



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

Document No: 22.6.1-2011-08

AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF PEJA
MUNICIPALITY FOR THE YEAR ENDED 31 DECEMBER 2011

Prishtina, June 2012

TABLE OF CONTENTS

List of Abbreviations	4
Executive Summary	5
1 Introduction	7
2 Audit Opinion.....	9
3 Status of Prior Years Recommendations.....	10
4 Financial outcome compared to approved budget	11
5 Financial Statements - Compliance with reporting framework and the quality of information	13
6 Financial Management	14
6.1 Revenues (including own source revenues).....	14
6.2 Expenditures	17
6.3 Assets	19
6.4 Current reporting and timeliness in the overall budget process.....	21
7 Management Control.....	21
7.1 Internal Control Systems.....	21
7.2 Internal Audit.....	22
8 Overall conclusion on the Management of Peja Municipality	24
Annex I. Different types of Audit Opinions.....	25
Annex II: Prior year recommendations.....	27

List of Abbreviations

IA	Internal Audit
SAI	Supreme Audit Institution
AC	Audit Committee
PIFC	Public Internal Financial Control
LIA	Law on Internal Audit
LPFMA	Law no. 03/L-048 on Public Finance Management and Accountabilities
LPP	Law on Public Procurement no 03/L-241 as amended with Law no. 04/L-042 applicable from 05.10.2011
MoF	Ministry of Finance
FM/C	Financial Management and Control
IAU	Internal Audit Unit
CHU/IA	Central Harmonisation Unit of Internal Audit
INTOSAI	International Organisation of Supreme Audit Institutions
PRB	Procurement Review Body
AFS	Annual Financial Statements
FR	Financial Rule issued by the Ministry of Finance
KFMIS	Kosovo Financial Management Information System
ISSAI	International Standards of Supreme Audit Institutions
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
OAG	Office of the Auditor General
FMC	Family Medicine Centre

Executive Summary

The Office of the Auditor General (OAG) has carried out an audit of the Annual Financial Statements of Peja Municipality for the year ended 31 December 2011.

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

In our opinion the Annual Financial Statements in all material aspects present *a true and fair view* with the exception of:

In the budget execution statement section 13 of AFS, Peja Municipality collected revenues are presented in the amount of €3,293,000, and in Note 15 as own source revenues are presented where €2,480,000 whilst this amount should have been €2,604,370.

(ISSAI 400 Qualified Opinion)

We would like to draw your attention to the fact that records and information presented on disclosure of own source revenues, fixed assets, stocks and accounts receivable were not accurate. The inaccuracies are:

- In Note 15: the own source revenues are presented in the amount of €2,480,000, and they should have been €2,604,370;
- In Note 30: Summary of nonfinancial assets were disclosed in the amount of €6,579,000, but this amount is not accurate as the Peja Municipality has not been able yet to come up with the value of land, buildings and infrastructure;
- In Note 32: Summary of stocks at the end of the period were not presented with a value in the AFS;
- In Note 34: Peja Municipality has presented the amount of €323,000 as receivables from property tax, and based on the reports of property tax department the receivables from the property tax are in the amount of €6,852,822; and
- In Note 35: the unspent own source revenues at the end of the year presented by the Peja Municipality were in the amount of €648,000, and it should have been €699,690.

Our audit has identified weaknesses in several areas of financial management. These weaknesses are described in more detail inside this report.

Our overall conclusion is that Peja Municipality has failed to build a consolidated structure of internal control and governance. We must emphasize the fact in the past two

years Peja Municipality has not addressed any of our recommendations and we are concerned by such approach. Management of Peja Municipality should develop a more positive attitude towards the organization's internal controls.

In order to improve the functioning of financial management system and internal controls, we recommend the Mayor of Peja to ensure:

- Strengthening of internal controls;
- That all issues raised by the audit are addressed and followed by adequate measures;
- Further improvements of budget performance;
- Reconciliation of own source revenues;
- That procurement procedures are carried out in compliance with procurement regulations and strengthening of monitoring controls over the contracts;
- Disclosure of all accounts receivable;
- Disclosure of all liabilities of the Peja Municipality;
- Complete registers of Peja Municipality assets;
- A functional review of internal control; and
- Establishment of the Audit Committee.

The Management of Peja Municipality has acknowledged our findings and conclusions presented in the audit report on the AFS for the year 2011 and are committed to make every effort to address all recommendations given.

