



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

**Document no: 22.6.1-2015--08**

**AUDIT REPORT**  
**ON THE FINANCIAL STATEMENTS OF THE**  
**MUNICIPALITY OF PEJA**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

**Prishtina, June 2016**

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

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

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

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

The opinion and report issued are a result of the audit carried out under the management of the Audit Director, Astrit Bllaca, supported by Fikret Ibrahim (Team Leader) and Senver Morina .

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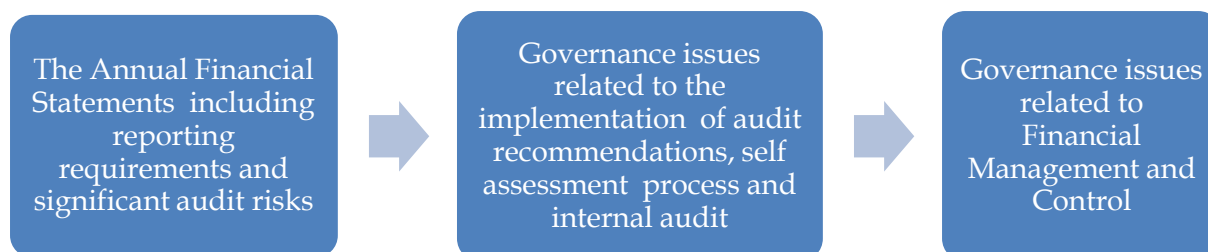
## Executive Summary

### Introduction

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

The examination of the 2015 annual financial statements was undertaken in accordance with the internationally recognised Public Sector auditing standards (ISSAIs). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The approach taken is set out in our Audit Planning Memorandum dated 09.10.2015.

Our audit focus has been on:



For more details, see Annex I of this report.

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

### Opinion

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

The Auditor General's opinion is:

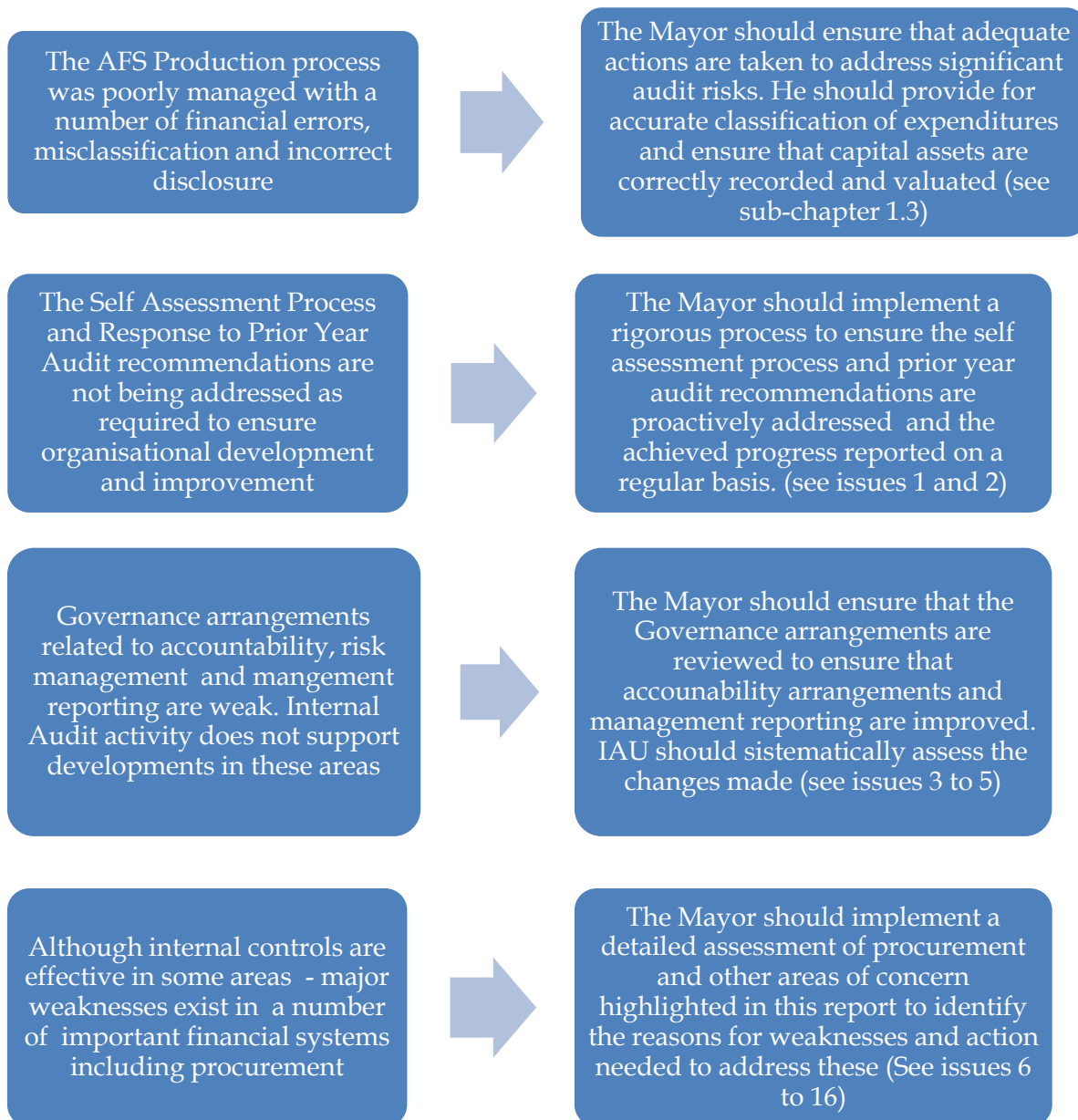
“Unmodified Opinion with Emphasis of Matter” because our audit has identified misclassifications in a total of €308,255 in the AFS accounts and the value of assets not recorded in KFMIS was €3,981,660.

