



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

Document No: 22.18.1-2015-08

**AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF THE
MUNICIPALITY OF PRIZREN
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 Prizren 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 Kapllan Muhaxheri, (team leader) Enver Ramadani and Mexhit Ferati.

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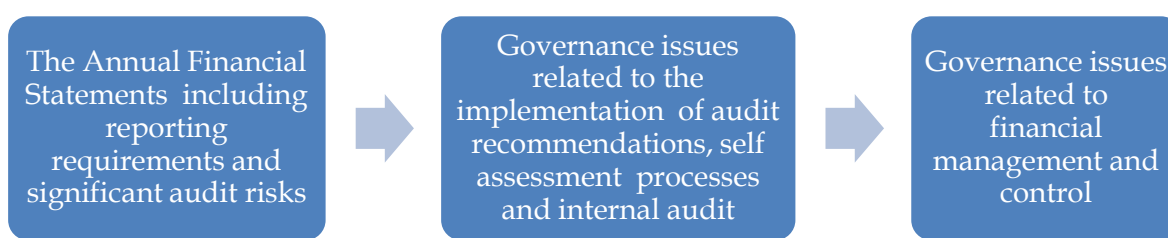
Executive Summary

Introduction

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

The examination of the 2015 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 23.11.2015.

Our audit focus has been on:



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

The level of work undertaken by the Office of the Auditor General to complete the 2015 audit is determined from the quality of 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:

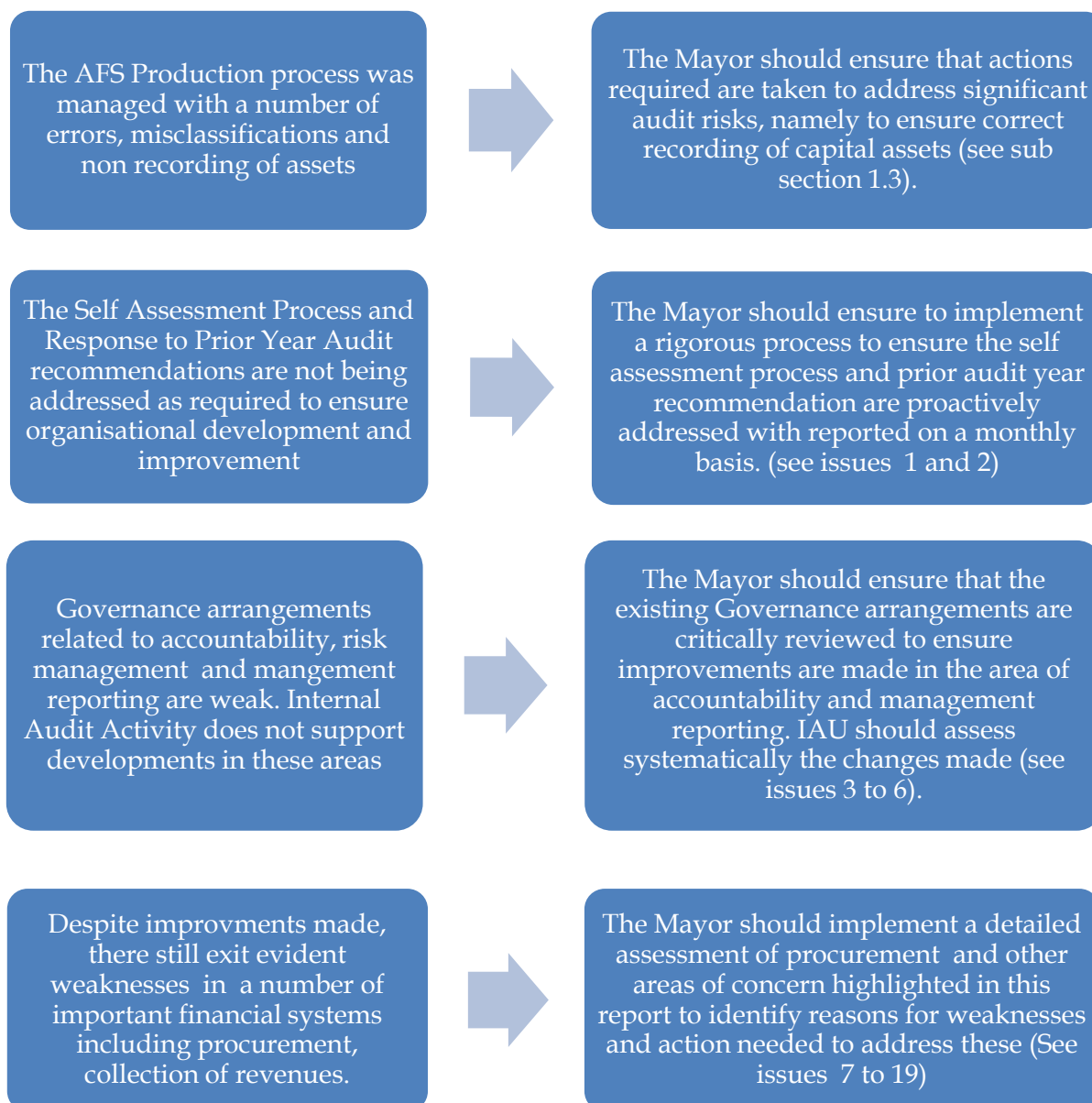
“Unmodified Opinion with Emphasis of Matter” because our audit has identified misclassifications of €1,338,587 in the AFS accounts. Moreover, there are uncertainties on the complete presentation of assets.

A complete opinion has been detailed in Section 1.2 of this report

Overall Conclusion

Internal control system set by the Municipality functions effectively in some areas, but the weaknesses are still present in a number of 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 AFS considers both compliance with the reporting framework and the accuracy of the information recorded in the financial statements. We also consider the Declaration made by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) when the AFS are submitted to the Government.

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

1.2 Audit Opinion

TO: MUNICIPALITY OF PRIZREN

UNMODIFIED OPINION WITH EMPHASIS OF MATTER

We have audited the Annual Financial Statements of the Municipality of Prizren for the year ended on 31.12.2015 which comprise of the Statement of Receipts and Payments in Cash, the Consolidated 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 Prizren for the year ended on 31.12.2015 in compliance with International Public Sector Accounting Standards (Cash Based Accounting), Law no.03/L-048 on Public Finance Management and Accountability (as amended and supplemented), and Financial Rule no.03/2013 on the AFS of Budget Organisations issued by the Ministry of Finance.

