



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

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

Pristina, June 2013

The Office of the Auditor General (OAG) undertakes both Regularity and Performance Audits. The Auditor General Lage Olofsson, is the head of the OAG which employs around 140 staff. The Auditor General and the OAG shall be independent and certifies around 90 Annual Financial Statements each year, while undertaking other forms of audits.

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

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

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

The opinion and report issued are a result of the audit carried out under the management of the Audit Director Florim Beqiri supported Lavdim Maxhuni (Team leader), Faik Thaqi, Evetar Zeqiri and Shpresa Zenelaj.

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Executive Summary

Introduction

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

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

Our audit focus has been on:

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

Opinion

The Auditor General (AG) reports his opinion to Assembly in the format set out in chapter 2.2 – Audit Opinion. Annex I explains the different types of Opinions applied by the OAG. The AG's Opinion includes an opinion as to the truth and fairness of the financial statements.

The AG's opinion is:

In our opinion the Annual Financial Statements *present a true and fair view* in all material aspects.

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

Overall Conclusion

Our overall conclusion is a direct reflection of our examination related to AFS, Financial Management and Control, regularity of payments and receipts procedures, as well as to the Internal Audit System.

A number of improvements were made by management in the last year, in terms of financial control procedures and processes. However, it remains that improvements continue to assure a consistent and comprehensive application of the adequacy of controls in all sectors of the Municipality.

Audit recommendations are aimed at improving financial controls and other aspects of operational activities. We have reviewed the responses to the 2011 recommendations and their situation is summarized in Annex III. Our overall conclusion is that our recommendations are not addressed at a appropriate extent. In particular, they are not addressed in areas such as: overall budget process and Subsidies, while partially are addressed recommendations on: revenues, procurement, assets management and debts. We conclude that Municipality must implement all audit recommendations, in order to avoid weaknesses that are being repeated for several years. Where recommendations are not addressed, we are bound to repeat them again this year, with the request that they are addressed within an optimum time.

We discussed with municipal governing bodies on the quality of municipal financial control and audit findings in the context of annual financial statements, financial management and controls, managerial accountability and internal audit.

Our key recommendations to the Mayor are as follows:

Annual Financial Statements

- Make full disclosure of assets in the Annual Financial Statements in accordance with standards and applicable legal requirements.

Financial Management and Control

- Make a better and sustainable planning on property tax and take additional measures in the property tax collection area. A continuous monitoring of properties leased to different subjects is necessary, in order to ensure that contracts without fulfilling remaining obligations are not renewed.
- The Mayor should increase procurement controls, in accordance with criteria set in the tender dossier. Also, payments without procurement procedures, from the capital investment category, should be banned;

-
- The approval of the Rule on Subsidies and Transfers, which will serve as a base document for granting subsidies; and
 - Record all Municipality owned assets and continuous updating of assets records. .

Internal Audit System

- Internal audit findings and recommendations will be discussed and addressed by all management levels.

Management Response - Audit of 2012

The Management has agreed with all our finding and recommendations and are committed to address our recommendations.

1 Audit Scope and Methodology

It is the responsibility of Rahovec Municipality to prepare financial statements under the International Public Sector Accounting Standards (IPSAS) for 'Financial Reporting under the Cash Basis for Accounting'. The Office of the Auditor General is responsible for carrying out a Regularity Audit which involves the examination and assessment of Financial Statements and other financial records and expression of opinions on:

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

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

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review. An evaluation of management responses to the recommendations made in 2011 can be found on Appendix II.

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

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

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

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

2 Annual Financial Statements

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

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

2.1 Compliance with the Reporting Framework

Overall Conclusion

Municipality prepared AFS in accordance with the requirements of Financial Rule 07/2011 on annual reporting of budgetary organizations and IPSAS "Financial Reporting under the Cash Basis of Accounting", except the assets issue which is addressed in chapter Quality and Accuracy of Information. Advice given on nine month financial statements is addressed by management.

Description

Annual Statements must comply with certain reporting framework. We have observed that:

- AFS are prepared within the time frame and delivered to the MoF;
- AFS are signed by the CAO(Mayor) and CFO;
- AFS are submitted in Albanian and Serbian;
- Financial Statements are prepared in hard and electronic copy; and
- Municipality prepared and submitted regular quarterly reports to the Minister of MoF in 2012.