A full wording of the opinion has been detailed in Section 1.2 of this report.

## Overall Conclusion

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

Our key conclusions and recommendations are:



## Management response – audit 2015

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

We take it for granted that the Mayor:

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

# 1 Annual Financial Statements and other External Reporting Obligations

## 1.1 Introduction

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

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

## 1.2 Audit Opinion

**TO: MUNICIPALITY OF PEJA**

### **UNMODIFIED OPINION WITH EMPHASIS OF MATTER**

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

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

### **Basis for Opinion**

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

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### **Emphasis of Matter**

We draw your attention to the fact that:

The Municipality misclassified expenditures in a total of €308,255 which include: road maintenance €197,652; public lightening maintenance €7,760; festive decoration of the city of €9,955; maintenance of schools and health premises of €21,211; feasibility study for skiing terrain of €32,500; support to enterprises of €9,324; pulling down of buildings €4,400; and other expenditures of €25,413 paid by the Capital Investments budget. These expenditures should have treated as expenditures for goods and services and subsidies. The main reason for this error was limited budget for goods and services which the municipality could not cover the expenditures with.

It is worth mentioning that the amount of €308,255 was approved in the 2015 Budget tables for capital investments, but the projects presented in the tables did not meet the criteria to be handled as capital ones and errors relate to initial planning by the municipality and inadequate approvals by MoF.

Assets over €1,000 purchased during 2015 and owned by the municipality were not fully recorded in the assets accounting register. The value declared by the municipality but not recorded in KFMIS was €3,981,660.

Property tax revenues according to MoF system were by €28,726 higher than those recorded in KFMIS. By the end of our audit, efforts to reconcile the differences between the municipality and MoF has not resulted in the required clarifications. Our opinion is not qualified in respect of the abovementioned issues.

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

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

The Mayor and CFO are responsible to ensure oversight of the municipality's financial reporting process.

### **Auditor's Responsibility for the Audit of the Annual Financial Statements**

Our responsibility is to express an opinion on the annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards

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require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

## 1.3 Significant Risks to AFS

### Description

Our Audit Planning Memorandum dated 09.10.2015 identified four (4) significant risks to the AFS. These are risks of material misstatement which may result in modification of the opinion or in an Emphasis of Matter. Two of them related to the classification of expenditures and assets evaluation have materialised because no actions were taken by the Management to address these risks.

The identified misclassifications of a total of €308,255 relate to road maintenance of €197,652; public lightening maintenance €7,760; festive decoration of the city of €9,955; maintenance of schools and health premises of €21,211; feasibility study for skiing terrain of €32,500; support to enterprises of €9,324; pulling down of buildings €4,400; and other expenditures of €25,413 paid by the Capital Investments budget. These should have been handled as expenditures for goods and services and subsidies.

Municipality owned assets over €1,000, acquired in 2015, were not fully recorded in the assets register. The value declared by the municipality that was not recorded in KFMIS was 3,981,660.

The other risk related to third party payments of €319,198 has not materialised because proper actions have been taken by the Management to record them in the KFMIS and the same have been presented in the AFS.

The fourth significant risk related to presentation of revenues has not materialised because the Management has taken adequate measures during 2015.

## 1.4 Compliance with AFS and other reporting requirements

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

- Compliance with Financial Rule no.03/2013;
- Requirements of LPFMA no. 03/ L-048 as amended and supplemented;
- Compliance with budget requests;
- Submission of regular quarterly reports to the Municipal Assembly; and
- Procurement plan and progress reporting on capital investments over €10,000.

In the context of the AFS we have no issues to raise on the reporting framework, except for the issue related to the CFO having not reported on the physical and financial progress of capital investments.

### DECLARATION BY THE MAYOR

Given the above, the Declaration made by the CEO and CFO when the draft AFS are submitted to the Government cannot be considered to be fully correct because material errors have been identified during the audit.

## 1.5 Recommendations

**Recommendation 1 High Priority** – The Mayor should ensure that an analysis is undertaken to determine the causes which led to Emphasis of Matter. Adequate actions to address the issues systematically and pragmatically need to be undertaken in order to correct errors in the classification of non-capital expenditures and to ensure that capital assets are correctly recorded and evaluated.

**Recommendation 2 High Priority** – The Mayor should ensure that the CFO systematically reports on the physical and financial progress of capital investments in order to have budget requests made based on real needs for investments.

## 2 Governance

### 2.1 Introduction

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

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

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

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

## 2.2 Overall Governance Conclusion

There is a number of governance weaknesses within the municipality particularly related to accountability, risk management, implementation of strategic objectives and the quality of management reporting. The self-assessment checklist completed by the municipality only partially recognises this situation with some positive comments about existing arrangements that are not based on evidence and quality of management reporting. Other arrangements which would support the development of governance such as an effective response to audit recommendations should also be considered.

## 2.3 Prior Year Recommendations

Our Audit Report on the 2014 AFS of Peja Municipality resulted in (15) key recommendations. The Municipality prepared an Action Plan stating how all given recommendations will be addressed. At the end of our 2015 audit, one (1) recommendation has been implemented; eight (8) are being addressed; and six (6) have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex III.