1 Introduction

This audit relates to the annual financial statements of Peja Municipality for the year ended 31 December 2011.

It is the responsibility of Peja Municipality to prepare AFS in accordance with the Financial Rules 07/2011 and International Public Sector Accounting Standards (IPSAS) for "Financial Reporting under the Cash Basis of Accounting".

The Office of the Auditor General is responsible for carrying out annual regularity audits of this should be focused on the very institution at stake, Peja Municipality in this case.

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

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

We have carried out an interim audit of Peja Municipality. During that stage of the audit process we addressed Peja Municipality's handling of recommendations given earlier and the quality of financial management. Based on this we have given advices to the management. This also included advice related to the preparation of the Annual Financial Statements. An audit memo was submitted the date in this case December 2011.

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

- Reviewed the Annual Financial Statements of Peja Municipality against the approved budget for 2011;
- Determined whether the Annual Financial Statements of Peja Municipality were prepared in accordance with IPSAS "Financial Reporting under the Cash Basis of Accounting" and Financial Rule no. 07/2011;
- Established a materiality level of revenues and expenditures, as a threshold for assisting in determining the type of opinion to render on the financial statements;
- Used a combination of judgment and random sampling to select transactions for testing;
- Undertaken internal control assessment and tested them as appropriate;

- Undertaken extensive substantive testing of financial transactions;
- Relied on a combination of interviews, analytical reviews, document reviews, and physical verification to assess the validity and propriety of financial transactions; and
- Assessed the quality of work of the Internal Audit in Peja Municipality.

In this report we summarise this year's audit and give a formal opinion on the Annual Financial Statement 2011.

Related to our audit opinion on AFS of Peja Municipality, the ISSAI's set out specific criteria that govern the type of opinion that can be rendered.

These are set out more fully in Annex 1.

2 Audit Opinion

In our opinion the Annual Financial Statements in all material aspects present *a true and fair view* with the exception of:

Budget execution statement section 13 of AFS, where the Peja Municipality collected revenues are presented in the amount of €3,293,000, and Note 15 where €2,480,000 are presented as own source revenues whilst this amount should have been €2,604,370.

(ISSAI 400 Qualified Opinion)

We would like to draw your attention to the fact that records and information presented on disclosure of own source revenues, fixed assets, stocks and accounts receivable were not accurate. The inaccuracies are:

- In Note 15: the own source revenues are presented in the amount of €2,480,000, and they should have been €2,604,370;
- In Note 30: Summary of nonfinancial assets were disclosed in the amount of €6,579,000, but this amount is not accurate as the Peja Municipality has not been able yet to come up with the value of land, buildings and infrastructure;
- In Note 32: Summary of stocks at the end of the period were not presented with a value in the AFS;
- In Note 34: Peja Municipality has presented the amount of €323,000 as receivables from property tax, and based on the reports of property tax department the receivables from the property tax are in the amount of €6,852,822; and
- In Note 35: the unspent own source revenues at the end of the year presented by the Peja Municipality were in the amount of €648,000, and it should have been €699,690.

3 Status of Prior Years Recommendations

The Municipality of Peja for 2010 had *an Unqualified Opinion with an Emphasis of Matter*. The emphasis of matter was due to the nondisclosure of assets and accounts receivable.

In our audit report on AFS of 2010 were given eight (8) recommendations. Peja Municipality has prepared an Action Plan for addressing the recommendations given by us in 2010. During the audit we have noticed that three recommendations were addressed partially, and five were not addressed. Failure to address fully the recommendations given in 2010 resulted in the same problems as last year.

For more details, see Annex II.

Conclusion

Management of Peja Municipality has failed to address our recommendations at the required level. Until then, the shortcomings emphasised above will continue to exist.