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

Overall Conclusion

AFS, except for full assets disclosure, were prepared in accordance with the requirements of the Financial Rule no. 07/2011, and IPSAS "Financial Reporting under the Cash Basis of Accounting" where is used a standard reporting format.

1. Issue - AFS Production Process - Priority Significant

Finding In Note 30: Summary of non-financial assets, the value of assets presented in AFS is not correct, since it did not include all Municipality owned assets. We have identified assets worth € 2,419,356 that are not presented in AFS.

In Note 31: Summary of non-financial assets valued under € 1,000, Municipality presented a value of € 473,000. In the absence of clear data, we were unable to verify the accuracy of the amounts presented in the AFS.

Risk Failure to present the correct value of assets leads to misunderstanding of the Municipality's financial position, and the possibility of misunderstanding future budget requests. Moreover, it disables an effective management of assets.

Recommendation 1 The Mayor should ensure that systematic plan of financial statements preparation incorporates the requirement to include all assets' values. The Mayor needs to monitor the implementation of this requirement.

2.3 Audit Opinion

In our opinion the Annual Financial Statements *present a true and fair view* in all material aspects.

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

3 Prior Year Recommendations

Overall Conclusion

Municipal management has only partially addressed our recommendations given last year. As a result, same previous year's weaknesses are repeated.

Description

OAG contracted "Grant Thornton" audit company for the audit of the 2011 Rahovec AFS, which resulted in giving 10 (ten) key recommendations. Municipality's Management has not prepared an Action Plan to implement recommendations.

At the end of the audit, we noted that two (2) recommendations are fully addressed, 6 (six) have been partially addressed or are in the process of being addressed, and 2 (two) are not addressed at all. For a more complete description of the recommendations and how they were addressed, see Annex II at the end of this report.

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

Finding Municipality failed to address two (2) recommendations, and partially implemented six of them. Unaddressed recommendations are related to areas: the overall budget performance and Subsidies.

Risk Failure to address the recommendations increases the risk that internal control weaknesses in key financial systems result in repetition of budget execution weaknesses.

Recommendation 2 The Mayor should provide an action plan to address the OAG recommendations, which clearly sets a timetable and staff members accountable, with initial focus on areas of major importance.

4 Financial Management and Control

4.1 Introduction

Our audit approach is focused on understanding and evaluating the actions taken by management to ensure effective financial management and control. For individual financial systems we seek to identify the level at which actual controls operate. This may, for example, be monitoring activity undertaken by senior management or lower level operational controls. We consider whether controls are well designed, have been implemented as planned and operate effectively. This requires an assessment of structures, processes and accountability lines introduced by management.

Where appropriate, we also consider self-assessment made by the management of the municipality according to the requirements of financial management and controls.

4.2 Budget Planning and Execution

Overall Conclusion

Municipality spent its final budget at the rate of 98%, which can be considered as high performance execution. For the quality of spending and the procedures followed, we'll talk in the following.

Description

We have considered the source of budgetary funds for Rahovec Municipality, spending of funds by economic categories and Revenues collected. This is highlighted in the following tables.

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

Description	Initial Budget	Final Budget	2012 Outturn	2011 Outturn	2010 Outturn
Sources of Funds	9,362,487	10,495,095	10,276,518	9,965,837	7,734,525
Government Grant - Budget	8,548,487	9,068,487	9,061,614	8,758,131	7,081,485
Carried forward from previous year ² -	-	342,471	333,620	305,977	115,035
Own Source Revenues ³	814,000	814,000	615,107	633,904	538,005
Domestic Donations	-	32	-	2,380	-
External Donations	-	270,105	266,177	265,445	-

Final budget differs from the Initial Budget for € 1,132,608. This difference is due to the transfer of previous year own source revenues, amounting to € 342,471, undesignated donor grants in the amount of € 270,137, appropriations upon Goods and Services budget review of € 10,000, and upon Kosovo's Government decision for Rahovec Municipality are appropriated € 415,000 for Capital Projects, € 30,000 for Wages and Salaries, € 50,000 for Goods and Services and € 15,000 for Utilities.