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

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### Issue 1 - Addressing Prior Year Audit Recommendations - High Priority

**Finding** Only one prior year recommendation has been implemented because the municipality has not implemented any formal process to manage and monitor the way AG's recommendations are implemented.

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

- Poor budget planning and execution;
- Lack of feedback reports on allocated subsidies;
- Over/under statement of disclosures in the statements; and
- Weaknesses in the overall governance

**Recommendation 3** The Mayor should systematically monitor the implementation of the Action Plan and identify why it has not been implemented. A revised action plan should clearly set out a timetable for the implementation of AG's recommendations with accountable staff members identified and with initial focus on those of greatest significance.

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## 2.4 FMC Self-Assessment Checklist

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

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### Issue 2 -Self Assessment Checklist - High Priority

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

1. Expected risk management procedures are not in place and this is considered in more details in section 2.5.2 below;
2. The Municipality has drafted the Strategic Plan. The strategic document does not fully determine the financial costs for the implementation of the objectives;
3. No clear action plans for addressing of recommendations have been prepared with the timetable and accountable persons for addressing these recommendations. This is supported with the negative answers given in the self-assessment questionnaire/ i.e. low score;
4. Last year we recommended for a more qualitative planning of types of procurements in order to avoid the splitting of tenders. The link between the procurement plan and budget is already in place; and
5. Heads of Units prepare quarterly reports for the Mayor and the Municipal Assembly. Meetings were held regularly but there was no evidence available to confirm that steps to address the issues raised are formally determined in those meetings.

A quality check applied by Internal Audit did not address the above issues. Moreover, the action taken following the 2014 self-assessment checklist is limited. This situation has occurred because of a lack of clarity within the municipality regarding both the importance of this checklist and who is the responsible officer for using it to support operational improvements

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**Risk** Poor governance arrangements weaken strategic and operational processes and reduce the quality of services provided to citizens through inefficient and ineffective activities.

**Recommendation 4** The Mayor should ensure that a review of the processes for completing the self-assessment checklist and proactively addressing areas of weaknesses is implemented. A final review of the Internal Audit may be a supporting tool to enhance quality and confirm the assertions in self-assessment checklist.

## 2.5 Specific Governance Reviews

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

### 2.5.1 Risk assessment

All Budget Organisations are expected to implement risk assessment. The guidance set out in the FMC procedures requires for the risk register to be in place to support effective operational and strategic management.

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#### Issue 3 – Failure to Implement Risk Management Requirements – Medium Risk

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

**Risk** The absence of effective risk management will reduce the quality of service to citizens as internal and external issues impacting on this will not be addressed on a timely basis. This is because proactive action to address and remove or reduce the impact of such issues will not be undertaken in a systematic and planned manner.

**Recommendation 5** The Mayor should ensure that, after having drafted the list of risks with respective levels, immediate responsibility for risk management is delegated to a named director who, in cooperation with the heads of units, will manage and regularly report on the progress of the process.

## 2.5.2 Management Reporting

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

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### Issue 4 - Weaknesses in Management Controls - Medium Priority

**Finding** Reporting to top management was neither formal nor sufficiently documented. This is the reason why we were not able to rely on high management levels of controls. We could not confirm the measures taken and discussions made based on the minutes of meetings held with the Mayor.

**Risk** Poor accountability requirements and poor financial reporting quality reduce effective financial management within the municipality, lead to weak controls and poor budget process, reduce the management's ability to timely respond to financial challenges and may result in potential financial loss.

**Recommendation 6** The Mayor should ensure that the existing accountability and reporting requirements arrangements placed on the municipal directorate are reviewed and that better arrangements for achieving specific objectives and for improving overall governance in the municipality are implemented.

## 2.6 Internal Audit System

The Internal Audit Unit (IAU) operates with four members of staff, whilst the Director of IAU has been suspended. An effective audit requires a comprehensive work program that reflects financial and other risks to the municipality and provides sufficient assurance on the effectiveness of internal control. The IAU Annual Plan for 2015 was based on the 2014-16 Strategic Plan. IAU planned to conduct 12 audits during 2015 and has adhered to the plan. All audits were carried out on time covering some key areas. The Management of the municipality implement a formal process of recommendations addressing and follow-up. .

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### Issue 5 - Failure to Implement IAU Recommendations - High Priority

<b>Finding</b>	<p>A number of weaknesses exist related to current IAU operations:</p> <ol style="list-style-type: none"><li>1. IAU work was mostly focused on the audit of 2014 activities rather than those of 2015;</li><li>2. The Audit Committee met only once during 2015. The minutes of such meeting show that not discussions were made regarding external audit recommendations and that no attempts were made to strengthen with the Mayor and IAU during the year, but no impact has been noticed when it comes to addressing the recommendations and improving organisational operations</li><li>3. During 2015, IAU has given 50 recommendations out of which 30 were fully addressed, nine were partially addressed and 11 were not addressed or still require time to be addressed.</li></ol>
<b>Risk</b>	<p>Focusing IAU work on past years increases the risk that the Management will be lacking adequate assessments on the effectiveness of current controls, thus being not able to respond to existing weaknesses in time. The lack of an Audit Committee increases the risk that audit recommendations are not implemented at all and that the quality of internal audit work may not deliver the expected outputs.</p>
<b>Recommendation 7</b>	<p>To gain maximum benefit from Internal Audit activity, the Mayor should consider the need to adapt internal audit plans to the requirements for internal audit activities focusing on current year activities and propose immediate improvement measures. In addition, the Audit Committee should be more active in monitoring, building and strengthening the role of internal audit.</p>



## 3 Financial Management and Control

### 3.1 Introduction

Our work on Financial Management and Control (FMC) outside of the areas of Governance referred to above in Chapter 2 reflects the detailed work undertaken on Revenue and Expenditure Systems. As part of this, we consider budget management, issues of Procurement and Human Resources as well as Assets and Liabilities.