Basis for Opinion .

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

Emphasis of Matter

We draw your attention to the fact that the Municipality has misclassified expenditures of €1,338,587. These relate to the Capital Investments for Waste Collection in the amount of €1,199,687, the sports club "Liria" in the amount of €80,500, the basketball club "Bashkimi" in the amount of €20,000, and Elimination of stray dogs in the amount of €38,400. The main reason behind this error is the limited budget on Goods and Services and Subsidies which the Municipality could not cover these expenditures from. This has resulted in a material mistake of overstatement in Capital Investments and understatement in Goods and Services and Subsidies in the Annual Financial Statements.

It is worth mentioning that the amount of €1,238,087 was approved with budget tables of 2015 Budget as capital investments, but the tabled projects do not meet the criteria to be treated as capital projects and errors relate to initial planning by the Municipality and inadequate approvals by MoF

Fixed Assets Register does not reflect a complete situation of assets, because the land of 5 acre received from the Catholic Church and the purchased vehicle of €26,800 have not been recorded. For the above reasons, we have not qualified our opinion.

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

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

Auditor’s Responsibility for the Audit of the Financial Statements

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

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

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

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

1.3 Significant Audit Risks to the AFS

Description

Our Audit Planning Memorandum dated 23.11.2015 identified two significant risks to the AFS. These are risks of material misstatement which may result in a modification of the opinion or on Emphasis of Matter. These two risks related to the classification of expenditure and recording of assets have materialised because no action was taken by management to address the highlighted risks.

Our final audit identified misclassification of expenditures in the total value of €1,546,444. Below are given misclassifications according to economic categories.

- Waste collection services in the value of €1,199,687 were paid from Capital investment category;
- In addition, over €80,500 were spend from Capital investment for the sports club “Liria” while, Municipality paid €20,000 for the basketball club “Bashkimi”; and
- Treatment and elimination of stray dogs in the value of €38,400 was paid from the Investment category.

These expenditures are treated as Capital investment, while none of their elements represents such a condition.

We confirmed that the asset values recorded in AFS are incorrect, since the prior year audit recommendation was not implemented for registering the 5 Ares of land given by the Catholic Church, and the vehicle purchased in the value of €26,800 were not recorded in KFMIS by the Municipality at the year-end.

1.4 Compliance with AFS and other reporting requirements

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

- Compliance with Financial Regulation no. 03/2013;
- Requirements of LPFMA no. 03/ L-048, as amended and supplemented;
- Budget requests;
- Whether AFS are signed by CFO and the Mayor;
- Whether AFS are prepared in Albanian and Serbian;
- Submission of quarterly regular reports to the Municipal Assembly; and
- Draft and final procurement plans in time.

A number of financial adjustments were required to the draft AFS related to the presentation of subsidies and capital investments, and after our suggestions, financial statements were adjusted in the Treasury.

The above findings in section significant audit risks in AFS, indicate that the Annual Financial Statements Production Process was poorly managed.

DECLARATION MADE BY THE MAYOR

Given the above - the Declaration made by the CEO and CFO when the draft AFS are submitted to the Government can be considered to be incorrect, 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 that led to emphasis of matter, to eliminate errors in the classification of expenditures and incomplete recording of assets. It is necessary to undertake actions required to address causes that may impact on audit opinion, namely to record correctly all capital assets.

2 Governance

2.1 Introduction

Effective governance arrangements are fundamental to Municipality of Prizren successfully managing the challenges it faces and ensuring that service delivery is optimised for the benefit of taxpayers and service users.

A key tool supporting effective Governance is the implementation of audit recommendations as this demonstrates that management seems 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 related to self-assessment are supported by appropriate evidence.

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

- those 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 are number of governance weaknesses within Municipality, particularly related to accountability, risk management and the communication with stakeholders. The self-assessment checklist completed by the Municipality, only partially recognises this situation with some positive comments about existing arrangements not evidence based. Other arrangements which would support the development of governance such as an effective response to audit recommendations and the operation of an internal audit system should be considered as well.

2.3 Prior Year Recommendations

Our Audit Report on the 2014 AFS of Municipality of Prizren resulted in 24 key recommendations. Municipality prepared an Action Plan stating how all recommendations will be addressed. At the end of our 2015 audit, five recommendations have been fully addressed; five are partially addressed; and 14 have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex III.

Our audit report for 2014 has been discussed in the Municipal Assembly.

Recommendation

Issue 1 - Addressing Prior Year Audit Recommendations - High Priority

Finding	Only a proportion of prior year recommendations have been implemented because Municipality has not implemented any formal process to manage and monitor the way that the AG's recommendations are implemented.
Risk	<p>The continued weakness of management and other controls in key financial systems, such as asset recording, governance, revenues, outstanding liabilities management, management of debts and subsidies have resulted in:</p> <ul style="list-style-type: none">• Management's inability to confirm completeness of assets in AFS;• Inadequate governance which reduces the potential for management to react timely to financial challenges, and may potentially result in financial losses;• Lack of feedback reports on the reasonability of expenditures did not provide the necessary assurance that funds are used in accordance with project requirements/purposes.• Continued organisational inefficiency and poor value for money in procurement practices.

Recommendation 2 The Mayor should ensure that an action plan is produced and will be rigorously implemented with specific activities and persons accountable for implementation of recommendations, which clearly sets out a timetable for addressing the recommendations. Recommendations affecting the greatest areas of significance of financial management and controls should be treated with primary focus.

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. For all audits we undertake we have tested the quality of submissions made to the Ministry by assessing some key questions in each component of the checklist. We have summarised our findings for Municipality 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 its attempts to increase the effectiveness of the process and development of FMC system in whole.

