



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

**Document No: 22.37.1-2013-08**

**AUDIT REPORT**  
**ON THE FINANCIAL STATEMENTS OF THE MITROVICA NORTH**  
**ADMINISTRATIVE OFFICE FOR**  
**THE YEAR ENDED 31 DECEMBER 2013**

**Prishtina, June 2014**

The Office of the Auditor General undertakes both Regularity and Performance Audits. The Auditor General Lage Olofsson is the head of the Office of the Auditor General which employs around 145 staff. The Auditor General and the Office of the Auditor General 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 Office of the Auditor General 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 report on the Annual Financial Statements of the Mitrovica North Administrative Office in consultation with the Assistant Auditor 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, Faruk Rrahmani, supported by Svetlana Perovic (Team leader), and team members Stana Dancetovic and Agim Sogojeva.

## TABLE OF CONTENTS

Executive Summary .....	4
1 Audit Scope and methodology .....	7
2 Annual Financial Statements and Other External Reporting Obligations .....	8
3 Prior Year Recommendations .....	12
4 Financial Management and Control.....	13
Annex I: Explanation of the different types of opinion applied by the OAG.....	27
Annex II: Prior year recommendations.....	30

## Executive Summary

### Introduction

This report summarises the key findings from our audit of the 2013 Annual Financial Statements of Mitrovica North Administrative Office, which determine the Opinion given by the Auditor General. I would like to thank Chief Executive Officer for her assistance during the audit process.

The examination of the 2013 annual financial statements was undertaken in accordance with the Internationally Recognised Public Sector Auditing Standards. 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 07.10.2013.

Our audit focus has been on:

- The compliance with the reporting framework and the significant risks to the Annual Financial Statements highlighted in the Audit Planning Memorandum;
- The response to our 2012 and earlier recommendations; and
- The Financial Management and Internal Control (including budget execution and management).

The level of work undertaken by the Office of the Auditor General to complete the 2013 audit is a direct reflection of the quality of the internal controls implemented by management.

## Opinion

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

The Auditor General's opinion is:

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

### *Emphasis on Matter*

We would also like to draw your attention to the fact that the Mitrovica North Administrative Office did not fully disclose the non-financial assets value in the Annual Financial Statements.

The assets owned by Mitrovica North Administrative Office were not fully presented. The vehicles donated by International Civilian Office in the amount of €96,989 and three vehicles donated by the Ministry of Local Government Administration were neither recorded in the accounting register nor presented in the Annual Financial Statements.

**(ISSAI 200: Unmodified Opinion with an Emphasis on Matter).**

## Overall Conclusion

Our overall conclusion based on the detailed sections of this report is that, the management has designed an internal control system, but these controls have poorly operated during 2013. In particular, we have identified:

- While the Annual Financial Statements addressed the majority of requirements, there were a number of omissions and errors presented for audit. Most emphasised shortcomings were found in the information given in relation to assets;
- A part of 2012 and prior year's key recommendations have not been addressed yet. This result in continued control weaknesses/poor value for money;
- Revenues were not managed at a satisfactory level. Mitrovica North Administrative Office did not plan revenues accurately. On the other hand, the collection rate was low;
- Systematic weaknesses in the area of procurement, from the drafting of procurement plan, follow-up of procurement procedures up to the contract management. The contract management process was accompanied by inadequate controls, reports without clear specifications as well as lack of technical acceptance for works completed; and

- The Subsidies were granted in absence of a Regulation on granting subsidies. Subsidies allocated were not accompanied with feedback reports and did not provide assurance that intended objectives were achieved.

**The Auditor General's key recommendations are as follows:**

**The Mayor / Chief Administrative Officer should ensure that:**

- The 2014 Annual Financial Statements production process formally incorporates the review of draft accounts with specific focus on areas considered of high risk of errors or areas where errors have been identified in previous year;
- A revised action plan clearly sets out a timetable for addressing the recommendations made by the Auditor General with accountable staff members identified and initial focus on those areas of greatest significance;
- The Procurement Department draft a procurement plan and eliminated shortcomings in the procurement area, thus ensuring that objectives are reached and value for money spent is achieved through the conducted procurement;
- Special attention is paid to issues related to own source revenues collection, allocation of subsidies and registration of assets owned by the Office in order to further improve the areas where shortcomings were found; and
- Findings and recommendations given in this report will be taken into consideration by the management as well as discussed and addressed at all levels of management in order to strengthen Financial Management and Control.

