Low degree of donation's use can lead the donors not to provide donations in the future years. Disuse of own source revenues can result in delays of project's implementation financed by this source.
Recommendation 6	Mayor should ensure better and systematic monitoring of the budget performance and on monthly basis. The barriers for improvement of budget execution level and efficient use of own source revenues and donations should be identified and addressed. If the initial budget assumptions are inaccurate, this should be revised in the final budget position. Furthermore, the reasons behind discrepancies between planning and the actual expenditures should also be addressed,

Issue 8 – Payments according to the court decisions and article 39.2 LPFMA-High Priority

Finding Due to the poor controls and negligence of paying court’s obligation, direct payments in the amount of €5,517 were withdrawn from the account based on court decisions, At the same time, €60,388 was executed based on Article 39.2 of the LPFMA.

Risk The executed amounts of payments based on the court decisions have impact on decay of budget balance and increase the risk that planned projects remain unrealised.

Recommendation 7 The Mayor should ensure the financial discipline in payments’ execution in time will be strengthened and that all remaining obligations will be analysed in order to minimise withdrawals based on court’s decisions.

Table 3 Own Source Revenues collected – outturn against budget (in €)

Description	Initial Budget	Final Budget	2014 Outturn	2013 Outturn	2012 Outturn
Own source revenues	2,312,436	2,312,436	1,645,625	1,368,877	1,700,028

The planned revenues of 2014 were €2,312,436. The execution was €1,645,625 or 71%, including court and police fines. The collection level of revenues is very low. If we compare it with the prior year there is an increase of revenues by €276,748, but compared with two years ago, there is a decrease of €54,403. Increase of revenues is more emphasised on property tax and vehicle registration.

Significant stagnation of revenues is noticed in the Directorate of Urbanism. From €1,114,000 planned, only €297,468 or 27% were collected. The Directorate of Health planned the amount of €120,000 meanwhile the collection was only €54,919. The reason for such a low collection according to the responsible official is that the initial planning of revenues in this directorate was higher than the real parameters. Variances between the planned and collected amount in these two Directorates are very big and determine a low efficiency.

4.3 Revenues (including own source revenues)

Description

Revenues generated by Municipality of Mitrovica in 2014 totalled €1,645,625. The amounts were mainly collected from: revenues on property tax, revenues from the tax on vehicle registration, revenues from construction permits etc.

Issue 9 - Revenues from municipal leased properties - High Priority

Finding

From the leased out properties, the Municipality had planned to collect €180,000 meanwhile only €108,216 or 60 % were collected.

The Municipality undertook measures towards the users of municipal property by sending letters remaindering them to meet their obligations and this was for a certain degree effective. However, the percentage of collection is still very low.

The Directorate of Urbanism provided us with a register in Excel form, on the lessees using the municipal property. From the tested samples on leased properties, we have noticed that in one case the leasing contract was missing for 2014. Also in three other cases the obligations towards the Municipality were not executed by the users of municipal property. These obligations were in amount of €6,108.

According to the registry of urbanism there are 14 apartments for which the Municipality entered into contracts with different users between 2009 and 2011. The monthly rent for the apartment is €17,66. The lessee never paid the rent at the same time as they continue to use these apartments.

Directorate of Urbanism in 2011 signed a contract with the user "Shkodrani Dental Clinic" for renting two business premises in the amount of €289 on monthly basis. The contract foresaw that the premises will be managed by the user and the tenant brought in a concept paper that he will invest around €19,489 in these premises. On 12.12.2014 the Municipality established a professional commission to evaluate the investments made in the business premises by the lessee. This commission did not fulfil its duty. Further on, the user never paid monthly rent to the Municipality.

Risk

Despite the Management's measures and actions taken for the lessees to pay their obligations according to the contracts, generally, collection of revenues from this category in report with the planning remain low. Continuity of such practices is a bad precedent that might encourage other lessees to avoid the payments. Failure to collect planned revenues increases the risk of failure in planned projects from own sources.