4 Financial outcome compared to approved budget

Analyses of Outcome in Financial Statements compared to Approved Budget shows:

Table 1: Budgetary funds and expenditures- outturn against the budget

Budgetary funds and expenditures	Initial Budget	Final Budget	Receipts/Expenditures 2011	Receipts/Expenditures 2010
I. Total revenues/funds	17,632,988	19,620,792	19,567,453	16,401,953
Government Grant -Budget	15,332,388	15,670,391	15,618,072	12,479,354
Revenues carried forward from previous year -	0	813,111 ¹	813,111	765,624
Own Source Revenues of 2011	2,300,600	2,604,370	2,604,370 ²	2,531,742
Domestic Donations	0	33,235	32,215	15,228
External Donations	0	499,685	499,685	610,005
II. Total expenditures	17,632,988	19,620,792	18,738,854	15,588,842
Wages and Salaries	9,837,109	10,047,462	10,023,108	8,264,596
Goods and Services	1,596,008	2,250,050	2,009,956	1,327,424
Utilities	498,208	511,208	500,349	505,753
Subsidies and Transfers	296,156	349,749	328,432	286,867
Capital Investments	5,405,507	6,462,323	5,877,009	5,204,202
Reserves	0	0	0	0
Difference I-II	0	0	828,599	813,111

Based on the data from the table above, we may see that the final budget for 2011 for Peja Municipality was in the amount of €19,620,792. Total expenditures for 2011 were in the amount of €18,738,854, or approximately 96%.

The table shows that the final budget was for €1,987,804 higher than the initial budget. This increase was due to the government grant in the amount of €400,000 (€180,000 for wages and salaries, €190,000 for goods and services and €30,000 for subsidies and

¹ Revenues carried forward from 2010

² Collected own source revenues during current year 2011

transfers). Own source revenues collected in 2011 and transferred revenues from last year and designated donor grants in the amount of €531,902.

The difference of €828,599 are own source revenues not spent in the amount of €699,690 and unspent domestic donations in the amount of €128,909, which are carried forward in 2012.

We have noticed a trend of expenditures increasing at the end of financial year. Only in the last quarter approximately 39% was spent.

Conclusion

Peja Municipality has managed to spend the budget within planned parameters, but the dynamics of expenditure within time periods was not in accordance with the cash flow plan, and consequently, 39% of the annual budget was spent only in last three months.

Recommendation 1

We recommend the Mayor of Municipality to ensure that:

- Financial controls over budget improve further are in place, with a particular emphasis on budget allocations according to quarters and periodical controls over the budget execution.

5 Financial Statements - Compliance with reporting framework and the quality of information

Peja Municipality has not managed to prepare the AFS in compliance with Financial Rule no. 07/2011 on annual reporting of budget organisations.

Inaccuracies identified are:

- In the financial statements 2 Article 13. *Budget Execution Statement*, Peja Municipality has not presented correctly the own source revenues. In this statement Peja Municipality has presented revenues collected in the amount of €3,293,000, and revenues collected by the Peja Municipality should have been in the amount of €2,604,370;
- Note 15 the own source revenues are not accurate. The own source revenues are presented in the amount of €2,480,000, and they should have been in the amount of €2,604,370.
- Article 16. Disclosure of Assets Note 30, 32 and 34 are not accurate. In Note 30: Summary of nonfinancial assets were disclosed in the amount of €6,579,000, but this amount is not accurate as the Peja Municipality has not been able yet to come up with the value of land, buildings and infrastructure;
- Note 32: Summary of stocks at the end of the period were not presented with a value in the AFS;
- Note 34: the Peja Municipality has presented the amount of €323,000 as receivables from property tax, and based on the reports of property tax department the receivables from the property tax are in the amount of €6,852,822; and
- Article 17 Note 35: *The Balance of unspent own source revenues* is not correct. Peja Municipality at the end of the year has presented its own source revenues in the amount of €648,000, while they should be €699,690.

Requirements of LPFMA no. 03/L-048 and Financial Rule no. 07/2011.

- Financial Statements have been signed by the Chief Administrative Officer and Chief Financial Officer of the audited body;
- Financial Statements are signed within the required time frame on 29/01/2012 and Submitted to MoF; and
- AFS were submitted only in Albanian Language.

Conclusion

The AFS of Peja Municipality contain numerous errors and information presented is misleading. It is worth mentioning that nine-month financial statements were of good

quality, and despite the advice given during the interim audit the management had not managed to draft the AFS conform to the reporting requirements.

Recommendation 2

We recommend the Mayor of Municipality to ensure that:

- During the drafting of AFS the required information is disclosed fairly and in compliance with the Administrative Instruction; and
- If uncertain when drafting the statements, the municipal officials consults with the officials of the MoF or to pursue training in this area, so that are not repeated the same mistakes.