**Management's response - 2013 audit**

Management has agreed with all audit findings and has committed itself to address our recommendations.

# 1 Audit Scope and methodology

It is the responsibility of Mitrovica North Administrative Office (MNAO) to prepare Annual Financial Statements (AFS) under the International Public Sector Accounting Standards (IPSAS) for 'Financial Reporting under the Cash Basis for Accounting' and other specific requirements. The Office of the Auditor General (OAG) is responsible for carrying out a Regularity Audit which involves the examination and evaluation of the AFS and other financial records and expression of opinions on:

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

We have considered the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the Auditor General's (AG) opinion on the AFS.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review.

For completeness we have included issues identified at the interim audit where they remain relevant. Our findings are defined as:

**High Priority** - issues which 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 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. Findings considered of low priority will be reported to finance staff.

## 2 Annual Financial Statements and Other External Reporting Obligations

### **Overall Conclusion**

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

The declaration regarding presentation of the AFS incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the financial statements. 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 Audit Opinion

### Unmodified Opinion<sup>1</sup> with Emphasis on Matter

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

#### *Emphasis on Matter*

We would also like to draw your attention to the fact that the Mitrovica North Administrative Office did not fully disclose the non-financial assets value in the Annual Financial Statements.

The assets owned by Mitrovica North Administrative Office were not fully presented. The vehicles donated by International Civilian Office in the amount of €96,989 and three vehicles donated by the Ministry of Local Government Administration were neither recorded in the accounting register nor presented in the Annual Financial Statements.

**(ISSAI 200: Unmodified Opinion with an Emphasis on Matter).**

## 2.2 Significant risks to the Annual Financial Statements

### **Description**

Our Audit Planning Memorandum dated 07.10.2013 identified a significant risk to the AFS related to the completeness of assets. These are risks of material misstatement that may result in a modified opinion including an Emphasis of Matter.

### **Risk Identified**

#### **Issue 1 - Lack of asset registration**

Assets owned by MNAO have not been identified and recorded properly, resulting in material misstatements in the asset registration. Information presented in the AFS relating to assets is incomplete.

---

<sup>1</sup> The term, "unmodified opinion" is equivalent to the term, "unqualified opinion" used in our previous year's reports. The new wording is in accordance with the new INTOSAI audit standards (ISSAI 200). For more information refer to Annex 1.

---

## Finding

We reviewed management controls in order to verify the completeness of records relating to 2013 and previous year's capital expenditures. In the Interim Audit Memorandum, we advised the management on the actions required to ensure that the assets figure in the AFS was correct.

However, the risk identified has materialised because the management has been unable to implement the necessary improvements in internal control and we have confirmed that assets values presented in the AFS are materially incorrect.

**Recommendation 1 High Priority** - The Mayor/CAO should identify the appropriate action to address these control weakness in order to enable true and fair presentation of assets in 2014.

## 2.3 Compliance with AFS reporting requirements

### Description

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

- Compliance with Financial Rule no. 03/2013;
- Requirements of Law no. 03/ L-048 on Public Financial Management and Accountability;
- AFS were prepared in Albanian and Serbian;
- AFS were signed by CAO and CFO; and
- AFS were submitted in a soft copy and hard copy.

Although, some issues relating to the reporting framework and the disclosure of fixed assets were addressed in the interim audit memorandum, we have found that they were not addressed by the management. We have identified the following discrepancies:

## Issue 2 – Presentation of Annual Financial Statements – High Priority

**Finding** In the Notes 30 and 31: Summary of non financial assets over and under €1,000 - we have found that the whole assets owned by MNAO were not presented. We tested the vehicles donated by ICO in the amount of €96,989 and three vehicles donated by the Ministry of Local Government Administration, which were not recorded in the accounting register.

In addition, equipment and different assets with no material value were presented in the e-Assets register.

**Risk** Shortcomings identified at the fixed assets increase the risk that assets may not present their accurate balance in 2013 AFS.

**Recommendation 2** The Mayor/CAO should ensure that the 2014 AFS production plan has addressed the areas considered with high risk of error, or areas where errors have been identified in previous years. Adequate training courses for the staff should be provided in order to make them able to record and prepare AFS according to all legal requirements and financial rules.