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

Description	Initial Budget	Final Budget	2012 Outturn	2011 Outturn	2010 Outturn
Spending of funds by economic categories	9,362,487	10,495,095	10,276,518	9,965,837	7,734,525
Wages and Salaries	5,105,700	5,365,700	5,361,722	5,151,332	3,995,808
Goods and Services	740,367	956,669	939,328	876,762	608,556
Utilities	277,758	292,758	292,565	268,618	268,103
Subsidies and Transfers	100,000	100,000	94,141	123,759	119,679
Capital Investments	3,138,662	3,779,968	3,588,762	3,545,366	2,742,379

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

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

³ Municipality Own Source Revenues planned

Budget is spent around 98% in the general level, which can be assessed as a high performance.

Table 3. Own source revenues of Municipality collected in 2012 (in €)

Description	Initial Budget	Final Budget	2012 Outturn	2011 Outturn	2010 Outturn
Own source revenues	814,000	814,000	800,404	888,000	784,000

As seen from the table, for 2012 are collected 98% of the projected revenues, indicating the plan's implementation. However, if we compare it to the revenues collected in 2011 there was a decline of about € 87,500. The decline was affected by Traffic Fines and Court Fines.

4.3 Reporting Requirement

Overall Conclusion

Municipality has not fulfill all legislation requirements regarding external reporting. Municipality has performed no self assessment, as required by the FMC rules, has not prepared the Action Plan for implementing prior year recommendations and did not submit monthly reports on debts to MoF. Therefore, the Municipality did not comply with all the requirements arising from the reporting area.

Description

We have found that Municipality meet the following external reporting requirements:

- Budget Request for funding capital projects at the Ministry of Finance;
- Quarterly reports, including nine month financial statements on time;
- Operational (performance) Reports;
- Draft and final procurement plan in time.

Recommendations

We recommend the Mayor to initiate and fulfil the self assessment of its own systems requirement, in order to ensure that its resources are spent according to the principle of value for money, in an efficient, effective and economic manner. Also, reports on debts

must be submitted to MoF in monthly basis and must be prepared a plan for implementing recommendations.

4.4 Revenues (including own source revenues)

Overall Conclusion on Revenues

Municipality of Rahovec has established good controls on revenues. Despite improvements, the Municipality must prepare a property tax plan based on proper analysis under based realistic charges, must draw clear policies by including appropriate mechanisms for collecting previous years debts. Concerning leased properties, must terminate contract extension practices before the payment of all outstanding liabilities is made.

Description

Revenues collected in 2012 totalled € 800,404. These amounts collected are related to property tax revenues, lease revenues, administrative fees, etc.

3. Issue - Property tax - Priority Significant

Finding In 2012, Municipality planned to collect the amount of € 210,000 from property tax, but collected € 265,460. This shows a plan excess, but based on the previous year revenues of € 228,839 appears to be a poor planning, since 2012 planning is lower than the 2011 collection.

From the property tax database, we took 36 samples for testing worth € 45,259. From them, 18 have not paid the 2012 taxes in the amount of € 13,726. The accumulated debt to Municipality for this tax was € 1,244,107. Municipality has neither developed a plan nor a strategy on how to collect old debts.

Risk Planning policies seem to be weak to ensure revenue maximization, operational controls are also ineffective. Thus we may have revenues underpayment. Delays in collecting revenues, affect failures in management decision-making on projects funded from this source.

Recommendation 3 The Mayor should have a comprehensive approach on handling revenues in terms of planning, as well as in the establishment of effective mechanisms for achieving planned parameters. The

Mayor should initiate a reassessment process, where all accounts will be analyzed in terms of age, significant amounts, realistic collection possibilities and the exercise of administrative measures (if necessary).

4. Issue - Lease revenues - Priority Significant

Finding From properties leased, Municipality planned to collect € 41,000, but collected € 40,125. We tested nine samples and have identified the following shortcomings:

In 5 (five) cases Municipality extended lease contracts for different entities, even though they never made any payments to Municipality. Their total debt accumulated through the years is valued € 136,034.

Risk There are unclear reasons for extending contracts to entities that have never paid. Non-payment under contract obligations by lease holders and their contract extension by Municipality while prior obligations are not fulfilled, increase the risk of revenue underpayment and in failure of projects planned from these resources.

Recommendation 4 The Mayor should review these contracts and insist on remaining debt's collection. On the contrary, the contract should be terminated. The Mayor should perform continuous contracts review and should strengthen controls.