6 Financial Management

6.1 Revenues (including own source revenues)

The own source revenues planned for 2011 were in the amount of €2,300,600. Collected during 2011 are in the amount of €2,604,370. In testing revenues we have encountered the following irregularities:

Property tax

Based on the payments register taken from the database of property tax department in the MoF we have noticed that was collected the amount of €747,289, and based on the Treasury data is collected the amount of €761,941. Due to this, we have a difference of additional €14,652 registered in the Treasury.

Based on the evidence of property tax department/MoF, the remaining debt on the property tax on 31 December 2011 is €6,852,822. This debt is not presented in the AFS. The municipal officials have not been granted access to the property tax department in order to obtain reports on the remaining taxpayers' debts.

Tax on construction permits

We tested 10 (ten) samples of construction permits in the value of €131,793. The applicants of construction permits we tested have not provided evidence that they do not have liabilities towards the Peja Municipality as required under the AI no.3/2004 and the order banning the offer of municipal services of date 30.01.2008. In addition, we noticed that Peja Municipality lacks a database where it can clearly reflect all transactions, tax and fee liabilities on the taxpayers of building permits in accordance with accounting standards.

Revenues from taxes of business companies

In testing nine (9) samples, we identified that Peja Municipality does not have a comprehensive and clear database of businesses taxes.

During 2011, Peja Municipality has not charged businesses with tax on business activity as required under the regulation for fees, taxes, charges, with the justification that the regulation is not certified by the Ministry of Local Government and the Ministry of Finance.

We have noticed that on May 10th 2011 the Municipal Assembly has adopted a Regulation on fees, taxes and charges and this has been sent on 5 September 2011 for certification in MLGA and MoF. Based on the statements by the municipal officials, the delayed response from the central level was that it is exclusively the responsibility of the local authorities to certify the regulations and that central authority does not make these kinds of certifications.

In the beginning of 2012, Peja Municipality have started to issue decisions to businesses, in order to charge them with the business tax during 2011 and 2012.

Not submitting own source revenues collected in Peja Municipality's name

We have audited own source revenues of the economical and technical high school. During the audit we have identified that the economics high school in 2011 had organized exams which were taken by 407 candidates. Payments in the bank accounts of Peja Municipality were carried out by 135 candidates in the amount of €34,405, whereas payments for certificates in the amount of €44,632 were paid in the school's cash box by 196 candidates and 76 candidates were exempted from the payment as social cases, (war invalids and children of martyrs).

The amount of cash collected from certificates is in the amount of €44,632 in cash and the surplus of the cash box in the amount of €3,455, carried forward from 2010 were not collected through the bank account. This money was used for paying the following expenses: wages and salaries €31,135 - where these expenses did not go through the Payroll. Meanwhile, the only amount of €13,650 was approved by the school principal and signed by the teachers and for the rest of money we were not provided evidence that they were approved by the school principal. Maintenance of facility €4,262, purchase of equipment €2,851, payment for security €730, participation in fairs €1,100, for office supplies €400 and payments for the School Day cocktail in the amount of €996, all these were done without procurement procedures. The remaining balance in the cash box of the school was in the amount of €6,612.

Giving certifications to taxpayers without paying the property tax fully

We have tested ten (10) samples of certifications given to taxpayers out of which six (6) taxpayers have received certificates without paying the remaining debts to the Peja Municipality.

Revenues collected from renting of sports centre

A portion of rent revenues from the sports centre were collected without charged certifications by the Peja Municipality and without adequate control by the municipal directorate of sports and culture.

We have identified that the cash has been collected even over €10, by issuing invoices as proof of payment.

Revenues collected by conversion of agriculture land to non-agricultural

The department of agriculture and forestry does not keep records about revenues generated from issuing decisions for conversion of agricultural land into non-agricultural.

Revenues from participation in health

In testing of 25 samples we have identified that for dental services and health certificates for driving licenses were collected cash revenues over €10 from the issuance of certificates.

Revenue from consents issued by the inspection to meet minimum technical and sanitary conditions

We have tested eight (8) samples of decisions for meeting the minimum requirements, resulting that in case no. 13-334-4932, of date 6/7/2011-concrete manufacture, was calculated a fee of €200. According to the municipal fees regulation no. 352-1849 of date May 10th 2011 Fee no. 8/2, it is foreseen that for manufacture activities is paid the fee of €400 and not €200, as was the taxpayer charged.