## 2.4 Compliance with other external reporting requirements

### Description

MNAO is required to address the following external reporting obligations other than producing AFS: We have found that the following reporting was accomplished;

- Budget request;
- Quarterly reports including nine month financial statements;
- Report on outstanding liabilities.

The following reports were not submitted:

- Preliminary plan and final procurement plan;
- No self assessment and risk assessment conducted; and
- Operation (performance) reports.

**Recommendation 3 High Priority** - The Mayor/CAO should ensure that external reporting requirements are fully met in order to achieve operations in accordance with the external reporting framework.

## 3 Prior Year Recommendations

### Overall Conclusion

Audit recommendations aim at supporting the management in the improvement of financial controls and increasing other aspects of operational activities. We considered the responses to our 2012 recommendations.

The MNAO management prepared the action plan for the implementation of recommendations in time.

### Description

Our Audit Report on the 2012 AFS of MNAO resulted in six key recommendations. At the end of our 2013 audit, we found that two recommendations implemented, two are partially addressed; and two recommendations have not been addressed yet.

---

### Issue 3 - Addressing Prior Year Audit Recommendations - High Priority

**Finding** Only a part of prior year's recommendations has been implemented because MNAO did not implement any formal process to manage and monitor how the AG's recommendations are implemented.

**Risk** The continued weakness of internal controls in key financial systems such as preparation of procurement process, development of procurement processes and non registration of assets has resulted in:

- Continuous organisational inefficiency and acceptance of poor value for money in the procurement practices; and
- Same weaknesses and repetition of recommendations.

**Recommendation 4** The Mayor/CAO should ensure that a revised action plan clearly sets out a timetable for addressing the recommendations made by the AG with accountable staff members identified and initial focus on those areas of greatest significance.

## 4 Financial Management and Control

### Overall Conclusion

Our audit approach is focused on understanding and evaluating the actions taken by management to secure effective financial management and control and the results thereof. 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, but are not being implemented in practice and do not operate effectively. This requires an assessment of structures, processes and accountability lines introduced by management.

We have found that MNAO did not take into consideration self-assessment in the context of Public Finance Management both in terms of Public Expenditures and Financial Accountability assessments and Public Internal Financial Control self-assessment.

We found that while controls over revenue are on a medium level, controls over a range of expenditure areas require further enhancement to prevent MNAO from suffering financial loss, poor value for money and ineffective projects management. The main areas where most improvements are required are: Procurement, Budget Execution and Internal Audit.

## 4.1 Budget Planning and Execution

### Description

We have considered the source of budget funds for MNAO, spending of funds by economic categories and revenues collected. This is highlighted in the following tables:

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

Description	Initial Budget	Final Budget <sup>2</sup>	2013 Outturn	2012 Outturn
<b>Sources of Funds</b>	<b>4,615,645</b>	<b>4,867,602</b>	<b>3,745,762</b>	<b>1,258,758</b>
Government Grant -Budget	4,517,965	4,595,965	3,573,187	1,258,658
Carried forward from previous year <sup>3</sup> -		21,832	20,500	
Own Source Revenues <sup>4</sup>	97,680	97,680	0	
External Donations	-	152,125	152,075	-

The data in Table 1 show that final budget was higher by €251,957 compared to the initial budget. This increase is a result of Revenues carried forward from the previous year, in the amount of €21,832, donation from the Government of Norway in the amount of €149,625, donation from the Government of Czech Republic in the amount of €2,500 and from the Ministry of Local Government Administration (MLGA) €78,000.

The Budget was used at around 77%. Our assessment is that the budget was executed to satisfactory extent given the political circumstances MNAO has been operating under.

<sup>2</sup> Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

<sup>3</sup> Own Source Revenues of municipalities unspent in previous year carried forward into the current year.

<sup>4</sup> Municipality own source revenues planned and collected in current year.