Recommendation 8 The Mayor should initiate review of all existing contracts for leasing out land, premises and apartments and to identify the reasons why obligations were not met. Measures which determine time frames and responsible officials should be proposed within a reasonable time limit and a report on progress should be produced at least every third month and submitted to the management of Municipality.

Issue 10 – Property tax – High Priority

Finding In 2014, the Municipality planned to collect the amount of €567,178 in property tax, meanwhile it managed to collect €547,728 or 97%. 18,237 tax payers were invoiced with a charge of €853,897, compared with the invoicing the collection reaches 64%. We have taken 10 samples for testing from property tax and we have noticed that the outstanding value was €28,825. A total of uncollected debt in 2014 for property tax was €4,812,000.

Risk There is no consistency between planning, invoicing and collection of property tax. There are limitations in possibilities of starting new planned projects

Recommendation 9 Mayor should initiate an analysis the reasons behind this non-consistency in collection processes. Improved controls should be implemented to ensure that future planning, invoicing and collection of taxes is well performed. In addition, a concrete plan should be planned which would improve the rate of collected revenues.

Issue 11- Construction permits- High Priority

Finding In 2014, the Municipality planned to collect the amount of €677,628 from the construction permits, meanwhile it managed to collect €182,355 or 27%. We have tested five samples. According to the law on construction no. 04/L-110, article 21, paragraph 3 the applicant has submitted evidence of the payment of construction permit fee, the competent body shall issue the construction permit. We have identified one case when the construction permit was issued from the Directorate for Urbanism (for multiple flat with floors B+P+10/11), but the applicant had only paid a part of the tax for construction permit.

Risk Issue of construction permit without finishing all obligations of the applicant, increases the risk that revenues from this account will not be executed.

Recommendation 10 Mayor should introduce better controls of permit issuance ensuring that all obligations are fulfilled before the permit is issued.

4.4 Expenditures

4.4.1 Procurement

Description

We have analysed if the projects for capital investments were included in PIP and in midterm expenditure framework. We have identified cases when expenditures were made for other purposes from the approved project in the budget, without necessary approvals for reallocation. Our tests have identified the following:

Issue 12 – Systematic Weaknesses in Procurement – High Priority

Finding

A high number of procurements conducted through procedures with minimal value is an indicator of weak procurement planning, open procedures are avoided. During 2014, Municipality signed 143 contracts. From these, 127 were contracts of small and minimal amounts;

Under the contract ‘Supplying with IT equipment for the cabinet of Informatics in Frank Bardhi Gymnasium’ in the amount of €2,498, the supply with the IT equipment took place, before procurement procedures were developed and contract was signed;

In the contract ‘Supplying with official material’ we have tested eight payments in amount of €7,794, and we concluded that Municipality was supplied with articles which were not part of the contract in amount of €3,120;

In the contract ‘Transport of pupils in relation Vaganice-High School ‘Skenderbeu’ in amount of €10,000, the statement on the funds availability was missing, notification on contracts award was not submitted to PPRC, and this contract did not exist in the report of annual contracts;

According the PPL, article 81 and operational instruction on public procurement, article 55, the contracting authority should prepare a plan for managing contracts. We have identified that for four signed contracts such plan was not prepared;

At the contract 'Construction of sewage in Fushe Iber and Iliride' in the amount of €117,905, the criteria of tender's dossier was not considered. The winning operator did not provide the contracts for similar work, did not provide Performance security within twelve months period and did not provide evidence for the ownership of tools;

In the contract 'Reconstruction of asphalt cover in roads 'Ukshin Kovaçica' , 'Safet Boletini, and 'Driton Veliu in amount of €72,567, one of the obligatory criteria for the operator was to have references for the work performed. Company which won the tender did not provide this evidence. The performance security was required to be for one year, whilst the company provided it for one month only;

During the review of payments for capital investments we have noticed that the Municipality made the classification of expenditures in wrong codes. from the economic category of capital investments, payments were made for goods and services (cleaning of rivers, liquidation of wild warehouses, decoration of the city for holidays, cemetery's maintenance etc.). The amount of these payments was €132, 288;

