



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

**Document No: 22.6.1-2012-08**

**AUDIT REPORT**  
**ON THE FINANCIAL STATEMENTS OF PEJA MUNICIPALITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**Prishtina, June 2013**

---

The Office of the Auditor General (OAG) undertakes both Regularity and Performance Audits. The Auditor General Lage Olofsson, is the head of the OAG which employs around 140 staff. The Auditor General and the OAG 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 OAG directly promote accountability as they provide a base for holding managers’ of individual budget organizations to account.

The Auditor General has decided on the audit opinion and the report on the Annual Financial Statements of the Municipality of Peja in consultation with the Assistant Auditor General, Qerkin Morina, supervising 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 Florim Maliqi (Team leader) Mexhit Ferati and Milos Petrovic.

---

## TABLE OF CONTENTS

Executive Summary.....	4
1 Audit Scope and Methodology .....	6
2 Annual Financial Statements.....	8
3 Prior Year Recommendations.....	11
4 Financial Management and Control.....	12
5 Internal Audit System .....	28
6 Overall conclusion .....	29
Annex I: Explanation of the different types of opinion applied by the OAG .....	30
Annex II: Prior year recommendations .....	32

---

## Executive Summary

### Introduction

This report summarises the key matters arising from our audit of the 2012 Annual Financial Statements (AFS) of Peja Municipality. I would like to thank the Mayor and his team for their assistance during the audit process.

The examination of the 2012 financial statements was undertaken in accordance with the internationally recognised Public Sector auditing standards (ISSAIs) issued by INTOSAI. Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements.

Our audit focus has been on:

- The AFS ;
- Financial Management and Internal Control (including budget management and execution); and,
- Internal Audit System.

### Opinion

The Auditor General (AG) reports his opinion to Parliament in the format set out in Annex I - Audit Certificate. Annex I explains the different types of Opinions applied by the OAG. The AG's certificate includes an opinion as to the truth and fairness of the financial statements.

The AG's opinion is:

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

As an *Emphasis of Matter* the Registry of Fixed Assets is still not fully reliable. The registry of fixed assets does not affect any of the 2 Annual Financial Statements (Cash Receipts and Payments and Comparison of Budget and Actual Amounts) in line with IPSAS Cash based accounting. **(ISSAI 400 Unqualified Opinion with an Emphasis of Matter)**

---

## **Overall Conclusion**

The level of work undertaken by the OAG to complete the 2012 audit is a direct reflection of the quality of the internal control environment. Our overall conclusion is that:

We have been able to take assurance from the effective operation of management controls in a number of account areas but have also identified weaknesses in some important areas of financial management. Weaknesses are detailed below.

Audit recommendations are intended to support Peja Municipality in improving financial controls and enhancing other aspects of operational activity. We have considered the response to our recommendations made in 2011. Our overall conclusion is that further action is required to address some significant prior year recommendations.

We discussed the quality of Peja's financial reporting and our detailed audit findings with regard to the Annual Financial Statements, Financial Management and Control and Management Accountability and Internal Audit in the main body of this report.

**Our key recommendations to the Mayor are as follows:**

### **Annual Financial Statements**

- The AFS 2013 should formally address all compliance requirements related to AFS and should also include handling of OAG comments related to AFS 2012 and the nine-month financial statements 2013

### **Financial Management and Control**

- Evaluation and inventory commissions should be established in order to ensure that the Municipality's assets are fully assessed – the Management should ensure that the revised action plan clearly specifies the timetable for addressing the recommendations with staff members accountable identified - with initial focus on areas of major importance;
- Due attention is paid to the budget planning and execution. Although the budget was spent by 97% we have found that outstanding liabilities were in the amount of €727,000 whilst the remaining funds were in the amount of €650,000 ;
- A more rigorous inspection should be carried out in order to identify active businesses within the Municipality before the next invoicing of business taxes, and collection mechanisms should be further developed;

- 
- A detailed analysis of 2012 revenues should be undertaken to ensure completeness of receipts and to ensure that a robust process is in place to determine likely revenue flows in future years;
  - Existing systems should be reviewed in order to inspect construction projects and to assess their effectiveness including the provided legal support and the required improvements should be made.
  - It should be determined why the effective procurement processes were not adhered to in all cases of 2012. It should be ensured that controls are in place in order to ensure that procurement procedures are applied in the future when adequate. Criteria should be set forth by clearly defining what could be considered a reasonable specification for specific purchases;
  - The Law on Civil Service rules and requirements should be applied at all recruitment procedures;
  - A regulation setting forth the subsidies' criteria and sources should be approved;
  - All funds commitments should be monitored in order to ensure that budget appropriations are not exceeded; and
  - Certification of payments, particularly of those on business travels, should be made in accordance with legal rules.