Recommendation

Issue 2 -Self Assessment Checklist - High Priority

Finding

As part of our audit we have considered several key questions related to 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 detail in subsection 2.5.1;
2. Municipality lacks a strategic plan with long-term objectives, where Vision and Mission are clearly described, which will guarantee the direction of the Municipality. Detailed consideration is in subsection 2.5.3;
3. Links between the procurement plan and budget and the production of adequate reports on a timely basis are considered in place, although reports were not always produced on a timely basis.
4. Internal Audit did not highlight the above issues. Furthermore, the action taken for addressing issues identified following the 2014 and 2015 self-assessment is limited. This situation has occurred because of a lack of clarity within Municipality regarding both the importance of this checklist and who is the responsible officer for using it to support operational improvements; and
5. Municipality has not been informed on time to take actions required for the improvements of activities for the areas assessed with mark one (1) such as; risk management and non-inclusion of some authorised officers in addressing the issues of the self-assessment questionnaire.

Risk

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

Recommendation 3

The Mayor should ensure that a review of the processes for completing the self-assessment checklist and proactively addressing areas of weaknesses is implemented. A revised mechanism to confirm the accuracy of the checklist and to ensure supporting documentation should be applied.

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 Municipality operates and the challenges that it faces.

2.5.1 Risk Assessment

All Budget Organisations are expected to implement risk assessment. Guidance set out in FMC procedures requires risk registers to be in place to support effective operational and strategic management. This register identifies potential risks to which Municipality may be exposed, their impact, the potential that the risk is materialised and the risk level.

Recommendation

Issue 3 – Failure to implement Risk Management Requirements – High Priority

Finding Municipality has still not produced policies for assessment, identification and determination of risks through the register according to priority and type. In addition, risk management is missing, which would cover activities involved in planning, monitoring and control of actions to address risks identified in order to improve Municipality activities in the achievement of objectives set out.

Risk Municipality may run into unexpected situations due to the absence of risk management process. As a result, the achievement of objectives set out by Municipality may be damaged or may fail as well as the quality of services delivered.

Recommendation 4 The Mayor should produce an overall risks management strategy as soon as possible, which would clearly set forth the management approach to respond to risks. Management should also produce, besides identification of risks at operational and strategic level, an action plan which would define action measures to prevent and manage potential risks.

2.5.2 Management Reporting

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

Recommendation

Issue 4 – Weaknesses in Management Controls - High Priority

Finding Our review of the management controls applied to Municipality’s key financial system highlighted poor quality financial reporting of expenditure and revenue to senior management and an incomplete analysis of service delivery. This is because the format of management reports does not provide explanations for variances against budget and budget forecasts are not updated on a monthly basis. Similarly operational targets are not systematically managed.

Risk Poor quality financial and activity reporting to senior management has reduced management’s ability to proactively manage the operations of Municipality and undermines effective budgetary control. This can result in unplanned over or under spend and delay necessary action to address these. It may also result in revenues not collected as expected. Similarly it may result in poor service delivery.

Recommendation 5 The Mayor should ensure that a review is implemented to determine the format of financial and operational reporting to senior management which is required to support effective business management and ensure that an appropriate solution is in place by the end of 2016.

2.5.3 Municipality strategic planning

Issue 5 – Lack of a strategic planning - High priority

Finding Municipality lacks a strategic planning with long-term objectives clearly describing Vision and Mission which would present the Municipality’s orientation and targets in a medium-term development period.

Risk Lack of a strategic planning risks key issue priorities which are related Municipality’s orientation and development on long-term periods.

Recommendation 6 The Mayor should adopt an overall strategic plan for Municipality, which would define long-term objectives and serve as an orientation platform for the production of annual plans, for the conduct of comparative analysis between years and measuring results against objectives.

2.6 Internal Audit System

The Internal Audit Unit (IAU) operates with three members of staff - the Head of IAU and two auditors. IAU has an annual audit plan approved by the Mayor. Audit plan has foreseen eight (8) audits. IAU, for the reporting period covered some of the main areas, by preparing seven (7) reports and made a review to confirm addressing recommendations. Audit reports contained findings and recommendations related to improvement of internal control functioning. The impact of IAU output should be judged by the importance that management places on addressing recommendations and the support and challenge provided by an effective Audit Committee.

Issue 6 - Non-implementation of IAU recommendations - High priority

Finding	A number of weaknesses exist related to current IAU operations: <ol style="list-style-type: none">1. Internal Audit recommendations have been implemented in only a small number of cases by management; and2. Audit Committee in 2015, held only one working meeting, based on the meeting minutes, where we noted that weaknesses and risks reported to IAU were not handled. Therefore, the assistance provided by AC in the implementation of recommendations and improvement of processes and internal controls is very symbolic.
Risk	Failure to address internal audit recommendations may result in continued weaknesses identified, inefficiency of internal control system, financial loss to Municipality and poor value for money. Lack of contribution by AC reduces efficiency of Internal Audit system in whole.
Recommendation 7	To gain maximum benefit from Internal Audit activity, the Mayor should review reasons for limited actions taken by Management related to internal audit recommendations and should coordinate cooperation with Audit Committee for increasing and improving internal control quality.

3 Financial Management and Control

3.1 Introduction

Our work on Financial Management and Control outside of the areas of Governance referred to section 2 reflects the detailed work undertaken on Revenue and Expenditure Systems. As part of this we consider Budget management, Procurement issues, Human resources, and Assets and Liabilities

3.2 Financial Management and Control Conclusion

Municipality recognises the importance of an adequate and robust system of controls over expenditures and revenues. However, as a result of non-implementation of regulations and instructions, our audit highlighted the existence of some weaknesses in the compliance aspect, related to procurement, revenues and other expenditures. This reflects lack of proper supervision by Municipality in the areas mentioned. Effective financial management and control requires review processes and associated guidance (standard operational procedures) which ensure the full application of domestic laws, internal regulations and other control processes.

Budget Planning and Execution

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

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

Description	Initial Budget	Final Budget ¹	2015 Outturn	2014 Outturn	2013 Outturn
Sources of Funds	39,370,797	41,947,836	36,316,641	33,265,428	31,780,415
Government Grant -Budget	31,095,717	31,589,220	30,671,904	28,783,661	27,324,442
Carried forward from previous year ² -	0	1,848,423	1,537,404	753,697	887,220
Own Source Revenues ³	8,275,080	8,275,080	4,062,518	3,634,429	3,364,987
Domestic Donations	0	93,424	28,956	37,796	153,878
External Donations	0	141,689	15,859	55,845	49,888

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

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

³ Receipts used by the entity for financing its own budget.