The Municipality had initiated procurement procedures and signed contracts in lack of available funds in the following cases:

- the contract 'Continuation of asphaltting the road in Koshtove village' in amount of €56,752. The amount of €30,000 was committed before the contract was signed, and the other part of the project was committed after the contract was signed;
- the contract ' Construction of roads in Lushte village' in amount of €56,752 the commitment of funds was done after the contracts signature;

Risk

Failure to apply with consistency the procurement procedures and respective instruction can result in contracts' non-execution and in additional cost for the Municipality, also in wrong and irregular payments and in poor value for cash.

Recommendation 11 The Mayor should initiate a review of reasons behind poor implementation of procurement procedures in the above mentioned cases, and to implement strengthened controls which ensure: that procurement ensures the contractors capability to finish the contracts; that administrative requirements of tenders are met and the no price quotation will be applied, in exception of circumstances where is necessary. In addition, the Mayor should ensure that misclassification of expenditures will be revised and such failures will not be repeated in the future.

Issue 13 - Non-systematic procurement weaknesses - High Priority

Finding

Under the contract 'Continuation of asphaltting the road in Koshtove village' in amount of €61,755, the Municipality paid the amount of €5,245 for additional work which were not foreseen in the basic contract. For this additional work the annex contract was not signed as required by the law on public procurement and no standard form of notification was submitted to PPRC signed by the CFO and procurement manager;

In one case the Municipality had paid the amount of €4,659 as advance for investments (15%). Payment was executed from the economic code: local roads (31230) and not by the advance code for investments (31910).

Under the contract 'Asphaltting of the road 'Muhamet Gashi'' in the amount of €14,970, we have identified that this project was not registered in PIP and procurement plan. Neither was a declaration to CPA for the needs on availability of funds sent at least 5 days before the initiation of procurement procedures starts.

Under the contract 'Construction of roads in Lushte village' in the amount of €56,752, we have identified that establishment of the bid evaluation commission was made with a delay of seven days. According to the operational instruction on public procurement, the Bid evaluation process should start no later than 96 hours after the end of the bid opening.

Risk

The above identified cases indicate poor controls at the procurement process and payment process. Additional work without annex contract increase the risk that Municipality pays uncompetitive prices in the market, meanwhile non-application of regulations and procurement present incompliances and inefficiency of the procurement.

Recommendation 12 The Mayor should ensure an analysis of reasons behind not following the procurement requirements in identified cases and apply improved controls which ensure that weaknesses are identified and addressed in time.

4.4.2 Remunerations (Wages and Salaries)

Description

Final budget for category of wages and salaries was €10,372,660, meanwhile the expenditures were 10,299,754€, or 99%.

Wages and Salaries are paid through a centralised system (payroll). Controls operated locally by Municipality relate to: a) control of payments on monthly basis by signing payroll b) verifying possible changes that may occur through forms, c) reviewing the budget for this category and reconciliations with Treasury.

During the audit of Wages and Salaries, we have revised recruitment of new employees, terminations from work, retirement and we have raised the following issues:

Issue 14 - Recruitment of new staff out of budget planning - Medium Priority

Finding

The Directorate of Education signed seven (7) contracts with new teachers during 2014. This number of employees was not planned with the budget and as a result the employees remained out of payroll. We have identified that employees who travel from Main Family Medicine Centre (MFMC) through FMC and Ambulances of Family Medicine (AFM) are compensated for travel expenditures based on the decision no.63, dated 08.03.2011, with up to 50% of the ticket's price. We have not found evidence (invoice/tickets) which could prove regularity of the compensation.

During the review of wages in the health sector (MFMC), in two tested samples we noticed that working hours during night shift are calculated with 50% of the basic salary, meanwhile according to the law on work, article 56, point 2.2, night hours should be calculated with 30% of the basic salary.

Risk

Recruiting of new staff in budget's absence and their non-inclusion in the payroll increases the risk of lawsuits from the employees which could have impact in budget-financial implications, as well as the undocumented payments in health sector increase the risk of incorrect payments.