#### **Internal Audit Unit**

- IAU has finalized only four (4) audit reports. Recommendations given by the internal audit unit had not been treated from the management.

#### **Management's response:**

Management have confirmed agreement with all of our audit findings and have committed to address our recommendations.

---

# 1 Audit Scope and Methodology

It is the responsibility of Peja Municipality to prepare AFS under the International Public Sector Accounting Standards (IPSAS) for 'Financial Reporting under the Cash Basis for Accounting'. The Office of the Auditor General is responsible for carrying out a Regularity Audit which involves the 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.

Audit work undertaken reflected our audit risk assessment for Peja Municipality. We have considered our understanding of the organisation, the extent to which management controls can be relied upon and the level of detailed testing required when determining the overall testing required to provide the necessary level of evidence to support the Auditor General's opinion.

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 Management Responses to recommendations made in 2011 is found at Annex II.

We have included the significant and other, less significant findings arising from our audit. For completeness we have included issues identified at the month 9 audit where they remain relevant. Our findings are defined as:

**Significant** - major issues for the attention of those charged with governance and senior management which may have the potential to result in a material weakness in internal control ; and

**Other** - weaknesses identified in our audit where action will offer the potential for improvements to the efficiency and effectiveness of internal controls.

Our procedures included a review of the internal controls and accounting systems and procedures 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

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

The declaration regarding presentation of financial statements 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

### 2.1 Compliance with the Reporting Framework

#### Overall Conclusion

AFS were prepared in accordance with the requirements of Financial Rule no. 07/2011, and IPSAS "Financial Reporting under the Cash Basis of Accounting" for which the standard reporting format was used, with exception to the issue of disclosure of payments by third parties and complete registration non-financial assets. These are addressed more thoroughly in the following chapter - Quality and Accuracy of Information.

#### Description

The AFS are required to comply with a specified reporting framework. We considered:

- Compliance with FR No 07/2011;
- Requirements of LPFMA No. 03/ L-048;
- AFS were submitted only in Albanian; and
- Financial Statements were prepared in hard and electronic copy.

Issues raised during our audit of nine-month period, related to the reporting framework in our memo dated 09.11.2012, have not been fully addressed by Management. The issues raised were related to third party payments, full disclosure of fixed assets, etc.

#### Recommendation

We recommend the Mayor that, in preparing the AFS, the legal obligation to prepare AFS in Serbian is taken into consideration.



---

## 2.2 Quality and Accuracy of Information Presented in the Annual Financial Statements

### Overall Conclusion

The Municipality managed to prepare financial statements in accordance with Financial Rule no. 07/2011 on Annual Reporting of budget organizations with the exception to comprehensive evaluation of fixed assets. Except for the lack of disclosures and explanatory notes, weaknesses identified in the AFS prepared by Municipality were not significant.

### Description

As a result of our audit work, adjustments were made to the draft annual financial statements presented for audit. We have also provided a number of suggestions to improve other narrative disclosures and to ensure completeness of the disclosures required as follows:

- Non-disclosure of third party payments; and
- Lack of complete presentation and evaluation of fixed assets.

After our suggestions, the Municipality completed the AFS with disclosures of third parties payments, with exception to complete assessment of buildings owned by the municipality as well as disclosure of non-financial assets under €1,000.

---

### 1. Issue - Accounts Production Process - Priority Significant

#### Finding

In Note 31: Summary of assets valued under €1,000 was presented in the AFS in the amount of €135,000, whilst in the records kept by the Assets Officer it was in the amount of €81,361. According to the Management, the amount presented in the AFS was described from the amount presented in AFS 2011.

Note 30: Summary of assets over €1000, presented in the amount of €316,318,000 was incomplete and inaccurate. According to Municipal officers, complete identification and registration of assets was not yet done.

---

**Risk** Failure to present the fair value of assets leads to misinterpretation of the Municipality's financial position and of future budget requests.

**Recommendation 1** The Mayor should ensure that the financial statements' preparation systematic plan embeds the requirement to include the complete assets value. The Mayor needs to monitor the implementation of this requirement. We suggest that the established committee should continue the assessment of all fixed assets owned by the Municipality in the near future.