The final budget is higher than the initial budget by €2,577,039. This was a result of:

- Own source revenues carried forward from 2014 in the amount of €1,848,423;
- Increase of domestic and external donations in the amount of €235,113, and
- Increase of government grant in the amount of €490,903 based on Government decision to cover the application of work experience 0.5% and an additional grant increase by €2,600 in the category of Goods and Services.

Municipality used 87% of the final budget, an improvement over 3% compared to 2014. In general, the level of budget execution remains at an unsatisfactory level and explanations for the current position are detailed below.

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	39,370,797	41,947,836	36,316,641	33,265,428	31,780,415
Wages and Salaries	17,738,212	18,281,955	18,258,306	17,766,430	15,139,595
Goods and Services	2,900,825	3,124,676	2,448,555	2,477,087	2,585,716
Utilities	1,081,200	1,081,200	751,705	864,971	804,029
Subsidies and Transfers	580,979	580,979	334,608	521,614	504,157
Capital Investments	17,069,581	18,879,026	14,523,467	11,635,326	12,746,918

Explanations for changes in budget categories are given below:

- Despite an increase in final budget for Capital investment by €1,809,445, only 77% of the budget was spent in this category, which presents a poor budget performance. The reason for a low execution includes delays for the beginning of works due to expropriation and delays in work execution from Economic Operators.
- Budget for Goods and Services increased by €223,851, while 78% of budget allocation was spent. This level of budget execution is a result of lack of budget planning which is a reflection of realistic needs of Municipality. While budget execution is low, Municipality obligations in this category marked an increase by €124,000 at the end of 2014, in about €171,000 at the end of 2015;
- The final budget for Utilities did not change compared to initial budget and was used at the level of 69%. The amount of €329,495 remained unspent, while on the other hand, outstanding obligations for this category at the end of the year were €47,809. This occurred because of Municipality's inability to plan and manage the available budget; and
- Municipality also received grants from donors in the value of €235,113. The execution of these funds was relatively low, where expenditures were only 19%.

Table 3 Own Source Revenues for Municipality’s budget – outturn against budget (in €)

Description	Initial Budget	Final Budget	2015 Receipts	2014 Receipts	2013 Receipts
Own source revenues	8,275,080	8,275,080	5,276,000	5,353,482	4,020,374

During the year, the amounts planned from own source revenues were collected only by 64%. Own source revenues by €5,600,000 were mainly used for capital projects in the value of €4,365,000 or 78%, the other part was used in other categories, while a considerable part of OSR in the value of €1,524,456 was carried forward for 2016. Revenues planned, but not spent are for Capital investments €1,319,987, Goods and Services €40,918, Subsidies and Transfers €10,000, and Wages and Salaries €153,550.

Issue 7 – Budget Execution – High Priority

Finding Inadequate budget planning and low budget execution resulted in the following weaknesses:

- The dynamics of execution was not in line with planning, because 36% of Capital investment was executed at the last quarter;
- Budget execution with Goods and Services was 78% and expenditures did not even reach the initial budget, although there was an increase of final budget in this category;
- Only 19% of funds from external donations were used. This is so because this source of funds was not considered by Municipality during budget planning; and
- Other expenditures could have been used at the end of the year for outstanding obligations which reached a significant level (see section 3.7.3). In addition, inadequate controls in management of payment have resulted in the increase of the trend of payment processing through court decisions and direct Treasury decisions.

Risk Ineffective use of funds available will result in a failure to meet organisational objectives and result in current year obligations being funded from future year budgets.

Recommendation 8 The Mayor should ensure that budget performance is systematically monitored on a monthly basis and that this review identifies and addresses barriers to planned levels of budget execution. Where initial budget assumptions are found to be incorrect this should be fully reflected in the final budget position.

3.3 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.

Issue 8 - Systematic Weaknesses in Procurement - High Priority

Finding

Our review of contracts identified that a range of management controls have not been implemented during procurement and have resulted in the following weaknesses:

In the contract signed “Supply with electronic equipment (computers and associated parts) the value €10,751, the winning operators bided with not normally low prices for some items. These prices were determinant for winning the tender. The requesting unit insisted to meet the remaining part of the contract according to technical specification (Switch 24+2 ports), but responsible officers and the Economic Operator were not ready to execute the contract;

The contract in the value of €49,970 for “Construction of the street with concrete elements in the village Lubiqevë, Prizren” the evaluation commission eliminated the operator with a lower price than the winner by €4,356. The reason for elimination was that operators cannot be awarded at the same period with more than one contract, while we found that the cheaper operator was not awarded a work contract within the same time by the Contracting Authority;

The contract in the value of €196,013 “Construction of the Primary School building “Bajram Curri” in Has, the winning operator has bided for the positions electronic meter installations with zero (0) price, positions which were determinant for winning the tender. According to PPRC interpretation, if the Economic Operator offered the price “0.00” in one of the positions, the tender should be rejected since the “Description of prices” requires defining the price in a certain value for each item/ position required in the technical specification.

In tender dossier supply "Fuel for vehicles" clearly specified that Premium should be included (transport, administrative expenditures, etc.). In this process, there was a complaint filed with PRB with reasoning that the contact winner offered not normally low price by €0,0001 for Premium. During contract implementation, EO did not comply with conditions, and included all expenditures in the invoice in the price adding the Premium.

Contract "Supply with a minibus for the needs of haemodialysis services in MFHC" in the value of €40,750 was terminated to EO due to considerable delays in the execution of delivery of vehicle. In the tender, Municipality did not foresee dossier the execution security in case of failure of delivery by Economic Operator.

For "Erecting the fence at the Civil Status Office" in Zymë and Reçan, the contract of €9,291 was signed, whilst just €2,000 were committed.

Contract "City decoration", was signed in the value of €28,610, while commitment of funds was secured only for €10,000.

The value planned "Compiling projects for school buildings", was €46,510, while in order to execute these projects, Municipality conducted six price quotation procedures.