4.5 Expenditures

Overall Conclusion on Expenditures

Although Municipality has formally designed controls on spending, they do not operate properly. Payments in some cases without procurement procedures, non-compliance with 96 hours bids opening deadline up to the bids evaluation committee establishment, rewarding ineligible bidders, are only few cases that describe controls' failures.

4.5.1 Procurement

Description

Contracts concluded for 2012 were in the amount of € 3,992,897.

We have analyzed whether Capital Investment projects have been included in the PIP and in medium term expenditure framework. Also, we reviewed whether any changes occurred on projects planned to be implemented during the year. Concerning this, we assessed that there are no issues to raise in this report.

We examined 63 samples (payments) worth € 1,231,773. Except as identified in the following, procurement procedures are in compliance with legal applicable rules.

5. Issue - Irregular payments' certification - Priority Significant

Finding

During the Capital Investment category testing, in six (6) cases we identified that Municipality made payments in the amount of € 11,803 from the Capital Investment's code, without procurement procedures, only upon Mayor's decision. Projects paid for were: painting and repair of stalls, drinks and food at the folklore festival, traffic lights maintenance, fair's advertising, sewage construction and paving with concrete cubes, barrier construction at the courtyard entrance.

Also, in eight (8) other cases, payments were made upon Mayor's decision in the amount of € 13,400 from the Capital Investment category for financial support of Municipality's sports clubs and various NGOs. These payments, lacked beneficiaries' requirements and reports on funds usage. Financial support of clubs and NGOs was performed without procurement procedures.

Risk

Payments executed from inadequate categories, increase the risk of budgetary planning deviating from the initial allocations. Moreover, payments out of procurement procedures harm processes' competition and transparency.

Recommendation 5

The Mayor must ensure that the budget will be implemented in accordance with prior approvals and that all expenditures are made from appropriate budget categories. On the contrary, must follow normal procedures for budget transfers from one economic category to another. Also, procurement procedures and beneficiaries reporting must be applied.

6. Issue - Awarding ineligible EO - Priority Significant

Finding Municipality performed the open tender procedure for "Supply with administrative material" which had 6 bidding EOs. 2 of them were assessed as eligible. Tender dossier requirements were that bidders submit original documents or certified copies. Documents provided by the awarded EO Office 1 Kosov, ATK certificate and property tax certificate, were neither original nor certified copies. Municipality processed and awarded the contract to the above mentioned EO in the absence of two eligible economic operators.

Risk Non-compliance with the required criteria during bids evaluation resulted in awarding the contract to an ineligible Economic Operator, which is not in accordance with procurement regulations.

Recommendation 6 The Mayor must ensure that procurement service manages the procurement process based on legal requirements, across all phases, by complying with all criteria preset in the tender dossier.

7. Issue - Notification of unsuccessful bidders - Priority Other

Finding The legislation provides that the Contracting Authority, either through electronic documents or other forms of communication, informs the eliminated EO on the reasons of such decision. In the revised tender dossiers we identified 8 (eight) cases where municipality has not notified the eliminated EO. These cases are presented in the following: "Supply with food and hygiene-sanitation materials for Rahovec Municipality needs", "Technical material supply for Rahovec Municipality needs", "Supply with furniture for FMCC needs", "Administrative material supply", "Supply of wood and coal for Rahovec Municipality needs", "FSA building and school yard fence construction in the village Xerxë", "Construction of sewage system in village Pataqan i Poshtëm" and "Facade of residential buildings in Rahovec"-Retendering.

Risk Not notifying the EO eliminated, risks that EO is not timely informed on CA's decisions and may lose the right of appeal to the competent authorities.

Recommendation 7 The Mayor should ensure that all eliminated bidders, are timely informed and according to legislation prescribed manners, even by explaining their rights and appeal possibilities. Notifying EOs is a

legal requirement, and as such, should implement by the procurement service.

8. Issue - Incompliance with legally set deadlines when forming bid evaluation committees – Priority Other

Finding We noticed that concerning 8 (eight) procurement process cases, the tender evaluation committee establishment was delayed around 9 to 20 days. According to public procurement Operational Instruction, tender evaluation process should begin no later than 96 hours after tender opening process completion.

Risk Non-establishment of evaluation committees within the legal limit of 96 hours from the opening of bids, have no financial impact, however, such cases are not in accordance with the procurement rules.