## 2.3 Audit Opinion

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

As an *Emphasis of Matter* the Registry of Fixed Assets is still not fully reliable. The registry of fixed assets does not affect any of the 2 Annual Financial Statements (Cash Receipts and Payments and Comparison of Budget and Actual Amounts) in line with IPSAS Cash based accounting. **(ISSAI 400 Unqualified Opinion with an Emphasis of Matter)**

---

### 3 Prior Year Recommendations

#### Overall Conclusion

The Municipality prepared an action plan stating that all recommendations should be addressed.

#### Description

Our audit report on the Municipality's AFS 2011 resulted in ten (10) key recommendations.

By the end of the audit 2012, we found that four (4) recommendations were fully addressed, four (4) have been partially addressed, and two (2) have not been addressed yet. For a more complete description of the recommendations and how they were addressed, see Annex II.

---

#### 2. Issue - Addressing Prior Year Audit Recommendations - Priority Significant

**Finding** The Municipality has failed to fully address all prior year recommendations.

**Risk** Failure to fully address recommendations indicates that in some areas the same problems in 2011 still exist thus leading to the repetition of the same recommendations.

**Recommendation 2** The Management should ensure that the revised action plan clearly specifies the timetable for addressing the recommendations with staff members accountable identified - with initial focus on areas of major importance.

---

## 4 Financial Management and Control

### 4.1 Introduction

Our audit approach is focused on understanding and evaluating actions taken by Management to secure effective financial management and control. 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.

### 4.2 Budget Planning and Execution

#### **Overall Conclusion**

The Municipality spent 97% of its budget. In quantitative terms, this indicates that the Municipality used the budget to the maximum level.

#### **Description**

We have considered the source of Municipality's budget funds, spending of funds by economic categories and Revenues collected. This is highlighted in the following tables:

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

Description	Initial Budget	Final <sup>1</sup> Budget	2012 Outturn	2011 Outturn	2010 Outturn
<b>Sources of Funds</b>	<b>18,184,846</b>	<b>19,621,018</b>	<b>18,970,438</b>	<b>18,738,853</b>	<b>15,588,842</b>
Government Grant - Budget	15,549,926	15,945,927	15,930,094	15,690,539	12,479,355
Carried forward from previous year <sup>2</sup> -	-	699,691 <sup>3</sup>	668,228	765,294	705,886
Own Source Revenues <sup>4</sup>	2,634,920	2,687,447 <sup>5</sup>	2,121,449	1,880,030	1,778,369
Domestic Donations	-	31,477	6,560	4,800	15,227
External Donations	-	256,476	244,107	398,190	610,005

According to the data from the table above, the final budget for 2012 was €19,621,018. Total expenditures for 2012 were €18,970,438 or approximately 97% of the budget. Unspent budget by the end of 2011 was €650,580 or about 3%.

The final budget was for €1,436,172 higher than the initial budget. The difference between the initial and final Budget is due to the additional grant awarded to the Municipality in the amount of €448,528, previous year's own source revenues in the amount of €699,691, as well as internal and external donations in the amount of €287,953.

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

Description	Initial Budget	Final Budget	2012 Outturn	2011 Outturn	2010 Outturn
<b>Spending of funds broken down by economic categories</b>	<b>18,184,846</b>	<b>19,621,018</b>	<b>18,970,438</b>	<b>18,738,853</b>	<b>15,588,842</b>
Wages and Salaries	10,283,856	10,388,408	10,378,157	10,023,108	8,264,596
Goods and Services	1,922,520	2,721,223	2,686,923	2,009,956	1,327,423
Utilities	532,800	557,800	557,083	500,349	505,754
Subsidies and Transfers	284,000	474,000	473,692	328,432	286,867
Capital Investments	5,161,670	5,479,587	4,874,583	5,877,008	5,204,202

<sup>1</sup> Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

<sup>2</sup> Municipality Own Source Revenues unspent in previous year carried forward into the current year.

<sup>3</sup> Municipality's previous year own source revenues carried forward in the current year.

<sup>4</sup> A Portion of the receipts planned and collected for the Kosova Budget in the current year which was used by the entity for financing its own budget.

<sup>5</sup> Unplanned own source revenues.

Although the budget execution at rate 97% shows a high performance in terms of quality and regularity, budget expenditures are associated with several shortcomings and irregularities. Expenditures procedures are handled in Chapter 4.5.