Municipality signed an annex contract in the value of €52,000, based on a basic contract "Construction of a culture house in Zhur", signed on 22.12.2010. According to the oversight body, all payments were made to the Economic Operator by 18.12.2012, even before the works were finished. Works were not finished because the EO claimed that it conducted additional works precisely for the value given through the annex contract. Analysis made found that there were works conducted outside the scope of the basic contract, in 2012, and under budget review, Municipal Assembly was required to allocate funds for completion of some positions that were completed earlier.

Risk Entering into contracts with EOs without securing necessary funds increases the risk that obligations foreseen under contract are not completed and may place the Municipality before potential financial penalties and will open legal disputes. Offering with not normally low prices and zero values for items mentioned may have been determinant for contract award, thus risking the elimination of other EOs from competition with normal market prices. A failure to follow correct procurement procedures and associated guidelines will result in potentially irregular payments and financial loss to Municipality. The fact that Municipality has not been supplied with items with 0 or not normally low prices lead to the potential risk for collusions between the Municipality and the contracted operators.

Recommendation 9 The Mayor should initiate a detailed review of all cases mentioned above to conduct an analysis why legal requirements and procurement rules are not implemented and take adequate measures after reviewing the cases. It should also be assessed why certification controls have failed to prevent irregular payments; such is the case with fuel payments.

3.4 Expenditure not related to Procurement

Expenditures not related to procurement for which procurement procedures are not applied. They are related to Utilities, travel expenditures and co-financing payments.

Recommendation

Issue 9 – Payments without clear legal basis – High Priority

Finding Payments tested in the value of €1,400 of different commissions established on the Mayor's decision are not regular, since the majority of members selected for Boards and Commissions are Municipality officers (directors of departments), and meetings were held during working hours. Payments for participation to boards and commissions are in conflict with Article 80 of LPFMA.

Payments in the value of €4,994 "To conduct and submit test results of land fertility", was carried out without receiving evidence for the execution of services by the operator.

Municipality through the contract "Demolishing buildings built without permit in the territory of Municipality of Prizren" conducted services for Forest Agency in Prizren in the value of €1,100 for confiscation of firewood. Municipality had no cooperation agreement with the Forest Agency for conducting these services. There were also discrepancies in the quantity of confiscated firewood between two meeting minutes.

Risk Additional officers' compensations for carrying out services during working hours serving to a Commission, Board and other Public Authority are not in compliance with expenditure rules. Payments not supported with evidence for the execution of works and services may result in financial losses to Municipality and may potentially be considered irregular payments.

Recommendation 10 The Mayor should conduct a review of compensations/payments for commission and of the agreements with other institutions in order to confirm their reasonability and should be in accordance with applicable laws to avoid irrational payments.

Issue 10 – Payments without procurement procedures – High Priority

Finding Contract for broadcasting the TV video commercial in the annual amount of €3,600 was signed by Director of Administration, without conducting procurement procedures;

Based on decision dated 06.11.2015, one NGO “AZHR-JUG” was paid the amount of €9,863 as financial support for the organisation of international conference with journalists and civil society for promotion of tourism. Payment was made from Goods and Services category, while no element represents the condition for this payment to be paid from such a category.

Municipality, besides the package it has with municipal officers, it also uses top-up cards as a form of provision of mobile telephony services. Expenditures of these top-ups during 2015 were €44,349. The Municipality had no single contract for receiving mobile telephony services.

Risk Failure to conduct procurement procedures caused unnecessary costs to Municipality. Payments for inadequate expenditures categories also cause failure to achieve planned objectives from the category of Goods and as a wrong reflection of expenditures in AFS. Provision of mobile telephony services in separate forms may cost higher expenditures to Municipality than the real expenditures.

Recommendation 11 The Mayor should ensure a review of cases identified to find out causes of occurrence and should take necessary measures for their elimination in the future. The Mayor should consider the possibility to contract one single package of mobile telephony services. This would ensure more convenient prices and would decrease the cost of telephony services.

3.4.1 Remunerations (Wages and Salaries)

Municipality for 2015 for this category planned an amount of €18,281,955, while it spent €18,258,306. Wages and Salaries are paid through a centralised system. The key controls that confirm accuracy and completeness of payments such as, approval and listing the salaries of new employees, verification of the number allowed and other associated controls from the Ministry of Finance and budget approval for Wages and Salaries from the Municipal Assembly.

Recommendations

Issue 11 – Special service contracts – High Priority

Finding Management have not effectively implemented proper controls related to recruitment, compensation and completing of files, to ensure that they are acting in accordance with legal requirements and current regulations.

There were over 120 officers employed in municipal directorates with special service contracts, out of which 12 officials in the Directorate of Urbanism were hired for longer than six months;

While in the Education department, we found that in five cases they were paid from two to three months without employment contract, and in three cases there were changes between the salary amount in the contract and the monthly salary payment.

In two cases, employees had a valid contract, but from February to June, namely for five months, they were not remunerated at all;

Payments for compensation for holding informal classes for teachers, managing staff and assistant staff were not done according to percentages or fees set out by Regulation for the collection and expenditures of own source revenues, and

Evidences for years of work experience of the teaching staff in the Department of Education were not reflected in a decision confirmed by authorised personnel officers, as the basis for payment of work experience.

Risk Signing contracts for services and recruitment by neglecting open vacancy procedures is not transparent and is discriminatory against competitive candidates. Payments of employees not in compliance with the contract and work evidence leads to the risk of irregular payments and initiation of judicial disputes. Remuneration without contract and supporting evidence for work experience increases the risk of over payment of salaries.

Recommendation 12 The Mayor should ensure that contracts are signed based on clear criteria in order that the process is transparent and competitive and employment contracts are preliminary secured. Contracts should specify the monthly amount and payment of salaries should be in compliance with contracts. Personnel officers should complete evidence on work experience to create the legal grounds for additional execution based on experience. Remuneration for holding informal classes should be done in accordance with regulation.

3.4.2 Subsidies and Transfers

Subsidies are a category of expenditures given by Municipality, without a direct return, to certain beneficiaries, which is regulated by a Municipal Regulation. They are mainly allocated to public and non-public entities and natural persons in need. Controls implemented by Municipality are defined by internal regulation and overall guideline of public funds expenditure.

Budget for category of Subsidies and transfers for 2015 was by €580,979. A considerable value of funds from other categories was spent for subsidies; while €334,608 or 58% of budget was spent from this category.