Recommendation 13 The Mayor should ensure that proper controls are set to prevent the identified errors and to ensure that recruitment of new staff is done only when the wages are planned with the budget.

4.4.3 Subsidies and Transfers

Description

In 2014, the Municipality granted subsidies for public and non-public entities. From this category we have tested payments and we revised if these were in compliance with the regulation for subsidies granted. Some of the deficiencies are presented below:

Issue 15 -Subsidies granted without set criteria and lack of subsidies' monitoring by the Municipality- High Priority

Finding Based on the Mayor's decision no. 01/14489 and work plan of the Municipal's Office for Communities and Return, subsidies were granted for 105 beneficiaries with food and hygiene packages in amount of €3,738. We have noticed that there was no report from the commission on the manner the beneficiaries were selected and the criteria of their selection is unknown. The contracted company made the supply and there was no report made by the Municipality for monitoring and the way distribution was made.

The Directorate of the Social Welfare has granted subsidies for 78 families with food packages in amount of €3,540. Supplying was conducted by the carried out company. No formal monitoring from the Municipality was in place.

On 25.06.2014, the Mayor took a decision to grant subsidies in amount of €1,353 to support financially the project of the Local Youth Action Council (LYAC). The purpose of this project was to raise awareness of the youth for participating in the decision-making as well as increasing the youth capacity throughout different NGOs. There is no evidence that lectures were held in the schools, no drafting of the projects as it was foreseen. From the provided evidence it can be noticed that 50% of this subsidy were spent for food and drinks and not.

Based on Assembly's decision dated 27.03.2014, subsidies were granted for the NGO 'Valet e Paqes' (€5000) for project on advancing the position of the youth. The reports after completion of the project do not prove the manner of selection training personnel and lecturers or participants who attended the training. No assurance was provided that beneficiaries from these activities belong to categories which need the support most. Cash payments have been used for volunteers engaged in the project.

Based on the Mayor's decision on 23.12.2011 for granting of food packages for the staff of Department of Culture Youth and Sports (DCYS) on the occasion of the New Year's Eve, amount of €3,000 was executed. Municipal employees should not benefit from the category of subsidies

The NGO 'Mundesia' was subsidised based on the Municipal Assembly's decision, dated 30.10.2014, with €19,700 for purchase of digital mammography. On 02.12.2014 these funds were transferred into the account of the NGO. The Municipality did not sign an agreement with the NGO stating who will manage the equipment and reporting on the funds spent. NGO 'Mundesia' had submitted a letter to the Municipality indicating that these funds are not sufficient to purchase the mammography and are attempting to ensure the rest of necessary funds for purchase.

Risk Failure to set preliminary criteria for subsidies and poor monitoring from the Municipality, increases the risk for granted subsidies not to achieve the objectives or right purpose.

Recommendation 14 The Mayor should ensure that criteria are set for granting of subsidies and continuous monitor for all subsidies, to ensure that the subsidies achieve the purposes.

4.5 Assets and Liabilities

4.5.1 Capital and Non Capital Assets

Description

On 10.09.2014, the Municipality established a commission for non-financial assets' evaluation. This commission is in process of assets evaluation.

Issue 16 - Weakness in assets management-High Priority

Finding

The Municipality does not have internal written procedures on assets management as required. Non-financial capital assets which are in the on-going phase of investments or in the phase of construction should be registered in the category of on-going investments, but during the year the Municipality did not register anything in this category.

Based on the registry provided by the Directorate of Urbanism for the leased out properties, lands and premises which are not registered in the accounting assets registered are identified.

the Municipality should possess information on assets in use by each official. In assets registries, the Municipality possesses information on the assets for which each directorate is charged with, and not the individual officials.

According to the regulation for assets management, it is required from the Receiving Officer to register all assets and stocks in value of under €1,000 in the E-assets software. We have noticed that so far assets in value of under €1,000 are registered in this software.

Risk

Lack of controls in maintenance of accounting register and non-registration of assets according to the requirement of regulation for assets management, can lead in loss, misuse and unauthorized use of public assets.