**Table 3 Revenues collected for the Kosova Budget – outturn against the budget**

Description	Initial Budget	Final Budget	2012 Outturn	2011 Outturn	2010 Outturn
Own source revenues	2,634,920	2,687,447	2,859,942	2,730,172	2,277,369

Revenues collected in 2012 were higher for €129,770 compared to 2011.

Based on analytical review, we have concluded that, from own revenues, the amount of €169,000 was spent for Wages and Salaries because the budget circular did not allow for the salaries planned by the Municipality Education Directorate to exceed. Therefore, MoF allowed the allocation of funds from Own Sources Revenues and the payment for Wages and Salaries.

## 4.3 Reporting Requirement

### Overall Conclusion

In regard to the financial reporting requirements arising from the applicable legislation, the Municipality has met and complied with the required deadlines.

### Description

We have concluded that the Municipality of Peja has fulfilled all external reporting obligations. Fulfilled obligations are as follows:

- Budget Request for funding of capital projects submitted to MoF.
- Quarterly reports, including nine month financial statements on time;
- Draft and final procurement plans on time;
- Reports on debts submitted to the MoF; and
- Report on the performance of Public Finance Management supported by USAID and the Ministry of Finance for 2011.

---

## 4.4 Revenues (including own source revenues)

### Overall Conclusion on Revenues

Peja Municipality has established formal controls over revenues, but such controls are not operating at a satisfactory level. They require further improvement, particularly when it comes to provision of data on construction permits, instalment of the software for recording and reporting of revenues. Clear policies with appropriate mechanisms on how to collect previous years' outstanding debts, property tax and other debts should be issued.

### Description

According to Free Balance records, in 2012, the Municipality collected revenues in the amount of €2,859,942 whilst the planned revenues for 2012 were in the amount of €2,687,447. The exceeded plan by 10% compared to the final budget, is more a result of poor planning than the increase of effectiveness. We state this because the Municipality started year 2012 with a plan with less projected revenues than collected in 2011 (see Table 3).

---

### 3. Issue - Software Deficiencies - Priority Significant

**Finding** Peja Municipality does not own the software for recording and reporting revenues. Existing manual data are poorly managed. In almost all cases, balances carried forward from the previous year were not recorded in the accounting data, with exception to collections.

**Risk** Current information on revenues is neither accurate nor complete and aren't timely available to support management decision-making. Existing manual systems for organising information on revenues may be subject to manipulation.

**Recommendation 3** The Mayor should ensure that a proper software solution will be developed and tested within the current financial year in order to meet the specified requirements of the management.

---

#### 4. Issue - Use of land without criteria - Priority Significant

**Finding** According to Municipality, revenues from the use of public property for 2012 were in the amount of €1,532. We have found that the land was given for use without any competition.

**Risk** Lack of transparency and of free competition leads to the risk that public property is given by favouring certain persons and eliminating other competitors unjustifiably.

**Recommendation 4** The Mayor should put in place a registration process of all properties given for use and associated charges, which would be reviewed at least every six months by a senior official. Criteria should be established and competitiveness should be applied.

#### 5. Issue - Illegal constructions - Priority Significant

**Finding** We have reviewed an inspection report for the period January-December 2012. Based on their minutes, it is seen that Municipality has problems with illegal constructions. Construction Inspectorate inspected 326 different buildings. Out of which, only 148 were found to possess a construction permit.

**Risk** The Municipality had no effective mechanisms in place for preventing all illegally constructed buildings. Besides disfiguring the environment and hindering the development of urban regulatory plans, illegal constructions enable investors to avoid paying construction taxes.

**Recommendation 5** Kryetari duhet te siguroj Inspectorate Department should apply all controls/mechanisms for reporting all investors who do not comply with the criteria for obtaining construction permits, and should adhere to the management's decisions.



---

## 6. Issue - Poor collection of the business tax - Priority Significant

**Finding** Revenues from business taxes for 2012 were in the amount of €190,572. Nearly 5,000 businesses operate in the Peja Municipality, and the amount of charges for this category was €979,730. According to officials, poor collection of business taxes is due to the larger number of business charged while the same are not active.

**Risk** Failure to identify active businesses and the lack of mechanisms on revenues collection had led to the Municipality to the situation of not collecting more than 19% of the amount charged for 2012. This increases the risk that budget objectives are not reached.