### 3.2 Financial Management and Control Conclusion

The Municipality acknowledges the importance of adequate and sound controls over expenditures and revenues. However, due to failure to comply with regulations and guidelines, our audit has identified some compliance weaknesses related to procurement, revenues and other expenditures. This reflects the municipality's lack of adequate supervision over the mentioned areas. Effective Financial Management and Control requires review processes and supporting guide (standard operating procedure) that provide for the full implementation of national laws, internal regulations and of other control processes.

### 3.3 Budget Planning and Execution

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

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

Description	Initial Budget	Final Budget <sup>1</sup>	2015 Outturn	2014 Outturn	2013 Outturn
<b>Sources of Funds</b>	<b>21,125,279</b>	<b>23,098,544</b>	<b>21,146,160</b>	<b>20,536,683</b>	<b>20,263,382</b>
Government Grant -Budget	17,730,728	18,048,803	17,984,147	17,232,343	16,980,919
Carried forward from previous year <sup>2</sup> -	-	711,878	648,492	659,067	650,615
Own Source Revenues <sup>3</sup>	3,394,551	3,394,551	2,217,268	2,566,106	2,456,879
Internal Donations	-	452,647	50,640	0	4,500
External Donations	-	490,665	245,613	79,167	170,469

<sup>1</sup> Final Budget - the budget approved by the Assembly as adjusted by the Ministry of Finance.

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

<sup>3</sup> Receipts used by the entity to finance its budget.

In 2015, 92% of the final budget was spent, an improvement of 2% compared to 2014. However, the budget execution for this category remains at an unsatisfactory level and explanations for the current position are detailed below. The following statement and calculated percentages are presented without taking into account the identified misclassifications presented in the significant risk.

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

Description	Initial Budget	Final Budget	2015 Outturn	2014 Outturn	2013 Outturn
Spending of funds broken down by economic categories	<b>21,125,279</b>	<b>23,098,544</b>	<b>21,146,160</b>	<b>20,536,683</b>	<b>20,263,384</b>
Wages and Salaries	12,670,000	13,034,542	13,002,566	11,925,237	10,482,665
Goods and Services	2,291,461	2,435,586	2,262,418	2,260,801	2,705,611
Utilities	606,919	606,944	606,154	606,154	528,460
Subsidies and Transfers	365,000	366,840	359,212	359,212	428,300
Capital Investments	5,191,898	6,654,632	4,915,810	5,393,855	5,878,865

Explanations for changes in budget categories are given below:

- The Municipality's budget plans for 2015 Capital Investments were €6,654,632 out of which €4,915,810 were executed. Regardless the increase in capital project budget, only 74% of the budget was spent. The budget planned for capital projects from own source revenues and internal donation had remained unspent;
- the increase in the budget for wages and salaries for €318,075 is as a result of the Government decision to cover 0.5% of working experience. The increase in the budget for goods and services was mainly due to carried forward revenues and donations; and
- The Municipality spent €517,804 through court decisions and direct payments from Treasury.

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

Description	Initial Budget	Final Budget	2015 Receipts	2014 Receipts	2013 Receipts
Own source revenues	3,394,550	3,394,550	3,337,518	3,271,418	3,003,047

Revenues planned for 2015 were generated at 98%. Own source revenues carried forward and receipts have not been fully spent for the citizens benefit, instead, €1,183,637 remained unspent.

## Issue 6 – Poor Budget Execution – High Priority

**Finding** It is preferable to spent own source revenues in capital projects. The Municipality planned to spend 26% of revenues for capital investments, but it managed to spend just 15%. Meanwhile there was a relatively high level of spending, 44%, for overheads such as: night shifts and allowances, goods and services and subsidies and transfers.

**Risk** Inadequate budget planning and a low budget execution level will result in a failure to meet organisational objectives and result in current year obligations being funded from future year budgets. In addition, orienting revenues to finance overheads and failure to spend revenues reduces the municipality’s ability to improve services to citizens.

**Recommendation 8** The Mayor should ensure that budget performance is systematically monitored and that barriers to planned levels of budget execution are identified and addressed. Where adjustments to reduce overheads can be made, this should be reviewed in order to focus on capital projects.

## 3.4 Procurement

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

During 2015, a total of 124 procurement procedures worth €4,614,552 were implemented.

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## Issue 7 – Exceeded progress payments and supply outside the contract – High Priority

**Finding** Progress payments paid for the Construction of Water Supply in the Villages of Lugu i Baranit were higher than the contracted progress payments of €52,338, without respective approval or annex contract. The Municipality had paid for ten more progress payments for the Construction of Water Supply in the Villages of Lugu i Baranit by €119,980 which were not contracted. The total amount of these payments was €172,318. This project for the Construction of Water Supply in the Villages of Lugu i Baranit in the amount of €3,447,983 was interrupted on the grounds of lack of funds although the contract was financially fulfilled with 79%, or €2,727,784.