Recommendation 15 The Mayor should ensure that an internal manual for management of assets is produced clarifying the roles and duties of appointed officials who should contribute in the preparation of data for assets to be registered.

4.5.2 Handling of Debts

Description

The statement of liabilities not paid to suppliers at the end of 2014 was €667,000. Comparing with 2013, where the amount of unpaid liabilities was €972,000, the Municipality managed to decrease the unpaid liabilities by €300,000.

Issue 17 -Non-payment of invoices according to the legal deadline-High Priority

Finding There is a considerable amount of unpaid liabilities carried forward to 2015. We have tested 13 unpaid invoices which have been reported as debts in the Ministry of Finance and we concluded that Municipality did not pay the debts within the foreseen term of 30 days. Also, Municipality wrongly presented as an unpaid liability a part in the amount of €16,500.

Risk Failure to pay the Municipality's liabilities in time increases the risk that payments are made mandatory by the Treasury and the number of lawsuits increases. Carrying the liabilities for payment for the next year affects the future year objectives not to be achieved.

Recommendation 16 Mayor should initiate analyse of the reasons behind a high amount of liabilities in order to ensure that all invoices will be paid within the legal deadlines..

4.6 Internal Audit System

Description

Internal Audit Unit (IAU) operates with a staff of three members. An effective IAU implements a comprehensive program of work which reflects financial risks and other risks of Municipality and provides sufficient insurance in effective functioning of internal controls. Impact of IAU results shall be judged based on the importance that management gives to the addressing of recommendations and the support and challenges provided by an effective Audit Committee.

In 2014, IAU planned to conduct five audits and managed to execute all according to the plan. Audit areas were: (a) Recruitment, (b) Capital Expenditures, (c) Assets Management, (d) Own source revenues and (e) Procurement.

Also IAU had prepared quarterly reports which were submitted to the Central Harmonizing Unit in the Ministry of Finances.

IAU had prepared annual plan including areas of high risk, but it was more focused on the prior year activities and not in the current year.

The Municipality has an Audit Committee and during 2014 five meetings were held, where internal audit reports and the work of this unit was discussed. It is required a more qualitative and emphasised work of the committee in the direction of implementation of recommendations from the internal and external audit by the Municipality's Management.

Issue 18 -The focus of the review during the year - High Priority

Finding The focus of internal audit reviews during 2014 in most of the cases was activities of 2013. We have identified that management of Municipality had undertaken some actions to address the internal audit's recommendations, but the importance and role of the internal audit still needs to be strengthened.

Risk Lack of internal audit's focus and failure to address recommendations can result in non-identification and addressing of current control weaknesses, which would bring operational inefficiency and financial loss for the Municipality.

Recommendation 17 Mayor should ensure a full functioning Internal Audit System. The Audit Committee should strengthen its work. The IAU should develop risk based approach as a base for audit planning. Recommendations should be addressed properly..

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

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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 II: Prior Year Recommendations

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
1. Lack of evidence on third party payments presented in AFS.	The Mayor should ensure that all third party payments made in the Municipality are identified and these are supported with source documents in order to present them accurately into AFS.		Partly	
1.1 Lack of register for assets available	The Mayor should identify the action required to address these controls weaknesses to enable a true and fair presentation of assets in the 2014 AFS.		Partly	
1.2 AFS production process	The Mayor should ensure that the 2014 AFS production plan formally addresses all compliance requirements related to the quality of information AFS. The Declaration made by the Mayor and CFO should not be submitted with such assertions unless all necessary checks have been applied to the draft AFS.	Yes		
2. Addressing Prior Year Audit Recommendations	The Mayor should ensure that a revised action plan clearly sets out a timetable for addressing the recommendations made by the AG with accountable staff members identified and with initial focus on those of greatest significance.		Partly	