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

Description	Initial Budget	Final Budget	2013 Outturn	2012 Outturn
<b>Spending of funds broken down by economic categories</b>	<b>4,615,645</b>	<b>4,867,603</b>	<b>3,745,762</b>	<b>1,258,658</b>
Wages and Salaries	2,818,151	2,896,151	2,376,703	857,591
Goods and Services	349,090	648,715	628,519	130,752
Utilities	43,572	43,572	39,071	642
Subsidies and Transfers	47,000	71,332	49,584	0
Capital Investments	1,357,832	1,207,832	651,885	269,673

Explanations for changes in budget categories are given below:

- This year's substantial increase of budget for Wages and Salaries was as a result of the planning to transfer the staff employed in Health and Education into the Payroll System of Kosova. An additional increase of €78,000 in the budget for Wages and Salaries is a result of allocation by MLGA. Despite the available budget, the amount of €519,448 from this category remained unspent as a result of setbacks in this process. The process of transfer was finalised in the last quarter. As a result, around 43% was used;
- The increase of budget for Goods and Services by €299,625 includes receipts from external donors in the amount of €149,625, and the other €150,000 has been transferred from the category of Capital Investments. If excluding the part of budget execution by the donors, 40% of this category was spent for renting buildings and land for landfill;
- MNAO had an increase of €24,332 in the category of Subsidies. This occurred as a result of own source revenues carried forward from previous year in the amount of €21,832 and donations from the Government of Czech Republic in the amount of €2,500. MNAO used the budget from this category at 69%; and
- Despite the budget cut of €150,000 in the category of Capital Investments, the budget execution from this category was 54%. This was as a result of non execution of capital projects.

**Table 3 Own Source Revenues budgeted and collected in 2013 (in €)**

Description	Initial Budget	Final Budget	2013 Receipts	2012 Receipts
Own source revenues	97,680	97,680	10,612	107

As it can be noticed in Table 3, revenues in 2013 have increased compared to 2012. Although the extent of revenues collection was only 10% compared to the plan, it is a positive fact that MNAO has commenced with the implementation of regulation on revenue collection, and this is very encouraging.

---

#### **Issue 4 - Budget Execution - High Priority**

**Finding** The Budget was not executed at the expected level, particularly in Capital Investments and Subsidies and Transfers. The budget underspending is as a result of non execution of projects.

**Risk** Inadequate planning of the budget for Capital Projects has led to low budget execution level. This may result in the organisation's failure to achieve the objectives.

**Recommendation 5** The Mayor/(CAO) should systematically monitor budget performance on a monthly basis as well as identify and address 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 balance.



## 4.2 Revenues (including Own Source Revenues)

### Description

Revenues planned in 2013 were in the amount of €97,680€, whilst €10,612 were used. They are related to revenues from administrative fees, issuance of birth certificates, death certificates and issuance of work licenses.

---

### Issue 5 - Planning of Revenues - High Priority

**Finding** MNAO presented a very ambitious plan on the collection of own source revenues. But, this plan was executed not even to an approximate extent due to political well known circumstances / limited possibilities to completely extend and exercise the authority in these administrative unit.

**Risk** The amount of planned revenues for 2013 shows a very ambitious planning which was not well analysed. Lack of complete and accurate register of all debtors makes the forecast difficult in terms of revenue collection.

**Recommendation 6** We recommend the new Mayor/ CAO to take up a rational revenues planning approach, by approving clear collection mechanisms. A complete basis for tax payers and other debtors towards should be initially ensured.

### Issue 6 - Reconciliation of revenues - High Priority

**Finding** We found that revenues collecting departments do not conduct recurrent reconciliations of the revenues collected with the Finance Department.

**Risk** Failure to reconcile revenues among the departments may result in material misstatements and unfair presentation of revenues.

**Recommendation 7** The Mayor/CAO should ensure that regular reconciliations of all kinds of revenues between departments are made. These reconciliations should also be made with the Treasury balance and all differences clarified.

---

## 4.3 Expenditures

### 4.3.1 Procurement

#### Description

In 2013, purchases made through procurement were in the amount of €831,155. We tested 35 contracts entered into through procurement procedures and we tested all payments relating to these contracts.