Conclusion

Peja Municipality has no sufficient controls over its own source revenues. Failure to hand over the revenues collected through the Peja Municipality bank accounts and their use outside the required procedures increases the risk of misuse, loss of public money and avoidance of paying taxes and contributions. In addition, lack of reliable registry of accounts for revenues from construction permits, fees for exercising business activities, rent from public assets, increases the risk of not disclosing the accounts receivable in the AFS, but also the loss of control over timelines of collection.

Non-reconciliations of information between the revenue officer and the officials in the assets department, has an impact in overstatement and understatement of own source revenues.

Payments in the cash box of over €10 are in contradiction with Article 11 of the Financial Rule 03/2010 on revenues, where each payment over €10 has to be processed through the bank.

Recommendation 3

We recommend the Mayor of Municipality to ensure that:

- All collected own source revenues are deposited to the Municipality's bank account;
- The remaining balance in the cash box of the economics school (at the end of 2011) in the amount of €6,612 are deposited into the bank account of the Municipality;
- Proper reconciliation of own source revenues from property tax and taxes from agriculture department;
- That all payments over €10 are made through the bank;
- The regulation on fees, charges and Municipality fines is adhered to until the new regulation is certified; and
- A comprehensive registry of business activity tax, construction permits, fees for the conversion of agricultural land in the non-agriculture, rents from public property, and to strengthen controls over the collection in accordance with the fees set out.

6.2 Expenditures

6.2.1 Remunerations (wages and salaries)

During 2011, the budget allocated for the category of salaries and wages was in the amount of €10,047,462. From this amount were spent €10,023,108. In order to test the regularity of payments and recruitment procedures we have selected 42 samples from the personnel and have noticed that Peja Municipality does not have sufficient controls in managing human resources. For more details see Internal Control chapter.

6.2.2 Procurement

Based on the analytical review the capital investments expenditures for 2011 were for €5,877,009, whilst the expenditures for goods and services were €2,009,956. In order to test these expenditures we have used the non-statistical method. We have chosen for testing 71 capital investments payments which amount to €2,478,379 or approximately 42%, and 48 payments from the category of goods and services in the amount of €987,937 or approximately 49%.

Lack of eligible operators

The case "Supply with dental material - dentistry for the dental polyclinic", with an estimated value of €15,000, we noticed that out of the three tenderers only the winner was eligible.

Lack of delivery note and the acceptance report

The payments in the amount of €2,910 and €14,730, made for the supply of wood for heating, we have noticed the lack of receipt and admission report for the supplies.

Irregular certification of the payment

The contract "The construction of electricity network in FMC" of Peja Municipality in the amount of €66,017, we noticed that the report of the supervision body that certifies the progress stage of the works is missing, while the certifying officer had certified the case for payment.

Conclusion

The above-described cases show shortcomings of control over activities. Apparently, some processes are not well defined such as: monitoring of processes, segregation of duties and verification. Lack of internal rules and policies as well as errors in procurement procedures have caused failures also in the procedures of control. Payments made without the reports of the supervising body, increase the risk for carrying out payments for works that are not performed.

Recommendation 4

We recommend the Mayor of Municipality to ensure that:

- Procurement procedures are in accordance with legal requirements and that for all quantities supplied, there is proof of receipt; and
- Certification of any payment is not be made without completing the necessary documentation.

6.2.3 Subsidies and transfers

For the category of subsidies and transfers for 2011 were allocated €349,749, while from this category are spent €328,432 or approximately 94%.

The first issue that we have noticed is that Peja Municipality has not drafted internal regulations for granting subsidies and transfers. Subsidies are granted by the decision of the Mayor, without a public announcement that would clearly define the criteria that have to be met by the beneficiary. In addition, in testing 13 cases from this category we noticed that nine cases were missing the required documentation such as: bank account, ID, and projects offered.

We have not found any reports submitted by the beneficiaries whether the subsidies received are spent based on the requests.

Conclusion

Lack of regulations and program policies concerning the management of subsidies creates the possibility for public funds not to be spent for the intended purposes and objectives of Peja Municipality not to be achieved. Lack of reports on expenditures increases the risk that funds for funds not to be used in accordance with their purposes.

Recommendation 5

We recommend the Mayor of Municipality to ensure that:

- The regulation for granting subsidies is drafted and approved by the Municipal Assembly;
- Expenditures incur only after signing the contract with the beneficiary; and
- Each beneficiary of subsidies reports on how the funds are spent and the results achieved.