3. Good governance	The Mayor should review the format of financial reporting to senior management in order to determine what is required to support effective business management and introduce an appropriate solution by 1st of September 2014.		Partly	
3.1 Budget execution	The Mayor should systematically monitor budget performance, especially within capital investment category and identify and address barriers to planned levels of budget execution. Where initial budget assumptions are found to be incorrect this should be fully reflected in the final budget position.			No
4. Property tax	The Mayor should review current policies and undertake concrete measures and actions when it comes to collection of these debts, not excluding the administrative and judicial measures.		Partly	
4.1 Construction licenses	The Mayor should ensure that measures are undertaken not having constructions without licenses and when decisions for demolishing premises are issued, the same are executed till finalisation by relevant authorities.	Yes		
4.2 Revenues from rented premises	The Mayor should review all existing contracts for leasing out land, premises and apartments and to identify the reasons why obligations were not met. Timely measures should be taken by the management in order that leases meet their obligations under the contract.		Partly	

4.3 Fees for business activities	The Mayor should ensure that measures will be taken to collect debts in order to increase revenue collection for this category for funding foreseen projects. Further on, a proper database should be installed in order to have accurate records for businesses operating in this Municipality.		Partly	
5.Procurement-Classification of expenditures into inadequate economic categories	The Mayor should ensure that all expenditures are made as per respective nature and in line with the requirements of LFPMA and the Law on Budget.			No
5.1 Failure to adhere to criteria set forth in Tender Dossier	The Mayor should ensure that in all procurement cases, the bid evaluation is objectively made and that all requirements set in the Tender Dossier are adhered to.			No
5.2 Lack of reports when engaging employees under special service contracts	The Mayor should ensure that service contracts are used as intended and that employees contracted in this way report for work performed.	Yes		
5.3 Splitting tenders in order to avoid open procurement procedures	The Mayor should ensure that when making requests for supplies, initially a proper planning should be made according to real needs, in order not to have tenders split and thus avoiding open procurement procedures.			No

5.4 Payments for construction material	The Mayor should initiate this matter to the project supervisory bodies and ensure that the allowed quantity of construction materials reaches the final beneficiaries. On the contrary, accountability measures should follow in terms of what happened with invoiced quantities, but not delivered to beneficiaries.	Yes		
5.5 Same progress payments included in two different contracts	The Mayor should ensure that controls are strengthened when certifying payments, in order not to make improper/double payments.	Yes		
6. Remunerations	The Mayor should ensure that all recruitment and appointment procedures are adhered to, and are in line with Law and Regulations on Civil Service. Further on, additional controls should be added to prevent multiple errors identified when processing payments. Overpayments should be returned to the Municipal budget.		Partly	
7. Subsidies and transfers- Subsidies granted without the approval by the Municipal Assembly and in absence of agreements	The Mayor should ensure that internal regulation on Subsidies is adhered to and agreements with the beneficiaries are made obliging them for the manner of spending and reporting in order to secure that subsidies meet the objectives.		Partly	
7.1 Subsidies spent for capital investments and Goods and Services	The Mayor should ensure that expenditures planned on Subsidies and transfers should only be spent in these areas, in order to achieve the objectives and expenditures should be made in accordance with legal requirements.		Partly	

7.2 Subsidies granted without criteria set	The Mayor should ensure that criteria are set for a beneficiary is done by a committee established by the Municipality, and that criteria decided are followed.			No
8. Capital and non-capital assets- Lack of complete asset registry and non-compliances with regulation on asset	The Mayor should ensure that a professional committee for evaluation of all municipal assets are established and that those are recorded in the asset register.		Partly	
8.1 Incorrect asset recording	The Mayor should ensure that higher levels of control are in place when it comes to asset recording within KFMIS. This register should be reviewed and adjusted.	Yes		
9. Handling of debts	The Mayor should reconcile budget appropriations when entering into obligations and ensure that all obligations are maintained under control and supported by relevant budget funds.	Yes		
10. Internal Audit System	The Mayor should discuss with the internal audit about controls for shortcomings and the importance of implementing the IAU recommendations, and based on this, draft an action plan ordering the relevant departments to implement recommendations arising from internal audit.		Partly	