Recommendation 8 The Mayor should ensure the establishment of evaluation committees within defined deadlines, immediately after bid opening process within specified time limits.

4.5.2 Remunerations (Wages and Salaries)

Description

Planned budget for Wages and Salaries was € 5,365,700, while expenditures for this category were € 5,361,722. This category's budget was spent in maximum degree.

Wages and Salaries are paid through a centralized government system. Controls that operate at the local level by municipalities deal with: a) every month payments' control by signing the payroll, b) verification of possible changes that may occur through forms, and c) reviewing the budget for this category and reconciliations with the Treasury.

For this category we tested 40 samples. We reviewed whether the payroll is in accordance with the payroll system in MAP. We have checked whether the positions of officials and their multipliers are in accordance with the payroll form as well as personnel records regularity, process of employees' contract extension, recruiting new staff, and noticed that:

9. Issue - Payments processing – Priority Significant

Finding In two (2) maternity leave cases, Municipality continued to pay 70% of the basic salary 6 months after using the leave. According to

labour law, Municipality should pay only for the first 6 months, while in the third period, payment is done by the Government for 50% of the average wage in Kosovo.

In seven cases, payment for overtime work, Municipality has not followed all procedures prescribed by the law, which determines that prior to overtime work performed, must obtained the supervisor's authorization to allow extra hours. The cases also lacked supervisor's written confirmation on the actual hours completed.

Risk Personnel Office has not updated personnel files, therefore, these incorrect payments occurred. This increases the risk executing payments in contrary to the law and to the applicable rules.

Recommendation 9 The Mayor through his mechanisms should make a systematic review of personnel files to ensure that all documentation and necessary changes are included, within the specified time period. The Mayor should review the case if the payments were based.

10. Issue - Failing of Recruitment procedures- Priority Other

Finding According to Recruitment Rule no. 02/2010 is required that, during recruitment process, at least five candidates must be present in order to develop the procedure further. In vacancy notice no. 1833/2012-Assistant in the Office of Tourism , in the applicants' list, there are less than five candidates when the candidate was selected.

Risk Non-compliance with recruitment procedures may result that the staff selected may not have the requisite competence to perform their duties and responsibilities in relation with the position's requirements.

Recommendation 10 The Mayor should ensure that in case of staff's recruitment, the process is objective and transparent, aiming to hire qualitative and convenient staff for the Municipality.

4.5.3 Subsidies and Transfers

Description

For 2102, Municipality budgeted to Subsidies and Transfers the amount of € 100,000, of which € 94,141 was spent. These Subsidies are allocated mainly for public and non-public entities (individuals) upon Mayor's decision. Municipality did not have sufficient controls to administer the track of allocated funds . We have tested 16 samples in this category amounting to € 27,727 and identified the following issues:

11. Issue - Legal base - Priority Significant

Finding Municipality has no written rules for the appropriation of funds as Subsidies.

Risk Planned expenditures for Subsidies and Transfers may have not achieved their goal. Lack of internal policies/rules, reflects the shortcomings of procedures followed on subsidizing.

Recommendation 11 The Mayor should ensure that it will adopt a rule which clearly specifies the criteria, procedures and Subsidy sources.

12. Issue - Lack of supporting documentation - Priority Other

Finding Municipality subsidized the company "Destani Trans" to perform transportation services for the association for preservation of cultural and artistic values "Arberia", in the amount of 1,400 €. We haven't been able to see evidence for services rendered, such as: list of participants (passengers) or a final report by the beneficiaries on how funds are spent.

A similar case was also the subsidizing of football club "Rahoveci" with two payments, in the amount of € 2,000 and € 2,800.

Risk Lack of feedback, such as financial reports and other descriptive reports, do not assure that expenditures for Subsidies and Transfers have achieved their goals.

Recommendation 12 The Mayor should ensure the establishment of appropriate procedures and controls on subsidy expenditures in line with initial appropriations.

4.6 Assets

Overall Conclusion on Assets

As a result of asset's registry improvements, the assets recorded value has significantly increased compared to previous year. However, a complete and reliable registry is not yet finalized. It remains a management's objective that needs addressing in the future. An inventory committee was established, but no report was prepared, which resulted in non reflection of changes in the final records. We were unable to confirm the total of assets valued under € 1000 disclosed in the financial statements.