Recommendations

Issue 12 - Weak monitoring and absence of financial reporting - Medium Priority

Finding Education Department for the payments €9,940 and 6,950 for the organisation of activities within the week "Remzi Ademaj" does not possess sufficient financial reports and relevant evidence from the beneficiaries to confirm that subsidies have achieved the purposes intended.

Payment of €4,170 from the category of subsidies for the purchase and distribution of New Year presents for Municipality's officers was not in compliance with Article 1 of Regulation for allocation of subsidies approved by Municipality. This is also in conflict with Budget Law according to which presents are prohibited.

For payment made on behalf of services for the beneficiary - the youth action council in the amount of €1500, we found no evidence to see that commission after the completion of the manifestation prepared a report that all services are carried out in compliance with specification offered for the purpose of allocation of this subsidy.

Risk Lack of reports on expenditures reasonability does not provide the appropriate assurance that funds are used according to project proposals and purposes of allocation of subsidies. Failure to implement criteria and financial rules does not provide assurance that public funds are being used in the best manner.

Recommendation 13 The Mayor should review cases identified to ensure that controls in this area are applied according to requests, to ensure that funds are used for the purpose planned and in accordance with regulations.

3.5 Revenues (including own source revenues)

Revenues planned in 2015 totalled €8,275,080, while €5,279,973 was executed, or 64% of the budget planned. Of them €4,855,223 are collected by Municipality, while €558,284 are revenues from traffic fines, courts and Forest Agency. Municipality has still not established internal controls related to collection and reporting of revenues, including their presentation in AFS. There is also the need for improving processes and procedures to support accuracy and completeness of collection of revenues.

Recommendations

Issue 13 - Weaknesses in reporting, planning and revenue invoicing - High Priority

Finding Existing manual data in many cases are not managed in the Municipal Department in adequate manner. In these departments, accounting data, including monthly balances are not harmonised with the revenue officer in the central finance office.

During 2015, €1,886,884 was revenues collected from property tax for this year and previous years, while invoicing for this year was €2,172,349. Municipality has not implemented any proactive approach for collection of property tax.

Risk Lack of complete data may cause that eventual errors are not detected in time. Lack of effective controls in own source revenues management will also continue to result in low collection. As a result Municipality may face the reduced potential in the achievement of objectives in the delivery of services and in Capital investments funded from own source revenues.

Recommendation 14 The Mayor should ensure a process of monthly regular harmonisations between municipal departments and finance administration and should put in place sustainable controls which ensure a sound planning and effective collection of Municipality own source revenues.

Issue 14 - Revenues from the waste sector - High Priority

Finding Based on regulation on waste management, Municipality took over invoicing and collection. During this year, invoicing was €1,812,759, while collection was €601,094 or 33,2%. In order to carry out these waste collection services in urban and rural areas, Municipality had contracted three companies. The amount paid to these companies during 2015 was €1,199,538, although one of these companies had previous obligations to Municipality. One of the objectives of this regulation is creation of a sustainable financial system which has not been achieved.

To manage data of the service customers for waste collection, Municipality has used a software programme, but this programme does not generate daily, weekly and monthly updated financial statements according to the needs of Municipality.

Risk Taking over waste invoicing management without sound invoicing analysis leads to risk that the level of debts to Municipality is increased further. Failure to generate different statements from the software programme may impact on the production of management policies, timely information on invoicing and management's decision-making.

Recommendation 15 The Mayor should ensure that sound analysis of the failure to collect revenues from waste management is carried out in order to achieve Municipality's objectives in the creation of sustainable financial system. Reconciliation with EO should be considered preliminary and payments should not be done to those owing to the Municipality.

Issue 15 – Weaknesses in concession contracts and rents – High Priority

Finding

Municipality had three contracts with “IS-Company on the use of municipal property area for markets. At the year-end, the outstanding obligations from this company were €171,500. Municipality requested from the lessee to pay such previous debt to continue to use municipal property, but such a thing did not occur, while the company continues to use the property although contracts on use of this property had already expired as of 01.08.2013. Moreover, Municipality awarded this lessee a contract for collection and waste management in the annual value of €141,523.

The lessee “Alcom Construction” has a contract with Municipality on the use of municipal property with concession. The Company’s obligation at the year-end of 2015 was in the value of €14,580, while collection was zero (0); and

The lessee “Fatoni-AU” for using the market area “Bajram Curri” owed the amount of €96,386 to Municipality.

During 2015, Municipality signed a contract with 21 users of public areas, although these beneficiaries did not complete the previous year obligations, with their debt totalling €25,762;

One operator signed a contract with Municipality dated 29.06.2014, for installing commercials in public properties in the annual amount of €1,200 and was not charged with any debt until the end of 2015.

Risk

Only from the cases mentioned above it results that there is a high amount of uncollected debts from lessees. This fact disclosed serious weaknesses in the implementation of Municipality’s controls on the properties rented. Weaknesses identified in the contract management of concessions and rents resulted in considerable financial losses for Municipality and reduced the Municipality’s ability for financing projects from own source revenues.

Recommendation 16 The Mayor should review reasons of the existing situation and establish measures required to collect all outstanding obligations within the reasonable period, or otherwise, should stop the use of public properties to owners, not paying their obligations to Municipality.

Issue 16 - Winner of the bid for using business premises with lower price - Medium priority

Finding In the five cases tested, on renting out the business premises through public auction, bidders with higher prices withdrew from the auction after the opening of the bids. Such an action is in conflict with the rules of procedure of the Government of the Republic of Kosovo no. 03/2013 on the determination of procedures on the allocation for use and exchange of the immovable property of Municipality, and based on Article 8, the bidder may withdraw three days before the auction is held. Municipality imposed no penalty measures to bidders withdrawn after the deadline foreseen under this regulation.

Risk The withdrawal of bidders after opening of the auction increases the risk for not achieving value for money. Such practice damages the Municipality's reputation and loses the trust of potential bidders in a fair and transparent auction process.

Recommendation 17 The Mayor should ensure that when announcing public auctions, participants are preliminary conditioned with sanctions if they withdraw after the opening of public auction and should respect regulation for the allocation on the use of public areas through public auction.