**Recommendation 6** The Mayor should ensure that controls related to collection of these revenues should be restored in order to ensure that the differences between the plan and receipts are reduced. Identification of operating businesses and those who are not active should be monitored continuously.

## 7. Issue - Incomplete records of vehicle registration tax - Priority Significant

**Finding** The examination of revenues from vehicle registration tax has revealed that Municipality does not keep complete accounting records for all payments from this tax. The collected amount as of December 2012 was €146,401. The specification provided did not provide complete data to ensure that all payments are in accordance with the amount recorded in the Treasury. The provided records were only related to the nine (9) months whilst the first three (3) months were not registered at all.

**Risk** Lack of complete records on all payments from vehicle registration tax may lead to under-paid revenues.

**Recommendation 7** The Mayor should ensure that the responsible official conducts complete and accurate recordings of vehicle registration taxes in order to be able to provide reliable reports at any time.

---

## 8. Issue - Acceptance of €10 payments from informal education – Priority Significant

**Finding** In examining revenues from non-formal education in the economics secondary school, we found that the amount collected in 2012 was €63,626, whilst the amount recorded in the Treasury was €63,083. So, there is a difference of €543. In addition, payments over €10, in the total amount of €3,864 were made through cash registers.

**Risk** Inconsistency between the records of revenues collected from non-formal education with Treasury records increases the risk that the money will not be delivered in quantities collected. Cash collection in payments over €10 is not in accordance with the Treasury rules.

**Recommendation 8** The Mayor should ensure that controls related to revenues collection should be restored, in order to ensure that differences between the invoices and the Treasury have been identified in time and that procedures to locate unpaid amounts are applied. Collections on amounts over €10 should be processed only through bank account.

## 4.5 Expenditures

### Overall Conclusion on Expenditures

Although in 2011 we identified a number of shortcomings on expenditures related controls, it is clear that Municipality does not understand the needs of more robust control systems in this field. Therefore, further development is required on strengthening controls over payments and improvement of procedures.

### 4.5.1 Procurement

#### Description

The budget appropriated for capital investments for January - December 2012 was €5,479,587 and €4,874,583 or 89% was spent. We have reviewed 11 samples in the amount of €1,843,526 or around 34% of the total. By testing these samples, we found the following irregularities:

---

## 9. Issue - Annex Contract without proper justification - Priority Significant

**Finding** On 20.04.2012, the Municipality entered into a contract with the company "NNT Berisha" in the amount of €46,228. The project was concluded on behalf of renovation of the House of Culture facility. On 15.08.2012, we noticed that Municipality entered into annex contract in the amount of €4,584 for five (5) stages which had no proper justification. Plastering walls and establishing gypsum plaques could have been foreseen in the pre-calculation made by the Municipality.

**Risk** Entering into annex contract on works which the operator should have performed under the base contract indicate that Municipality did not prepare bill-of-quantities for this project in the best way possible.

**Recommendation 9** The Mayor should ensure that the Technical Service has prepared pre-calculation and bill-of-quantities with all the necessary analysis in order to avoid the need for additional work.

## 10. Issue - Windows priced at €120 are paid €230

**Finding** In examining the payments on the project "General repair of the school Shkodrani ", we have noticed that it was received and paid the invoice for 89 windows, each priced €230, or a total of €20,470. After verification of the technical specifications, we found that the required quantity of windows at a price of €230 was only for two (2) items rather than 89.

**Risk** The Municipality paid €9,570 more than was foreseen in the contract. Discrepancies between contracted price and payments may result in financial loss to the Municipality. Such cases cannot be treated as an error.

**Recommendation 10** The Mayor should investigate in detail the reasons for these discrepancies and apply accountability measures to persons involved.

---

**11. Issue - Contract without sufficient commitment and payment inconsistency - Priority Significant**

In the Project "Water supply for villages of Lugu i Baranit" a contract was entered into with the economic operator in the amount of €3,447,983, whilst only €470,000 were committed for this project. In examining the payment of €117,500 we found that the supervisory body prepared the report for the first progress payment, whilst the invoice was received and paid for the second progress payment. In addition, the supervisory body concluded in this report that works were fully in compliance with the contract terms, and did not describe the amount of works done. Similar case of entering into liabilities without prior commitment of funds is found in the project "Pavement of road in Zllopek" where the contracted amount was €98,114 whilst €25,000 were committed.