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**Risk** Applied controls over the implementation of this contract were weak. Payments of €172,318 were not reconciled with the basic contract's liabilities, as such it contains elements of irregular payments. Controls over the supervision of works and certification were not effective. As a consequence, the project's termination date and final costs are not known. We don't know whether value for money was achieved either.

**Recommendation 9** The Mayor should review the reasons behind the failures to implement of the contract and propose steps to be followed until the completion of this contract. Moreover, certification controls need to be strengthened and all payments should be made only when progress payments foreseen in the contract are verified.

#### **Issue 8 - Selective supply with administrative supplies - High Priority**

**Finding** The framework contract for the purchase of administrative office supplies was exceeded in some progress payments, whilst supplies were never delivered although the contract ends on 12.07.2016. We tested 9 out of 220 contracted progress payments and found that, being the most used material, 11,000 reams of A4 paper were delivered instead of 7,000 contracted for. The contracted quantity of four types of toner cartridges with highest price was exceeded as follows: 520% for Toner LBP 600B priced €41/pcs; 124% for Toner 12A priced €33/pcs; 485% for Toner 35A priced €35/pcs; and 280% for Toner 85A priced €4.10/piece. Whilst four out of 48 types of toner cartridges contracted with the price of €0.01 were never supplied (TN 2 16Y; TN 2 16R; TN 2 16C and TN 2 16K). The Municipality has not been able to prove use whether they are using as much printers for 48 types of toner cartridges.

**Risk** Exceeding supplies in much higher quantities than the contracted ones and having zero supplies for other contracted items indicates the significant weaknesses in needs assessment and leads to uncertainties on the reasoning for such supplies. As a result, the budget of the municipality may be undermined due to poor procurement process.

**Recommendation 10** Identified weaknesses in relation to these supplies should be reviewed and the Mayor should ensure that, during the preparation of the annual procurement plan, a real needs assessment has been made by all requesting units and that all contracts are entered into only for the needed materials and quantities.

**Issue 9 - Supplies/services delivered without a previous contract/agreement in place - High Priority**

**Finding**

The Framework Contract for Oil Supply was valid until 11.2.2015. As of that date, supply has been made based on a contract extended by the Procurement Director until a new contract is signed. The amount paid after the contract expiry was around €293,005.

Representation and Advocacy Services of €2,842 were delivered in 2014, whilst the contract was signed in 2015.

The Contract of €9,833 for Maintenance of Open Canalisation, Cleaning and Removal of Waste, entered into with RWC Ambienti, was signed on 24.06.2015, whilst the payment was made for works executed from 10-30.06.2015.

In regard to official travels abroad, the municipality bought the tickets with cash rather than through procedures.

In the Contract for Photocopying and Printing of Administrative Materials for the Needs of MCS Directorates, price quotation procedures were used instead of open procedures as required by the LPP. In cases of Public Framework Contracts, Contracting Authorities should use one of the following procedures: Open, Restricted, or Negotiated.

**Risk**

Findings identified above indicate numerous weaknesses in the procurement process. These may lead to the real risk that public funds are not used rationally and value for money not being achieved.

**Recommendation 11** The Mayor should strengthen controls over procurement and ensure that procurement processes are implemented fully in compliance with established regulations and respective guideline. The case of the extended contract for Supply with Oil should be reviewed and such practices should not be repeated in the future.

## Issue 10 – Cost or Invoice Amount was Not Reconciled with the Calculated Price – High Priority

### Finding

The purchase price of Premium fuel was not properly calculated because the transport price was not calculated according to the Administrative Instruction QRK 04/2014 on Definition of the Transportation Cost of Imported Goods.

In four cases, payments were made without the municipality's confirmation on the received services. These payments relate to waste cleaning services of €5,950, cleaning supplies of €3,468, mail services of €12,600 and cleaning of schools of €251,752.

A payment was made to the EO for towing 50 vehicles within the city, from EUROEXPORT to Technical School. The invoiced distance was 30km per vehicle. The real distance of such destination is around 4km per vehicle. We therefore conclude that the payment liability was 1300km of €1.5 per km, and we find that paid invoice is €1,950 more than 200km as it should have been paid.

In regard to the purchase of fire-fighter truck in cooperation with the Japan Embassy in Vienna, the municipality paid its share of €40,500 VAT excluded by not taking into consideration that the municipality is not exempted by this type of tax.

While implementing the Contract for Supply with Gravid Cows (5-7) months, the delivery dynamic plan was not adhered to. There were significant delays that the municipality did not apply penalties for.

Our testing of payments revealed that the purchase order for 17 payments was made after invoices had been received.

### Risk

Certifying controls over the abovementioned cases have failed to prevent identified shortcomings from happening. Paying for invoices with higher quantities than executed works or delivered supplies, increases the risk of fictive payment and financial loss. Inaccurate reports on acceptance of works or supplies issued by works acceptance commissions increase the risk that payments are made for not executed works/undelivered supplies.

**Recommendation 12** The Mayor should ensure that certifying controls are strengthened and that payments are made following confirmation that all supplies are delivered with clear acceptance reports and in compliance with the contract terms, otherwise payments should not be certified.

## 3.5 Non-Procurement Expenditure

Non procurement expenditures are those expenditures that do not require procurement procedures. They relate to utilities, travels, and co-financed payments.

### Recommendations

We have no recommendations in this area.

### 3.5.1 Remunerations (Wages and Salaries)

Wages and Salaries are paid through a centralised system. The key controls that confirm accuracy and completeness of payments are payroll lists signed by heads of units. Expenditures in salaries during 2015 were €13,002,566 or 99.9% of the planned budget.