---

#### Issue 7 – Systematic Weaknesses in Procurement – High Priority

<b>Finding</b>	<p>In reviewing 35 contracts, we identified a number of common shortcomings. In particular, the following issues are:</p> <ul style="list-style-type: none"><li>• MNAO did neither prepare nor submit the initial and final procurement plan;</li><li>• In three cases, we have found that MNAO assessed offers as eligible, irrespective of the fact that tender dossiers submitted by Economic Operators (EOs) were not signed and stamped;</li><li>• Procurement processes were not conducted in compliance with public procurement rules, and in some cases, contracts were not fully implemented according to set specifications;</li><li>• In some procurement processes, EOs were not treated equally; and</li><li>• In the tender “Disinfection and deratting services for the Ibër river bank” the contract of €9,690 was awarded to an EO whose licence had expired (was invalid); and</li><li>• In three cases, we found that requests for initiation of procurement procedures were missing.</li></ul>
<b>Risk</b>	<p>Findings mentioned above show that procurement processes in MNAO were followed by many shortcomings from the beginning. The management controls over this process were at a low level. As a result, there is a risk that the organisation may not manage to receive the best value for the money spent with the procurement conducted.</p>

**Recommendation 8** The Mayor/(CAO) should ensure that the initial and final procurement plans are prepared in order to ensure that procurement processes are managed in accordance with procurement rules. In addition, particular attention should be paid to equal treatment of EOs and contract management in order to ensure that works are completed according to specifications.

The Mayor/(CAO) should also assess officers' professional procurement capacities and enable them to pursue additional skills in the area of procurement.

### **Issue 8 - Shortcomings in the contract management - High Priority**

We have identified that some management controls have not been consistently implemented during the conduct of procurement and resulted in the following weaknesses.

**Finding** In the project "Reconstruction and installation of the electricity network in the library building" in the amount of €9,728 we found that the project was inefficiently supervised. The Oversight Body report did not relate with the contract date and payment date. The oversight body report was dated 17.12.2012; contract was signed on 17.04.2013, whilst the payment was made on 22.05.2013.

In the contract "Projection services of the laboratory and diagnosis centre in Mitrovicë" the payment of services was made on 24.07.2013, whilst the project was accepted by the commission on 11.08.2013.

**Finding** In the contract of five lots "Construction and reconstruction of houses and dwelling buildings in the North Mitrovica" in the amount of €198,000, we have found that:

1. Criteria on the selection of people to benefit from the constructed houses were lacking, although requests were reviewed by a commission of five members;
2. The construction book was held only for Lot 1 in the amount of €27,490, whilst there were no evidences provided to prove that work books were kept for the other four lots; and
3. Technical acceptance confirming that contracted services were complied with was missing in three lots, although the entire contracted amount was paid.

**Risk** Findings relating to contract management show that there is a risk that key shortcomings have occurred in the finalisation of projects and that contracts management could not prevent these irregularities. All these have led to payments made prior to the completion of works, selection of beneficiaries without criteria, poor supervision of projects and other shortcomings.

**Recommendation 9** The Mayor/CAO should ensure adequate supervision during the implementation of procurement process, from the process initiation stage up to the project finalisation. Weaknesses identified show that appropriate measures should be undertaken to improve the control over the supervision of projects within MNAO.

**Issue 9- Procurement office conducts irregular procurement procedures when opening tenders**

**Finding** According to the declaration of the procurement officer, the price offered from one of the economic operators was wrongly read. When a price is wrongly read during the tender opening process, no other action is allowed. The Evaluation Commission verifies the situation and signs the report for calling it off and re-rendering. The tender opening minutes was signed by procurement officer, but not by the Head of Procurement. The Head of Procurement adjusted the minutes but neither him (the Head) nor the commission members signed it.

**Risk** Failure to conduct procurement procedures (tender opening procedures) in accordance with Law on Public Procurement (LPP) creates preconditions for unequal treatment of economic operators.

**Recommendation 10** The Mayor/CAO should ensure that Procurement officers should act in accordance with the applicable Law on Public Procurement also when opening tenders, as stipulated under article 58 of LPP.

## Issue 10 – Frequent use of price quotations – Medium Priority

**Finding** Out of 62 signed contracts during 2013, we found that 51 contracts were with minimal value or low value. Their total value was in the amount of €246,105. We analysed contracts in order to assess whether there tenders were spilt for the purchase of same items.

Our tests have shown that, in different periods of 2013, there were six contracts signed for the purchase of medical inventory, equipments and materials in the amount of €47,488, and three contracts for the purchase of school equipments in the amount of €25,790. The reasons frequently use behind the low and minimal value contracts, were as follows:

- Poor needs assessment; and
- Inability to collect the requests of departments' directors for the purchase of items during the year.