**Risk**

Entry into contracts without sufficient funding is associated with risk that started projects are not finalized and contractual obligations are not implemented. Paying for the second progress payment invoice while the supervisory body confirms the first progress payment indicates that projects are not managed from the work site.

**Recommendation 11** The Mayor should ensure that contracts are not enter into without committed funds. The supervisor should monitor the construction dynamics on rather than from office. Payments should be certified only after the works are finalized. A clear relation between the technical and financial services should be put in place.

---

## 12. Issue - Payment of invoice without description of duties - Priority Significant

**Finding** On 15.09.2010, a contract was entered into between the Municipality and the EO "Network", for cleaning and maintenance of the municipal administration facilities as well as Health, Education and Culture facilities. The contract price was €46,071. In testing the invoice in the amount of €60,000, we noticed that the invoice, with the exception of the school names, did not contain details on size of surfaces treated. According to officials, payment of this invoice included the last year debt.

**Risk** As a result, payments for cleaning are not based on relevant evidence, i.e. executed works are not verified by any commission. This increases the risk that payments are even made for backlogs.

**Recommendation 12** The Mayor should ensure that invoices are paid fully in accordance with the contract terms and provided/received services.

## 13. Issue - Servicing paid without director's approval - Priority significant

**Finding** In examining six (6) payments in the amount of €14,434 related to vehicles servicing, we found two (2) cases where the request for vehicle servicing was not approved by the responsible director. The value of these un-approved payments was €5,799.

**Risk** The Municipality has no adequate controls on vehicle servicing. The fact that the request was not approved by the director responsible carries the risk that servicing is not based on need and justification.

**Recommendation 13** The Mayor should ensure that each application is reviewed and approved by responsible management levels, in order to reduce the possibility of manipulating with public money.

---

## 4.5.2 Other expenditures

### Overall conclusion on expenditures

The Municipality has no functional control over the use of public money, i.e. advance payments for travelling abroad.

### Description

During the examination of advance payments, we selected files of study visits to the UK, Sweden and Budva for sampling and found the following irregularities:

---

#### 14. Issue - Unjustified advance payments for official trips - Priority Significant

**Finding** The conference organized in Budva on "Municipal Finance and Urban Planning" and "The Future of Fiscal Decentralization in South Eastern Europe" held from 31.10.2012 to 08.11.2012 was entirely financed by the World Bank. We found that the amount of €485 was justified with invoices for accommodation, meals and drinks, although they were covered by the World Bank.

In addition, from the advance payment received for a study visit in the UK organised by the Local Governance Association, an invoice of €73 issued by the Duty Free Shop for purchase of luxury goods and personal gifts was paid.

The Director of Culture paid a study visit to Horby Municipality in Sweden upon invitation. The hosting Municipality had covered all expenses. The advance payment was closed for the ticket costs and other expenses in the amount of €371, although these were covered by the host.

**Risk** Spending of advance payments outside financial rules increases the risk that the money is spent illegally and for personal gain.

**Recommendation 14** The Mayor should review the above cases and ensure that money spent is return to the budget, and that such practices are not repeated.

---

### 4.5.3 Remunerations ( Wages and Salaries)

#### Description

Wages and Salaries are paid through a centralised system (payroll). Controls that operate at the local level by the Municipality deal with: a) monthly control over payments by signing the payroll lists, b) verification of eventual changes that may occur through forms, and c) budget review for this category and reconciliations with Treasury.

We tested 24 samples from this category, reviewed whether the payroll lists are in accordance with the payroll system in MAP. We have also looked into whether the positions of officials and their multipliers are in accordance with the payroll system forms and the payroll lists and concluded that the requirements outlined above are in accordance with the law.

---

#### 15. Issue - Personnel data - Priority Other

**Finding** In examining seven (7) personnel files of the newly recruited in 2012, we found that their files lacked application and other evidence. In one case, we found that the personnel file contains no evidence other than the employment contract.

**Risk** Personnel Office has not maintained personnel files in accordance with the requirements of Civil Service regulations.

**Recommendation 15** The Mayor should ensure that a systematic review of personnel files is undertaken in order to ensure that all necessary documentation is included within a specified period of time.

---

## 4.5.4 Subsidies and Transfers

### Description

According to analytical review, expenditures on subsidies in 2012 were in the amount of €473,692. We tested 13 samples in total amount of €151,030, or about 32%. Municipal Assembly has not approved the rule on granting of subsidies and transfers.