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#### Issue 11 – Shortcomings in the Recruitment of Education Staff – High Priority

##### Finding

Lack of internal controls has resulted in the following shortcomings:

Civil Servant transferred in different category of operation, grade and multiplier, i.e. from Senior Legal Officer in DHSW to Chief Executive Officer in MFHC Administration.

Competitions for education staff were advertised without any request from respective schools for teachers.

In the recruitment of teachers, procedures were not adhered to. The competition was not published in the public newspapers.

In some cases, the interview procedures for education candidates were developed by incomplete commissions.

The contract of one employee was signed in May 2015, for 8 months in delays, i.e. from November 2014.

The employee recruited as Procurement Manager on Special Service contract was hired based on a Cooperation Agreement with AMMC, on the other hand he had two other salaries for full time job in public institutions. The agreement was reached for just three months, but he is still working afterwards.

##### Risk

Lack of internal controls over the implementation of laws and regulations related to staff and Wages and Salaries lead to the risk published positions being challenged and may also lead the municipality to financial loss.



**Recommendation 13** The Mayor should undertake concrete measures to ensure regular reporting from departments and summary reports from the HR Department and to provide for a regular staff recruitment and management process in the municipality.

### 3.5.2 Subsidies and Transfers

During 2015, the municipality subsidised non-public entities and individual beneficiaries in the amount €358,000 out of €365,000 planned, or 98% of the budget. These are mainly related to support to cultural and sports activities or momentum assistance.

We tested five samples which have revealed the following shortcomings:

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#### **Issue 12 – Poor criteria in the Regulation and Lack of Reporting from Beneficiaries – High Priority**

**Finding** Municipality's Internal Regulation on Allocation of Subsidies did not contain clear criteria on allocation or refusal of subsidies.

The Municipality allocated a subsidy of €18,500 to FC Besa. The application of the Club had no detailed plan attached as to how the funds would be spent and what part of FC Besa expenditures would be covered with the subsidy.

The Municipality allocated a subsidy of €10,000 to Anibar NGO for its project of the sixth edition of screening animated movies in Peja in the amount of €122,867. Anibar NGO had not attached any concrete plan to its request for subsidy stating where funds would be spent and what part of expenditures of the sixth edition of animated movies screened in Peja will be covered by the subsidy.

The Municipality subsidised €34,400 the NGO Mehmet Shoshi from Peja for the construction of busts of some heroes of Peja. The deadline or criteria for the completion of works were not determined in a contract no professional body was established for the acceptance of the quality of materials and art of busts.

The subsidy of €4,500 was allocated in 2014 as additional funds for the rehabilitation of metallic fence of cemetery in the Village of Jabllanica, whilst the approval for such subsidy was made in 2015.

Not all beneficiaries have provided the NGO registration certificate or any other evidence proving the public purpose of subsidy beneficiaries.



**Risk** Shortcomings in the management and provision of subsidies increases the risk that funds are not spent for the intended purposes. Approval/refusal of applications for subsidies without having clear allocation criteria in place undermines subjectivity and transparency in allocation of subsidies as well as the achievement of set objectives.

**Recommendation 14** The Mayor should establish clear criteria regarding approval/refusal of applications for subsidies. He should ensure that, for allocated subsidies, narrative reports are drafted and attached to the invoices and evidences on the reasonability of spending and that activities the subsidies have been allocated for are followed up.

## 3.6 Revenues

Revenues generated by the municipality in 2015 totalled to €3,337,518 or around 98% of the planned budget. These mostly relate to property tax, construction licences, rental incomes, administrative fee and other. Some processes and controls over revenues planning and collection need to be improved in order to increase revenues and to ensure accuracy and completeness of reporting.

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### Issue 13 – Poor Planning and Non-reconciliation of Revenues – High Priority

**Finding** For 2015, the property tax burden was €1,826,986, whilst €1,374,377 were collected out of which €56,442 related to interest and penalties and €427,228 to tax payments from previous years. The Municipality planned to collect €1,500,000, which was inconsistent with the charges for 2015.

According to the system in the Ministry of Finance, property tax revenues are higher than those recorded in KFMIS by €28,726. By the end of the audit, efforts to reconcile the differences between the municipality and the Ministry of Finance have not resulted in the required clarifications.

Planning of revenues from business licenses, sales of goods and services, construction permits and inspection fees was very ambitious and not in compliance with collection capacities. In addition, the municipality has no clear records on other premises and properties leased.

While reviewing property tax plan, we identified that the plan does not include the verification of 1/3 of the territory for revaluation of properties, as required by the Administrative Instruction no. 03/2011 on Gathering and Registration of Information on the Property Tax.

**Risk** Failure to reconcile the total of property tax revenues with the total shown in the AFS increases the risk that the municipality will not be able to fully control the system revenues. Planning without an analysis of the dominant economic trends and without being based on the unit and population basic potentials may result in poor budget planning. Moreover, failure to verify facilities restricts the information on the actual tax burden base from being obtained and may lead the municipality to financial loss.

**Recommendation 15** The Mayor should ensure that enhanced internal controls over collection, reconciliation and reporting of own source revenues are put in place. While reviewing the budget, he should ensure that revenues planning is based on the earlier periods' collection trends and the complexity of existing operations. In addition, the Property Tax Office should all the property verification resources.