6.3 Assets

6.3.1 Handling of receivables

Peja Municipality did not have accurate records on Accounts Receivable. The accounts receivable presented in the AFS from the property tax were €323,000, while based on the records of the MoF, the property tax receivables were in the amount of €6,852,822.

Receivables from the sale of municipal assets are not presented in the AFS, while the amount of liabilities from buyers of Peja Municipality assets is €205,000.

Conclusion

Lack of records for accounts receivable affects the Peja Municipality to have a lack of information on the receivables planned to be collected during 2011. This also affects the drafting of annual budgets and determining the source of funds.

Recommendation 6

We recommend the Mayor of Municipality to ensure that:

- Registers on Accounts Receivable are maintained and updated and to undertake necessary measures to increase the rate of collection.

6.3.2 Handling of capital and non-capital assets

In 2011 Peja Municipality has failed to fully assess and record its capital assets. Based on the accounting register the value of fixed assets was recorded in the amount of €6,579,000. This value does not match the value of municipal assets that was presented in the Annual Report drafted by the MoF, where the assets net value of Peja Municipality is €330,353. In addition, Peja Municipality has failed to make a full record of all the buildings, land and infrastructure.

Conclusion

Despite the efforts of the Peja Municipality to record all assets in its possession this was not achieved. Therefore, the duty remains that all Peja Municipality assets are included in the registers.

Recommendation 7

We recommend the Mayor of Municipality to ensure that:

- Property, buildings and equipment are fully assessed, in order to have a final register for all assets in possession; and
- Public property is preserved, used and kept under control.

6.3.3 Debts

Statement of current liabilities towards suppliers at the end of 2011 was in the amount of €558,710. These liabilities are carried forward for payment in the fiscal year 2012. We have noticed that the liability towards the economic operator about the expropriation of commercial residential building in the amount of €78,000, was not presented in the AFS.

Conclusion

Lack of complete records and inaccurate presentation of liabilities in the AFS, makes the budget drafting and its execution difficult. Payment of contingent liabilities affects the budget balances and makes the budget execution in line with the plan impossible.

Recommendation 8

We recommend the Mayor of Municipality to ensure that:

- The finance department holds complete and accurate records and makes registration of all paid invoices; and
- Disclosure of all current and potential liabilities.

6.4 Current reporting and timeliness in the overall budget process

Peja Municipality has submitted quarterly reports, including nine-month financial statements on time, and the final procurement plan was submitted on time.

Peja Municipality prepared the plan for addressing the recommendations for 2010.

7 Management Control

7.1 Internal Control Systems

In principle Municipality of Peja has designed an internal control system, but it has not functioned at a satisfactory level. Some of the identified shortcomings of the system are shown below:

Peja Municipality has not managed yet to prepare AFS in accordance with legal requirements. The main problem in preparing AFS remains the complete presentation of own source revenues and presentation of proper disclosures.

In addition, Peja Municipality is lacking controls over the own source revenues. Lack of records and failure to deposit collected own source revenues in the municipal account (the case of economics school) increases the risk for misuse of public funds.

Peja Municipality did not have sufficient controls over the certification of payments. The Certifying Officer failed to perform his duties in accordance with applicable legal requirements. The Certifying Officer had allowed payment of irregular invoices. These cases relate to certification of payments without the relevant documentation of capital investments and subsidies.

Although last year were given clear recommendations concerning subsidies, no corrective actions were undertaken. The lack of internal regulation for subsidies results in granting subsidies for projects that are not clear, without an agreement of understanding and lack of reporting.

Concerning personnel, we have noticed that personnel files are not updated properly. Some officials lack the assessment form, copy of ID, copy of bank account and job description as required under regulation no. 03/2011 on files and the central register of civil servants.

Another problem is assets recording, which problem seems that will be present for a long time. Peja Municipality has many properties which has failed to record them and of course to manage them properly.

Conclusion

The internal control system requires establishment of clear guidelines and procedures of control. Currently, the internal controls do not provide adequate assurance that established municipal objectives are being achieved, although a progress is noticed compared to last year.

Recommendation 9

We recommend the Mayor of Municipality to ensure that:

- The current internal control system is reviewed and where failures are identified, to draft specific policies and procedures aiming controls improvement.

7.2 Internal Audit

During the audit of IAU in Peja Municipality was ascertained that this unit operates with three auditors, has a strategic and annual audit plan which included high-risk areas. The IAU in Peja Municipality has managed to carry out audits in accordance with internal audit standards. Our assessment is that reports were of good quality and they provide a good insight to the management on the assurance level of internal controls and their effectiveness. We also noticed that the IAU had followed the implementation of recommendations. Addressing of recommendations was handled well by the management of the Peja Municipality.