4.6.1 Capital and non capital assets

Description

At the end of 2011, total net assets value in accounting records was € 222,508, while at the end of 2012 it was € 88,750,211. This increase is due to earlier assets registration.

13. Issue - Assets recording and updating - Priority Significant

Finding Municipality has not performed regular recording and updating of the assets accounting registry. An inventory committee was established in September 2012, but has not prepared any report. During the audit, we reviewed payments made for Capital Investments during the 2012 and identified cases where Municipality has not recorded its assets, as follows:

- Administrative business building - € 53,628;
- Cultural buildings - € 139,872;
- Local Roads - € 495,996;
- Sidewalks - € 56,667;
- Sewage network - € 363,879;
- Water supply network - € 70,045;
- Vehicles (ambulances) - € 44,942;
- Electrical Transformer - € 35,939;
- Other capital - € 357,582.

Municipality does not maintain a separate internal register of assets valued over € 1000 in accordance with Article 11 of AI 21/2009.

The Instruction requires assets' recording based on the invoice and assets receipt. Assets Officer, during assets recording in KFMIS accounting records, does not use source documents such as Payment Obligation Order, Invoice or other documents which prove that assets were purchased or received as donation.

Risk Failure to record all assets, affected in incorrect and incomplete values disclosed in the financial statements. Also, an incomplete registry represents a constant potential risk of loss, misuse or alteration of assets.

Recommendation 13 The Mayor should initiate a systematic assets registration process. The Mayor should ensure that as soon as possible establishes a committee which would fairly assess and correctly register all

Municipality owned fixed assets, and monitors the evaluation results.

5 Internal Audit System

Overall conclusion on Internal audit system

Internal Audit Unit consists of the Director and one auditor. Reports were carried out according to plan, by covering 2011 and 2012.

We have reviewed the Audit Committee's work, which held regular meetings and handled the OAG's and the IAU's recommendations.

Description

Internal Audit System is a key part of internal control and because of its importance, we are presenting it here separately: the scope of Internal Audit work and Audit Committee activities.

IAU in 2012 was scheduled to perform six (6) audits and achieved its plan, with the scope in 2011 and 2012. Audits were conducted in areas: (a) expenditure and revenue management in Family Medicine Centre, (b) Procurement process audit, (c) audit of revenues and expenditures in the Budget and Finance department, (d) the audit of the department of Urbanism, Spatial Planning and Environmental Protection on construction licenses, urban licenses, municipal service taxes, (d) audit of the Education department on revenues and expenditures and (f) the audit of department of the General Administration revenues. Also, upon Mayor's request, IAU performed an audit on the use of temporary facilities in the Municipality.

14. Issue - Addressing IAU recommendations - Priority Other

Risk During the audit, we noticed that addressing of IAU's recommendations was not taken seriously by the management.

Risk Failure to provide an action plan and not addressing recommendations increased the risk of same weaknesses repetition and in certain cases may lead to financial loss.

Recommendation 14 Mayor should draft an action plan and determine how the IAU findings and recommendations will be addressed by all management levels. IAU must focus more on current year audits.

6 Overall conclusion

Our overall conclusion reflects our review of controls related to AFS, Financial Management and Control and Internal Audit System.

Our conclusion is that the Municipality's management designed the internal audit system at a satisfactory level, but the system must be continuously monitored in order to ensure that controls are in place.

In the following are presented areas where shortcomings are noticed and outlined in this report, and which should have management's attention, in particular:

Financial Statements - Municipality has not disclosed complete value of assets valued above and below € 1,000, therefore, the current state of assets accounting records could not be understood.

Management made efforts to address our recommendations, but they did not achieve to address them at the required level. We believe that management should handle audit recommendations more determinedly.

Revenues – although, in percentage, the plan was almost fully achieved, deficiencies are present in the planned financial amounts. The Municipality planned less amounts of collected revenue than in 2011 and the situation seems a bit dim. Accounts receivable contain high amounts of uncollected debts, where only property tax amount is over 1.2 million. There has been a reassessment of debt and tax charge bases. The Municipality does not have a strategy on how to deal with these accounts. Leases are not paid by contractors, and despite this, Municipality has extended their contracts. Poor monitoring controls function.