## 3.7 Assets and Liabilities

### 3.7.1 Capital and Non Capital Assets

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

Peja Municipality did not improve the municipal assets register according to the recommendation given last year. All significant issues related to assets are handled in section 1.3 Significant Risk to the Annual Financial Statements.

The net value of assets recorded in KFMIS in 2015 was €309,863,016 and disclosed in the AFS.

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#### Issue 14 - Incomplete Registers of Municipal Assets - Medium Priority

**Finding** During 2015, only 17 items of €4,621 were recorded in KFMIS, whilst the total value of 2015 capital investments was €4,915,810, i.e. some assets are not included in the register. Example of assets not recorded in KFMIS are: investments on the water supply in Lugu i Baranit Village worth €1,577,711 and the co-payment for the rehabilitation of Qarshia e Vjetër worth €73,196. The Assets Stocktaking Commission was established, but the stocktaking was not completed. Records in the E-assets system were not complete either.

**Risk** Incomplete assets register makes the identification of assets to confirm their existence difficult and increases the risk that they are misused or alienated.

**Recommendation 16** The Mayor should establish the commissions for the fair and complete evaluation of all non-financial assets and monitor the evaluation outcomes. The Assets Management Officer as well as officials engaged in receiving municipal assets should effectively communicate in order to prevent regulations requirements from not being implemented and assets value from not being consolidated.

### 3.7.2 Handling of Receivables

The Municipality has not managed yet to collect all the debt on services provided. Accounts receivables mainly relate to: property tax and receipts from rents and business tax. Lack of adequate policies and concrete measures for the collection of accumulated revenues has resulted in high level of accounts receivable. However, it is worth mentioning that the Law on Debt Forgiveness may have had an impact on the reduction of the outstanding debts collection rate.

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#### Issue 15 - Understatement of Accounts Receivable - High Priority

**Finding** The Municipality has declared significant amounts of receivables from property tax, business tax and rent, amounting to €14,473,940. They were for €473,070 lower than the previous year when they were €14,947,010.

**Risk** Lack of concrete measures to collect accounts receivables may result in higher accounts receivables and consequently in poor planning of own source revenues. It may also reduce the municipality's flexibility of costs planned to be covered by own source revenues.

**Recommendation 17** The Mayor should review the balance of these accounts, analyse the reasons behind the accumulation of such large amounts and undertake effective actions to maximise the collection rate. The process of systematic monitoring of measures and policies for increased collection should also be part of regular management review.

### 3.7.3 Handling of Accounts Payable

The statement of outstanding liabilities not paid to suppliers at the end of 2015 was €827,817. These liabilities are carried forward to be paid in 2016. The Municipality did not have a defined system for accounts payable management. On the other hand, by the end of 2015 the municipality carried €1,183,637 own source revenues forward to 2016.

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#### **Issue 16 – Lack of Adequate Controls over Liabilities Management - Medium Priority**

**Finding** This year, the stated outstanding liabilities were €827,817, which compared to the previous year were €609,000 or 26% less. Contingent liabilities have amounted to €862,680 from €665,570 as they were in 2014, out of which €390,000 related to a liability for damage compensation, whilst the remaining of around €472,680 related to 18 other entities mainly regarding compensation or outstanding debts.

**Risk** The lack of a financial discipline on the management of these accounts is a misleading base for budgeting upcoming financial activities. High level of outstanding liabilities and increased contingent liabilities lead to the risk that the budget will be subject to direct payments from Treasury and court decisions.

**Recommendation 18** The Mayor should review the balance of outstanding liabilities to determine the measures needed to address the identified issues, and ensure that payments are made within the deadlines set forth in the financial rules. In order to handle contingent liabilities, he should undertake a review of the balance of liabilities in coordination with the municipal Legal Representative in order to avoiding direct payments from MoF and courts.

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

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## ANNEX I: Audit Approach and Methodology

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

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

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

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

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

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

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

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

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

(extract from ISSAI 200)

### Form of opinion

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

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

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

### Modifications to the opinion in the auditor's report

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

*Determining the type of modification to the auditor's opinion*

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

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

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

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

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

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705<sup>19</sup> provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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

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

158. An Emphasis of Matter paragraph should:

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

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



## Annex III: Prior Year Recommendations

Audit Component	Recommendation given	Implemented	Addressed but not implemented	Not addressed
<b>Financial Statements</b>	The 2015 AFS production plan should include Management’s critical review of the draft account with specific focus on high risk areas and/or areas where errors have been identified in previous years. The Declaration made by the Mayor and CFO should not be submitted unless all necessary checks have been applied to the draft AFS		Partially This year’s AFS contained errors in the presented items as well (see section 1.4)	
<b>Misclassifications</b>	Misclassifications should be identified and disclosed before AFS are submitted to the Government. Such a proper planning process and budget execution would be a needed measure to eliminate such weaknesses.			Misclassifications occurred in 2015 and they were not disclosed.
<b>Prior Year Recommendations</b>	A revised action plan clearly sets out a timetable for addressing the 2013 and 2014 recommendations.			Implementation of recommendations is not formally monitored. Some of the recommendations are not implemented.
<b>Good Governance</b>	The Mayor should review current governance arrangements and related reporting requirements. Unfulfilled requirements should be addressed until the end of 2015. The quality of related issues, such as internal reporting, should be critically reviewed in order to document that effective			Risk management has not been addressed. The Municipality has not established formal reporting lines.