3.6 Assets and Liabilities

3.6.1 Capital and Non Capital Assets

Assets management is an important part of Financial Management and Control in the public sector. A good management of assets requires for Municipality to have complete overview of assets, control procedures and their management and to update continuously changes in their registers.

All significant issues about assets are handled in section 1.3 significant risks in Annual Financial Statements. The net value of Municipality assets over €1000 in 2015 was €471,500,737 and was disclosed in AFS. Despite the attempts made by Municipality, the assets benefited during this year were not reflected fully in the accounting register.

Recommendations

Issue 17 – failure to record and maintenance of assets - High Priority

Finding The E-asset recording system is still not in place. Municipality has still not assigned an acceptance/logistics officer and was unable to record all assets benefited during 2015. In absence of an acceptance officer, inventory and evaluation assets commission found that not all assets have the identification number attached to. Further, the assets which have been disposed of, as a result of aging or damage, are still not removed from the assets register.

Risk Lack of the acceptance officer and poor management of assets registers may result in assets loss or appropriation and makes difficult the identification of assets to confirm their existence.

Recommendation 18 The Mayor should review why assets identified are not recorded in the E-asset system, and address weaknesses related to constant update of the assets register. Requirements related to recording and maintenance should be fully applied.

3.6.2 Handling of Receivables

Municipality was unable to collect all debts for which services were provided. The structure of accounts receivable is mainly composed of: Property tax, market revenues, rents from premises, taxes of businesses activities and services for collection of waste. Lack of adequate policies and concrete measures for the collection of revenues has resulted in high level of accounts receivable. However, it is worth mentioning that Law on Forgiveness of Debts may have impacted on the decrease of the debt collection norm remaining from previous years.

Recommendation

Issue 18 - Lack of concrete measures for collection of debts - High Priority

Finding Total debts to Municipality at the end of 2015 were €14,013,000 without any change emphasised from the previous year. The main debt remains the collection of property tax in the value of €6,290,629, then taxes on business activities €5,422,000, from renting out market areas €409,452, and other fees by €670,919. It is worth mentioning that during this year, accounts receivable from the waste collection services have increased to a level of concern €1,220,000.

Risk Lack of concrete measures to collect accounts receivable may result in the increase of these accounts and subsequently in financial losses to Municipality. This also reduces Municipality's flexibility to expenditures planned, funded by own source revenues.

Recommendation 19 The Mayor should consider establishing a special working group to review the execution of collection of debts, in particular, the enormous increase within a year of the accounts receivable from the waste collection services. The Mayor should also conduct an analysis in order to identify causes of failure of businesses in the payment of debts, and all means available should be used, including legal remedies.

3.6.3 Handling of Debts

The statement of liabilities not paid to suppliers at the end of 2015 was €2,026,639. These liabilities are carried forward to be paid in 2016. There is a trend of debts in the Municipality year after year, which reflects inadequate management. The fact is not understandable that at the end of the year there were obligations in the category of Goods and Services, while the budget expenditure rate in this category was only 78%. As a result of insufficient internal controls, and partly the issue of prioritising of payments, impacted that invoices not paid are from earlier years, and are not within the legal period.

Recommendations

Issue 19 – High level of obligations and increase of contingent liabilities – High Priority

Finding Municipality managed to decrease outstanding obligations from €2,234,878 in the previous year to €2,026,689 to the end of 2015. However, these obligations could be covered from revenues, because a considerable part of OSR in the value of €1,524,456 was carried forward for spending in 2016.

A system of recording and management of invoices received from Economic Operators is missing in the Municipality – from acceptance to their payment and this causes difficulties in the management. In 2015 AFS, in some cases tested, the pro forma was presented as outstanding obligation.

Notwithstanding this fact, Municipality is facing contingent liabilities in the value of €782,000. These outstanding obligations and contingent liabilities directly overload the 2015 budget; such is the case of some direct payments from Treasury in the value of €261,329 based on courts decisions.

Risk High level of outstanding obligations and contingent liabilities increase the risk that budget will be subject to direct execution from MoF and court decisions. The fact that Municipality has about 2.8 million potential liabilities may seriously risk the budget balance and may bring Municipality in a very difficult situation.

Recommendation 20 The Mayor should conduct a critical review of the situation of outstanding obligations, to define necessary measures for addressing the issues identified, while payments should be made within the time limits set out in financial regulation. To handle these contingent liabilities, in coordination with the legal Municipality representative, a review of the status of liabilities should be undertaken, to determine the priority of payments, to eliminate the circumstances which may cause their direct payment from MoF or according to court decisions.

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

ANNEX I Audit Approach and Methodology

The responsibilities placed on the Auditor and Those Charged with Governance are detailed in the Opinion set out in Section 1.2 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 is taken to address identified management/control weaknesses.

The detailed report provides an extensive summary of our audit finding with emphasis on determining the cause of 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.

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

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

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex III: Prior Year Recommendations

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
Significant risks in AFS	Recommendation 1 - High priority The Mayor should initiate an analysis of the reasons behind the repeated errors in presenting the assets values in AFS and the Municipality's inability to undertake the necessary actions for addressing the errors. The management's additional actions would be to initially record all assets over €1,000 in the accounting register and then the same is presented in 2015 AFS. The Mayor should directly monitor this process.			X
Compliance with AFS and other reporting requirements	Recommendation 2 The Mayor should ensure that the 2015 AFS production plan addresses all compliance requirements. Reporting lines should be put in place and managing staff should be held to account for the quality of recording and classification of expenditures. This requires continuous monitoring. The Declaration made by the Mayor and CFO should not be submitted, unless all the necessary checks have been applied in draft AFS. The mayor should also ensure that the annual performance report is published and the statutory request is fulfilled.			X