Unto the contracting of Capital projects and the supply of Goods and Services procurement procedures are not applied, by contracting ineligible bidders, delaying the establishment of evaluation committees, not notifying eliminated operators, etc. The criteria defined in the tender dossier, is not implemented by the evaluation committee. In addition, payments incurred from Capital Investment category without conducting procurement procedures.

Subsidies continue to be appropriated without any rules that would specify the conditions, criteria, priorities, reporting, etc.

Lack of assets registration also offers no real insight on the Municipality's existing assets, thus, assets are not a subject of management's sufficient controls, thus increasing the risk of their loss or misuse.

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

(extract from ISSAI 400)

9. An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse (paragraph 14) or a disclaimer (paragraph 15) of opinion.

10. An unqualified opinion is given when the auditor is satisfied in all material respects that:

- a) the financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
- b) the statements comply with statutory requirements and relevant regulations;
- c) the view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- d) there is adequate disclosure of all material matters relevant to the financial statements.

11. **Emphasis of Matter.** In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references which are meant as "emphasis of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

12. An auditor may **not be able to express an unqualified opinion** when any of the following circumstances exist and, in the auditor's judgement, their effect is or may be material to the financial statements:

- a) there has been limitation on the scope of the audit;
- b) the auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or
- c)]there is uncertainty affecting the financial statements.

13. **Qualified Opinion.** Where the auditor disagrees with or is uncertain about one or more particular items in the financial statements which are material but not fundamental to an understanding of the statements, a qualified opinion should be given. The wording of the opinion normally indicates a satisfactory outcome to the audit subject to a clear and concise statement of the matters of disagreement or uncertainty giving rise to the qualified opinion. It helps the users of the statements if the financial effect of the uncertainty or disagreement is quantified by the auditor although this is not always practicable or relevant.

14. **Adverse Opinion.** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.

15. **Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

16. It is customary for SAIs to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

Annex II: Prior year recommendations

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
5. AFS	We recommend the Mayor to ensure that the preparation of the Municipality's financial statements should include procedures and tools that are designed to ensure that information required is recorded, processed, summarized and appropriately reported in the financial statements.	Yes		
6.1 Revenues	We recommend the Mayor ensures that the Municipality takes steps to improve the billing and accounting systems in order to ensure safe, efficient and effective controls on the billing and the revenue. Improvement of the procedures related to such systems would enable the management to monitor and manage significant risks,		Partially.	

	and to ensure that decisions related to budgeting, planning and collection of revenues are properly carried out.			
6.2.1 Wages and Salaries	We recommend the Mayor ensures to sign every month each employee list of salaries. Further, recruitment and personnel files are properly maintained with all required documents as per law in force.	Yes		
6.2.2 Procurement	The Municipality establish sufficient adequate control procedures for effective monitoring over the compliance with the applicable laws and regulations. We recommend the Mayor to ensure the Municipality to apply properly the contractual terms and conditions and to apply the penalties when the contractor will not finish the project on time. This applies especially when the request to extend the deadline before it expires as determined in the contract, was not submitted.		Partially.	
6.2.3 Subsidies	The Municipality establish sufficient			No

	adequate control procedures for effective monitoring over the compliance with the applicable laws and regulations.			
6.3 Assets	We recommend the Mayor to ensure that the Municipality develops and communicates a set of policies and procedures regarding property, plant and equipment. Management should perform physical count and verification of the existence of all tangible assets and to maintain and record the property, plant and equipment register on annual basis. Missing items should be investigated and if necessary written-off.		Partially	
6.4 Handling of Debts	We recommend the Municipality's Mayor to follow all provisions of Treasury Guidelines and financial rule 02 - Expenditure of public money issued from the Government of Kosovo and to settle the liabilities within 30 days.		Partially	
6.5 Current	We recommend the Mayor ensures that			No

reporting and timelines in overall budget process	the Municipality considers the following to establish control and takes appropriate responsibility to fulfil the requirements for external debt reporting according financial rule 04/2011.			
7.1 Internal Control System	We recommend the Municipality to ensure that: The overall financial administrative and managerial controls are strengthened; and Immediate actions are taken securing a better handling of shortcomings in the implementation of internal control.		Partially	
8. Overall conclusion on Municipality Management	We recommend the Municipality to ensure that clear policies on all Municipality's important activities are issued and that an action plan specifying immediate actions to be taken is drafted.		Partially	