	<p>actions have been implemented securing effective operational management of the municipality and that strategic objectives are met</p> <p>The Mayor should analyse the reasons behind such a high number of quotations, with particular emphasis on cases where for some expenditures there is a contract with open procedures. The Mayor should strengthen controls on procurement planning and implementation securing that open procedures are used for expenditures of the same nature to achieve the highest value for money paid</p>		<p>There is no analysis on the reason behind such a high number of quotations, but in 2015 the number was reduced.</p>	
<b>Budget</b>	<p>The Mayor should ensure that budget performance is systematically monitored on monthly basis securing an expected level of budget execution and effective use of own source revenues. All expenditures should be planned and classified in appropriate codes/ categories and correctly disclosed in AFS 2015</p>		<p>There is no systematic and written analysis made, but efforts to monitor budget performance has been noticed.</p>	
<b>Revenues</b>	<p>The Mayor should initiate an analysis the reasons leading to significant discrepancies between revenue planning, collection and invoicing. One should consider the trend of revenue over the past years whilst application of poor controls in the management aspect (carrying forward revenue in the following year) needs to improve. In addition, controls need to be strengthened to ensure that all municipality institutions collect the revenue envisaged by law and report and deposit them to the municipality account. An appropriate solution should be introduced by the end of 2015</p>		<p>Partially Efforts were made to improve collection of revenues. Revenues carried forward from last year have increased.</p>	

<p><b>Procurement Expenditures</b></p>	<p>The Mayor should ensure that procurement controls are strengthen during tender evaluation and acceptance of works and supplies to ensure that payments are made only for works/supplies rendered that meet the quality requirements. No contract should be offered to operators who do not meet the tender criteria. On the other hand, all expenditures that require procurement must be subject of appropriate procurement procedures to ensure value for money. The Mayor should ensure that the needs assessment is done based on adequate analysis to avoid excesses in planned expenditure</p>		<p>Partially The Mayor had established a team of professionals who deal with the works assessment and control. During 2015, many shortcomings were found in this area,</p>	
<p><b>Non Procurement Expenditures</b></p>	<p>The Mayor should revisit the rationality behind the practice of entering into contracts and carrying out upfront payments long before the start of the projects. Furthermore, agreements should ensure appropriate reporting of finances and results during the implementation stage forming for a base for monitoring. Final reports should be published ensuring transparency and accountability</p>		<p>Partially We did not find payments made after initiation of works. No reporting on project co-financing agreements.</p>	
<p><b>Wages and Salaries</b></p>	<p>The Mayor should initiate an analysis of the reasons behind why recruitment procedures in identified cases are not considered and ensure that these will remain as isolated cases. Controls during the recruitment should be strengthened and the process should be monitored by the Mayor to ensure that only candidates that meet criteria set are hired</p>			<p>Not implemented. Shortcomings were found while auditing recruitments of 2015</p>

	The Mayor should ensure a review the decision for appointment of the Director of Family Medicine and ensure that all recruitments are made fully in compliance with legal requirements. The controls on payment of teaching staff should be strengthened to ensure that all payments are supported by sufficient evidence in accordance with the financial rules	Implemented The Director of MFHC has been selected through a recruitment process.		
<b>Subsidies and Transfers</b>	The Mayor should ensure a review the controls for granting subsidy processes in order that all expenditures for subsidies will be carried out in accordance with the internal regulations and contribute to achieving the objectives of the municipality. All beneficiaries should provide a feedback to the municipality securing value for money and avoiding the possibility of fraud. The Mayor should ensure that possible cases of conflict of interest will be avoided and will not be repeated in the future		Partially, The Municipality drafted the new regulation. When it comes to monitoring of subsidies there are still matters having not addressed this. In addition, shortcomings have been found while auditing subsidies 2015.	
<b>Assets</b>	The Mayor should ensure an effective process of recording all assets, defining key roles that in this process could be Cadastre Directorate, collect and report all data on properties owned by the Municipality. Further on, a special Committee should evaluate the assets identified and, a report is submitted to the Asset Officer for processing appropriate recording into KFMIS system (module assets) following the critical review by the Mayor. Further on, Asset Inventory and Evaluation Committees should be established annually within appropriate timeliness to carry out an inventory and confirm the existence of assets (in particular			No, Inherited assets are not recorded and new purchases are not recorded either.

	tangible assets). All activities should be carried out before the AFS 2015 are submitted.			
<b>Handling of Receivables</b>	The Mayor should initiate an analysis the reasons for high level of receivables and strengthen controls to prevent their further increase. A strategy and adequate mechanisms should be introduced to enable the collection of historic receivables, including legal actions		Partially, Steps have been taken to collect debts and manage revenues. Shortcomings are found during 2015 as well.	
<b>Liabilities</b>	The Mayor should strengthen management controls by providing a detailed and real budget planning and ensure that funds are used based on a clear cash flow plan and by not exceeding in any case the funds allocated by economic categories. In order to handle accumulated debts, the Mayor should introduce a plan setting forth concrete actions for the gradual settlements of debts. The Mayor should directly monitor this plan.		Partially, CFO does not verify the declarations of heads of units when identifying outstanding invoices.	
<b>Internal Audit System</b>	The Mayor should ensure that the AC takes a proactive role in order to obtain maximal benefits from internal the audit system. AC should critically review the sources, plans, and results of IAU and contribute to the overall improvement of the municipality's management. The Mayor should establish regular communication with IAU in order to prevent errors and mistakes in the municipality's financial and operational systems			The level of recommendations implementation is still low. The Audit Committee has not sufficiently operated during 2015.