Prior year recommendations	Recommendation 3 The Mayor should ensure that a revised action plan clearly sets out a timetable for implementing the 2013 and 2014 recommendations with accountable staff members identified and with initial focus on the areas of greatest significance.			X
Good governance Weaknesses in High Level Management Controls	Recommendation 4 The Mayor should ensure that a review is carried out to determine the format of qualitative financial and operative reporting to senior management, which is required to ensure effective business management and introduce an appropriate solution by 1st of October 2015.		Partly, because during meetings and conclusions are concluded in a written form but causes and eventual possibilities of avoidance are still not analysed.	
Avoidance of open procurement procedure	Recommendation 5 The Mayor should initiate an analysis of the rationality of the high number of quotations, especially in cases when an open procedure contract is in place for the same expenditures. The Mayor should strengthen controls over procurement planning and execution and ensure that the open procedure is used for same expenditures in order to reach the highest value for money spent.			X
Budget planning and execution Overstatement of capital investments	Recommendation 6 The Mayor shall ensure that all actions are taken for having all expenditures planned in adequate budget appropriation and that they are not subject to misclassification in AFS of 2015.			X
Low budget execution	Recommendation 7 The Mayor should ensure that a systematic assessment of the reasons leading to level of		There is progress in some areas, but it	

<p>Payment for co-financing</p>	<p>budget execution and repetition of the situation year after year is carried out. Practicalities for the improvement of budget planning and execution in the future periods should be developed, and a systematic monitoring on execution of planned budget is introduced.</p> <p>Recommendation 8 - The Mayor should establish controls required in compliance with legal requirements for spending of public funds and such practices should not be repeated. Co-financing agreement should reflect contractual agreements which provide for an effective monitoring by Municipality and this should be applied as soon as possible for all co-financing agreements.</p>		<p>should be continued further with the use of donations</p> <p>Partly, since during samples audited, we found no relevant weaknesses during co-financing.</p>	
<p>Revenues (including own source revenues) Budget planning and execution of won source revenues</p> <p>Construction permits</p>	<p>Recommendation 9 - The Mayor should initiate a comprehensive analysis of the setbacks in implementing the recommendation for elimination of weaknesses in the management of own source revenues. A solution should be provided and sustainable controls should be installed ensuring an authentic and effective collection</p> <p>Recommendation 10 -The Mayor should ensure that a sufficient number of skilled staff is engaged in Directorate of Urbanisation in order to handle all applications for construction permits in time. Controls and monitoring in this process should be strengthened in order to prevent constructions without permit and overbuilding, If necessary, penalties foreseen by law should be applied.</p>			<p>X</p> <p>X</p>

c) Weaknesses in concession contracts and rents	Recommendation 11 The Mayor should initiate immediate actions by starting a detailed assessment of the reasons behind the low level of revenue collection in the field of leased out properties. Necessary measures for collecting all outstanding debts within a reasonable period should be taken, otherwise, to stop the use of public properties.			X
Procurement a) Systematic weaknesses in procurement	Recommendation 12 The Mayor should strengthen controls over acceptance of work or services. The Mayor should ensure that supervisory bodies accept work or services right after their execution. Preparation of clear specifications for these services in relation to weather conditions should be taken into consideration by the Mayor.		Partly, since during samples audited we found that receipts are carried out within the deadline.	
Procurement	Recommendation 13 The Mayor should analyse the causes leading to such a procurement process and ensure that each purchase through procurement is done fully in compliance with principles and procedures of LPP by ensuring equal transparency and treatment for all bidders.	X		
Procurement	Recommendation 14 The Mayor should initiate a thorough to clarify what really happened with this contract and what the achieved impact was. Administrative measures should be taken as applicable. In future cases, it should be confirmed that needs assessment presents the real situation, that LPP was adhered to during the tendering process, and that real prices were paid for dog treatment. Public procurement controls should be strengthened in order to ensure that a	X		

	transparent process of tendering is applied and the right value for the money used is achieved.			
Procurement	Recommendation 15 The Mayor should strengthen the controls over planning and spending within the set budget appropriations. Controls over acceptance of works should be strengthened and unsigned reports should not be taken into consideration. The Mayor should consider strengthening controls in order to ensure roads construction of high quality thus reducing the costs for frequent repairs.	X		
Procurement	Recommendation 16 The Mayor should ensure that the bill-of-quantities is prepared professionally and reflects the real needs for certain items/projects. The quality of documenting the work executed should be improved in order to ensure that payments are made only when the work is done and the value for money paid has been achieved.	X		
Procurement	Recommendation 17 The Mayor should strengthen controls over acceptance of works/supplies and ensure that no payment is done without receiving the progress payment and other underlying documentation.			X
Procurement	Recommendation 18 The Mayor should ensure that an analysis is carried out on the causes for long delays in capital projects implementation. Controls over contract management should be strengthened in order to ensure that all projects are finished within reasonable deadlines.		There is a progress despite all delays in some projects, projects sampled are often justified.	
Non procurement expenditures	Recommendation 19 The Mayor should strengthen controls over expenditures for official lunches. All	X - there is an emphasised		

	expenditures for official lunches should serve to proper representation and achievement of the Municipality objectives. The Mayor should initiate drafting a procedure to determine allowed limits and rules for spending on official lunches.	decrease from official lunches		
Subsidies and transfers	Recommendation 20 - the Mayor should ensure that the internal regulation is comprehensive and that its requirements are met by the Municipality's staff responsible for subsidies. All funds allocated as subsidies should be spent fully in compliance with the Municipality's objectives. Beneficiaries of subsidies should provide adequate evidence that all benefited funds are spent in compliance with the requests.			X
Capital and noncapital assets	Recommendation 21 The Mayor should ensure a close cooperation between the Assets Officer and with other departments in the Municipality in order to systematically register all assets owned by the Municipality, and that an updated assets register is presented before AFS 2015 are drafted.			X
Handling of receivables	Recommendation 22 The Mayor should have a comprehensive approach in treating this problem, in terms of both planning and setting of effective mechanisms for bringing these debts down to an acceptable level. The Management should initiate a reassessment process, where all accounts would be analysed in terms of aging, significant amounts, real collection possibilities and exercising of administrative measures.			X

Handling of debts	Recommendation 23 Mayor should strengthen the management controls by ensuring a detailed and real budget plan and that funds are used based on a clear cash flow plan by not exceeding the funds allocated by economic categories in any case. For handling the accumulated debts, the Mayor should present a plan setting forth concrete actions for gradual settlement of Municipality's debts. This plan should be directly monitored by the Mayor			X
Internal Audit System	Recommendation 24 The Mayor should ensure that AC takes a proactive role in order to benefit from the internal audit activity. AC should critically review the IUA plans and results and contribute in the Municipality's management overall improvement.			X
Summary	24 recommendations	5	5	14