**Risk** Allocation of tenders and avoidance of open procedures increases the risk that MNAO will not be able to accept the value for the money spent. Procurement with such procedures may result in the purchase of same items but with different prices.

**Recommendation 11** The Mayor/CAO should ensure better planning in order that similar products are grouped for the purpose of joint tendering in order to purchase products with better prices.

### 4.3.2 Remunerations (Wages and Salaries)

#### Description

Substantial increase of expenditures for Wages and Salaries particularly in the last quarter occurred as a result of the transfer of staff employed in health and education to payroll system of Kosovo. An additional increase of €78,000 was allocated by MLGA.

Despite the available budget, the amount of €519,448 from this category remained unspent as a result of setbacks in this process. The process of transfer was finalised in the last quarter. As a result, around 43% was. The planned budget for Wages and Salaries for 2013 was €2,896,151, whilst €2,376,703 or 82% was spent.

### **Issue 11 - Employment contracts - High priority**

**Finding** Employees in secondary health care were not registered in the payroll system of Kosovo until 2013. During the meeting held on 18.01.2013, MNAO took the decision that employees had to submit relevant documentation - Kosovo ID, current employment contract, work ID and bank account in order to exercise the right for receiving salaries and sign the employment contract with MNAO.

We tested 16 samples to confirm whether criteria set forth for the transfers made were complied with. We have found that three officers were registered in the payroll system although they did not meet the required criteria, i.e. they did not submit the relevant documentation.

**Risk** Lack of required documentation while transferring the staff may result in the process damaging and violation of criteria set forth by MNAO itself.

**Recommendation 12** The Mayor/CAO should ensure that positions of the three employees identified, which are not in compliance with set criteria, are addressed as a matter of urgency.

### **Issue 12 - Title of position in the payroll list did not comply with the one in contracts - Medium Priority**

**Finding** Our tests identified non harmonisation with the Law on Civil Service (03/L-149). Pursuant to Law, title of the job position in the payroll system should comply with the title of job position in the employment act. We identified 18 cases when employees in the Education Department had different titles in the payroll lists compared to the employment contracts.

**Risk** Non harmonisation of titles in the payroll lists with the employment contracts losses the reliability of the approved positions, and may result in payments not in compliance with employment contracts.

**Recommendation 13** The Mayor/CAO should be cooperate with MPA for harmonisation of data relating to titles of job positions should continue in order that employees are paid according to their work positions.

### 4.3.3 Subsidies and Transfers

#### Description

According to analytical review, the budget approved for the category of Subsidies and Transfers for 2013 was €71,332, out of which €49,584 or 69,5% were spent. We tested three samples in the amount of €20,000 in order to verify the subsidies allocation process and report on the way allocated funds were spent.

---

#### Issue 13 – Lack of Regulation - High Priority

**Finding** MNAO subsidies were granted to publicly owned entities, public cultural entities, non-public entities and individual beneficiaries. MNAO has not yet approved the Regulation setting forth the criteria and procedures for granting of subsidies.

**Risk** Lack of internal regulation on subsidies leads to the risk that subsidies are granted without criteria and according to different interests. Granting without criteria leads to the spending of public funds by leading to the risk of not reaching the subsidy intended purpose.

**Recommendation 14** The Mayor/CAO should ensure that a Regulation is drafted which clearly sets forth criteria, procedures and reporting on expenditures of subsidies.

#### **Issue 14 - Granting of subsidies- High Priority**

**Finding** MNAO allocated food packages to the citizens in need. The value of contract signed by MNAO for the supply with packages was €16,000. We found that the selection of EO was made without procurement procedures and that a construction company was selected. In addition, beneficiaries of subsidies were selected without criteria and in absence of the allocation commissions.

**Risk** Entering into contracts by avoiding procurement procedures is in contradiction to the procurement rules and increases the risk that budget organisations may sign harmful contracts. Signing of such a contract should be subject to an open procurement procedure in order to achieve the good value for money.

**Recommendation 15** The Mayor/CAO should ensure that procurement rules are implemented in all cases when the budget organisation is required to conduct procurements. In addition, while allocating subsidies, criteria for selection of subsidy beneficiaries should be applied.