---

### 16. Issue - Violation of the scholarship criteria - Priority Significant

**Finding** Peja Municipality published the announcement upon Mayor's decision to grant 50 scholarships of €500 per student per year, a total of €25,000. In examining 15 files we found that some of the criteria defined were violated, as follows:

- Remuneration of two students with Grade Point Average (GPA) 6.75 and 6.9 while the criterion was about 8.0;
- Remuneration of two first year' students with a *very good* success, while success criterion was *excellent*, and
- Two other students with a GPA above 9 had not submitted evidence of not possessing University Scholarship.

**Risk** The Commission established for the candidates evaluation violated the criteria set out in the competition for scholarships.

**Recommendation 16** The Mayor should establish controls in order to ensure that the candidates' evaluation commission is impartial, fair and transparent during the selection of beneficiaries.



---

## 4.6 Assets

### Overall Conclusion on Assets

Municipality made significant progress in assets registration compared to previous year, But, it remains on Management to establish a commission for the complete assessment of the assets owned by the Municipality.

#### 4.6.1 Capital and non capital assets

##### Description

Our audit has noticed the Municipality's commitment on assets registration in the KFMIS compared to previous year. According to AFS 2012, assets were €316,318,000, while in 2011 the recorded value of municipal assets was €6,579,000.

---

### 17. Issue - Main Family Health Centre - Priority Significant

<b>Finding</b>	During the visit to the MFHC, we found that the assets officer did not have a complete register of non-financial assets. She was not able to present the state of the owned assets.
<b>Risk</b>	Not having a register of non-financial assets in the MFHC may result in mismanagement or assets disposal.
<b>Recommendation 1</b>	The Mayor should ensure that the assets registration and the assets register update are carried out in all sectors of the Municipality.

---

## 4.6.2 Handling of receivables

### Description

Municipality reported receivables in three main groups: property tax in the amount of €6,520,000, the business tax in the amount of €6,436,000 and rental fee in the amount of €3,400. So, the total amount of accounts receivable as of December 2012 was €12,959,400.

---

### 18. Issue - Collection of the business tax and property tax - Priority Significant

**Finding** We found that the Municipality has problems with receivables from business tax and property tax. According to Municipality's financial reports at the end of 2012, the uncollected amount from business taxes was €6,436,000. The same situation is with the property tax, the uncollected amount of which was €6,520,000.

**Risk** Lack of adequate mechanisms and management's negligence in handling accounts receivable for both these types of tax, has led the municipality in having a poor collection of own revenues.

**Recommendation 17** The Mayor should prepare an action plan proposing clear guidelines to all relevant sectors of the Municipality for increasing the collections. The plan should include priorities, classification of debt by age, timelines for action to be taken, reasons for non-payment, appropriate mechanisms and discussion of achievements, at least twice a year.

---

## 4.7 Handling of debts

### Overall conclusion on handling debts

Municipality failed to handle and manage debts properly, because municipal debts are increasing from year to year.

### Description

Statement of outstanding liabilities to suppliers at the end of 2012 was €727,006. These liabilities are transferred for payment in 2013.

---

### 19. Issue - Entering into liabilities over the approved budget - Priority Significant

**Finding** Based on our examinations, we found that Municipality entered into more liabilities than budget appropriations. The budget appropriated for Goods and Services was €2,721,223, whilst €2,686,923 or 99% were spent. The outstanding liabilities for this category were €396,894. Utilities were spent in the amount of €557,083 or 100%, whilst the outstanding liabilities for this category at the end of 2012 were €214,772. Subsidies' budget was spent by €473,692 or 100% and the outstanding liabilities at the year-end were €62,030. Capital Investments outstanding liabilities were in the amount of €53,310. The total amount of outstanding liabilities until December 31, 2012 was €727,006.

**Risk** Weaknesses in preparing the needed budget have led to liabilities beyond the allowed budget ceilings. Entry into certain liabilities without sufficient funds may bring municipality to unexpected financial difficulties and facing litigation.

**Recommendation 18** The Mayor should ensure a detailed and real budget planning and that funds are used based is based on a clear cash flow plan, by not exceeding the funds allocated by economic categories in any case.

---

## 5 Internal Audit System

### Overall conclusion on Internal Audit system

The Internal audit unit consists of two auditors and the director. IAU prepared the audit plan for 2012 and projected to finalize 12 reports. Most of the audits conducted by the IAU covered 2011 and the first quarter of 2012. IAU finalized only four reports. Internal audit recommendations were not addressed at all by the management.