Peja Municipality does not have an audit committee which would assists the IAU in meeting objectives and increase the management security in governing processes.

Conclusion

The audit committee is a powerful mechanism to support the IAU in overseeing the efficient and effective management of Peja Municipality, address external audit recommendations and assist the management in governance and decision-making processes.

Recommendation 10

We recommend the Mayor of Municipality to ensure that:

- The audit committee is established, in order to increase an efficient, effective and economic supervision of the Municipality.

8 Overall conclusion on the Management of Peja Municipality

General conclusions

In general Peja Municipality has failed to build a consolidated structure of internal control and governance. We must emphasize the fact in the past two years Peja Municipality has not addressed any of our recommendations and we are concerned by such approach. Management of Peja Municipality should develop a more positive attitude towards the organization's internal controls.

It is unclear whether the management understands the importance of issues arising from the audit or they are lacking readiness to address them properly.

In general, the weakest link of the FM/C system remains the revenue management. Non-reconciliations of revenues with the Treasury, uncertain state of taxes on property, not charging the businesses with tax, direct cash collections and cash expenditures are not in accordance with determined fees. These are just some of the shortcomings on revenue management.

Monitoring over collection and reporting of revenues is insufficient. In lack of sufficient information, drafting of a sustainable budget is impossible. Therefore, the obligations for regular and reliable reporting should be part of daily activities for everyone. Staff skills and their experience should be the departure point for segregation of duties and responsibilities. Regular training and performance-based promotions should also be practiced.

Our main message is that strengthening of PIFC components where is included the financial management and control, as well as internal audit should be management's permanent objectives. They should expand through the entire organisation and everyone should feel responsible and accountable.

Annex I. Different types of Audit Opinions

(extract from ISSAI 400)

9. An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse (paragraph 14) or a disclaimer (paragraph 15) of opinion.
10. **An unqualified opinion** is given when the auditor is satisfied in all material respects that:
 - a) the financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
 - b) the statements comply with statutory requirements and relevant regulations;
 - c) the view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
 - d) there is adequate disclosure of all material matters relevant to the financial statements.
11. **Emphasis of Matter.** In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references which are meant as "emphasis of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

12. An auditor may **not be able to express an unqualified opinion when** any of the following circumstances exist and, in the auditor's judgement, their effect is or may be material to the financial statements:
- a) there has been limitation on the scope of the audit;
 - b) the auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or
 - c) there is uncertainty affecting the financial statements.
13. **Qualified Opinion.** Where the auditor disagrees with or is uncertain about one or more particular items in the financial statements which are material but not fundamental to an understanding of the statements, a qualified opinion should be given. The wording of the opinion normally indicates a satisfactory outcome to the audit subject to a clear and concise statement of the matters of disagreement or uncertainty giving rise to the qualified opinion. It helps the users of the statements if the financial effect of the uncertainty or disagreement is quantified by the auditor although this is not always practicable or relevant.
14. **Adverse Opinion.** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.
15. **Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.
16. It is customary for SAIs to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

Annex II: Prior year recommendations

Audit Component	Recommendation given	Recommendation fully implemented	Partly addressed	Not addressed
5.2 Quality of information in AFS	Drafting of AFS in accordance with legal provisions including all disclosures.			X
6.1 Own source revenues	Reconciliation of revenues as well as keeping registers and registrations in proper economic code.		Reconciliation was done, although revenue records are still missing.	
6.2.1 Purchases through procurement	All payments to be executed in accordance with the contract. Securing funds prior to signing the contract and works to be finalised in reconciliation with dynamic plan.		All payments were in line with the contract, although there are delays in execution of works.	

6.3 Subsidies and transfers	Drafting of the regulation for subsidies and respecting the criteria for granting subsidies.			X
6.4.1 Capital and non-capital assets	Complete registration of Peja Municipality assets.			X
6.4.2 Debts	Registration of paid and unpaid invoices.			X
7.1 Internal control systems	Taking of proper measures aiming to ensure reestablishment of controls ensures elimination of all weaknesses.		x	
7.2 Internal audit	To carry periodic audits within current year and establishment of the audit committee.			X
Total	8	0	3	5