**Finding** In the cases “Holiday to seaside for the special school of Mitrovica” in the amount of €3,500, and “Community Building Mitrovica CBM” in the amount of €500 evidences on the reason of granting subsidies and reports confirming the purpose of expenditures were missing.

**Risk** Allocation of subsidies in absence of complete documentation and lack of feedback information increases the risk that allocated funds for subsidies are not used according to requirements and that public funds are spent inefficiently.

**Recommendation 16** The Mayor/CAO should ensure that users submit reports on the spending of allocated funds and that every user has complete documentation. Further on, he should review the identified cases to determine why exiting criteria were not applied and introduce enhanced controls to avoid such instances occurring again.



## 4.4 Assets and liabilities

### 4.4.1 Capital and non capital assets

#### Description

MNAO disclosed the total value of assets in the amount of €673,458. This amount was not a reflection of the total assets owned by MNAO. Besides the requirement that assets are fully disclosed, a complete register of total non financial assets is also needed.

---

#### Issue 15 - Non registration of assets - High Priority

##### Finding

MNAO did not manage to put in place the e-Asset software. MNAO is not in possession of a complete list of assets. The asset officer still did not manage to register all assets owned by the Municipality, and in some cases, assets were registered without financial value. As a result of incomplete processing of information in the software the generated reports do not provide accurate value of assets.

We have found that all assets owned by MNAO were not presented. We tested vehicles donated by ICO in the amount of €96,989 and three vehicles donated by MLGA, which were not registered in the accounting register of MNAO.

The stocktaking commission did not conduct the annual stocktaking and evaluation of assets owned by MNAO. In addition, there is some equipment in the e-Asset that has no value at all.

##### Risk

Lack of complete and accurate registers on financial and non financial assets increases the risk of misuse, loss and appropriation of assets since the existence of assets cannot be determined.

**Recommendation 17** We recommend The Mayor/CAO to ensure that all assets owned by the MNAO are recorded completely and accurately. In addition, asset stocktaking commission should be established at the end of every year, and the stocktaking balance should be harmonised with the assets register.

## 4.4.2 Handling of receivables

### Description

At the end of 2013, the report of outstanding liabilities to suppliers was in the amount of €1,549. These liabilities have been carried forward to be paid in 2014. Receipts were not paid since they were received with delay.

### Recommendations

We have no recommendations in this area

## 4.6 Internal Audit System

### Description

The Internal audit system is a key part of internal control and due to its importance we present it here separately. We consider the scope of Internal Audit Work and the activity of the Audit Committee.

Internal Audit Unit (IAU) has its own strategic and annual plan. IAU is comprised of one auditor who, at the same time, is also a director. For 2013, IAU planned four audits, whilst it conducted three of them.

---

### Issue 16 – Internal Audit - High Priority

**Finding** We found that there were no audits conducted in the key areas such as procurement and assets management. The most sensitive audit findings were identified in these areas by OAG audit. Further on MNAO did not establish the Audit Committee (AC).

**Risk** Failure to conduct audits in key areas reduces the assurance of management whether internal control system was completely in operational and controls applied were adequate to the requirements. The Lack of an AC will reduce the level of both challenge to and support for the IAU including the implementation of their recommendations.

**Recommendation 18** The Mayor/CAO should ensure the establishment of the AC and in the future IAU activity addresses the development and implementation of a risk based audit strategy. This should provide management with reasonable assurance that controls are well designed and operate properly.

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

(extract from ISSAI 200)

### Form of opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

## Annex II: Prior year recommendations

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
1. External reporting	For 2013, the CAO is recommended to ensure the compliance with all requirements for external reporting.	Yes		
2. Procurement	CAO should implement the practice of contract signing only after observing the procurement procedures.	Partly		Procedures were not observed in some procurements
3. Procurement	CAO should undertake all actions for the increase of procurement control, if the procurement officers have no proper skills; they should be enabled professional qualification.	Yes		
4. Procurement	CAO should ensure that the procurement process is conducted in compliance with the Law on Public Procurement. The accurate specification of prices in the offer is one of the main requirements of assessment.	No		No measures were undertaken
5. Procurement	Failing to observe appropriate procurement procedures and accompanying guidance leads to irregular payments and financial losses for MNAO. There is a risk that the value for the money spent was not accepted.	No		No measures were undertaken
6. Human Resources	CAO should undertake systematic review of files of employees	Partly		Not all files are regulated