Till March 2013, Peja Municipality has not established an audit committee.

### Description

The audits conducted covered: (a) procurement, (b) own source revenues in the Directorate of Culture and Education, (c) management of expenditures and revenues in the Agriculture Directorate (d) management of expenditures and revenues in the Directorate of Emergencies. We considered the quality of these reports and we could rely our audit work thereon. The reports were neither clear nor qualitative.

---

### 20. Issue - IAU's partly audit - Priority Significant

**Finding** IAU did not provide assurance on the effectiveness of internal controls during 2012. Unidentified and not-addressed weaknesses may lead the Municipality to financial loss.

**Risk** Failure to provide an action plan and to address recommendations increases the risk that same weaknesses are repeated and in certain cases may lead to financial loss. Lack of an audit committee reflects lack of control on internal audit.

**Recommendation 19** The Mayor should ensure that an action plan clearly identifying the officials responsible and the time to taking actions is put in place. Internal audit should have a special focus on the current year activities, with a preventive effect. In addition, we recommend the establishment of the Audit Committee in the near future.

---

## 6 Overall conclusion

Our overall conclusion reflects our review of the controls associated with the AFS, Financial Management and Control and the Internal Audit System. Based on our audit work, we conclude that, in most areas, the controls are very weak and non-functional.

In 2011, the Municipality was given a Qualified Opinion on financial statements. Almost the same shortcomings and weaknesses as last year have emerged this year, but in other forms.

The only significant progress made is in assets registration. Assets Register is enriched with data for over 300 million and it is a great achievement. A good progress is also noticed in the quality of information on AFS, although the proper corrections to AFS were made only following the audit requests.

Despite many shortcomings, Municipality's Management is handling the audit recommendations appropriately. Only four (4) out of ten (10) recommendations from last year were fully addressed.

In quantitative terms, the Budget spent by 97% seems to be a solid indicator, but the examination of revenues and expenditures procedures reveals numerous weaknesses in qualitative terms. Overcoming the plan of 10% in revenue collection is not the result of any good plan; it rather reflects the systematic previous year's weaknesses, because many revenue sources were not managed well. For example, 190 thousand Euros, or 19%, out of 980 thousand Euros of planned business tax revenues were collected. Then, construction permit tax was not paid for 178 illegal construction buildings. Receivables already reached almost 13 million Euros, mostly from property and business taxes.

Serious weaknesses were noticed at expenditures, which should ultimately draw the Management's attention. Controls over payments are too weak. As a result 9,500 Euros were paid for items outside contracts, progress payments were paid without supervisor's verification, there were no controls on whether the services were received, justification of improper advance payments and weak contracts monitoring. The certification function did not prevent any irregular payment.

Appropriation of subsidies (granting scholarships) was accompanied by violated criteria and therefore the money was not given to more deserving beneficiaries.

We cannot claim that Internal Audit has fulfilled its mission.

---

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

(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 addressed	Partly addressed	Not addressed
4 financial outturn compared to budget approved	Further improvement of financial controls over budget, with particular emphasis to quarterly budget allocations and periodical controls over budget activities.		Partially implemented.	
5 AFS	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.	this recommendation was implemented following our suggestions.		
6.1 Own source revenues	All collected own source revenues are deposited to the Municipality's bank account. A comprehensive registry of business activity tax, construction permits, fees for the conversion of agricultural land into non-agriculture, rents from public property, and to strengthen controls over the collection in accordance with the fees set out should be produced.		Partially implemented	



6.2.1 Procurement	Procurement procedures are in accordance with legal requirements and that for all quantities supplied, there is proof of receipt		Partially implemented	
6.2.3 Subsidies and transfers	The regulation for granting of subsidies is drafted and approved by the Municipal Assembly	Po		
6.3.1 Handling of receivables	Registers on Accounts Receivable are maintained and updated and to undertake necessary measures to increase the rate of collection.	Po		
6.3.2 Handling of capital and non capital assets	Property, buildings and equipment are fully assessed, in order to have a final register of owned assets.		Partially implemented	
6.4 Handling of debts	The finance department holds complete and accurate records and makes registration of all paid invoices;	Yes		
7.1 Internal control systems	The current internal control system is reviewed and where failures are identified specific procedures and policies should issued in order to improve controls.			Not implemented
7.2 Internal audit system	The Audit Committee is established in order that Municipality's effective, efficient and economic supervision is enhanced.	Po		Not implemented