



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

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AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF THE MUNICIPALITY OF
HANI I ELEZIT
FOR THE YEAR ENDED 31 DECEMBER 2014

Prishtina, June 2015

The Office of the Auditor General undertakes both Regularity and Performance Audits. The Acting Auditor General 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 Acting Auditor General has decided on the audit opinion and report on the Annual Financial Statements of the Municipality of Hani I Elezit in consultation with the Assistant Auditor General, Qerkin Morina, who supervised the audit.

The opinion and report issued are a result of the audit carried out under the management of the Audit Director, Bujar Sejdiu, supported by Luljeta Morina (Team Leader), Kreshnike Haziri and Qendresa Sogojeva.

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Executive Summary

Introduction

This report summarises the key findings from our audit of the 2014 Annual Financial Statements of the Municipality of Hani I Elezit, which determine the Opinion given by the Auditor General. I would like to thank the Mayor and his team for their assistance during the audit process.

The examination of the 2014 financial statements was undertaken in accordance with the internationally recognised Public Sector auditing standards (ISSAIs). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The approach taken is set out in our Audit Planning Memorandum.

Our audit focus has been on:



The level of work undertaken by the Office of the Auditor General to complete the 2014 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.

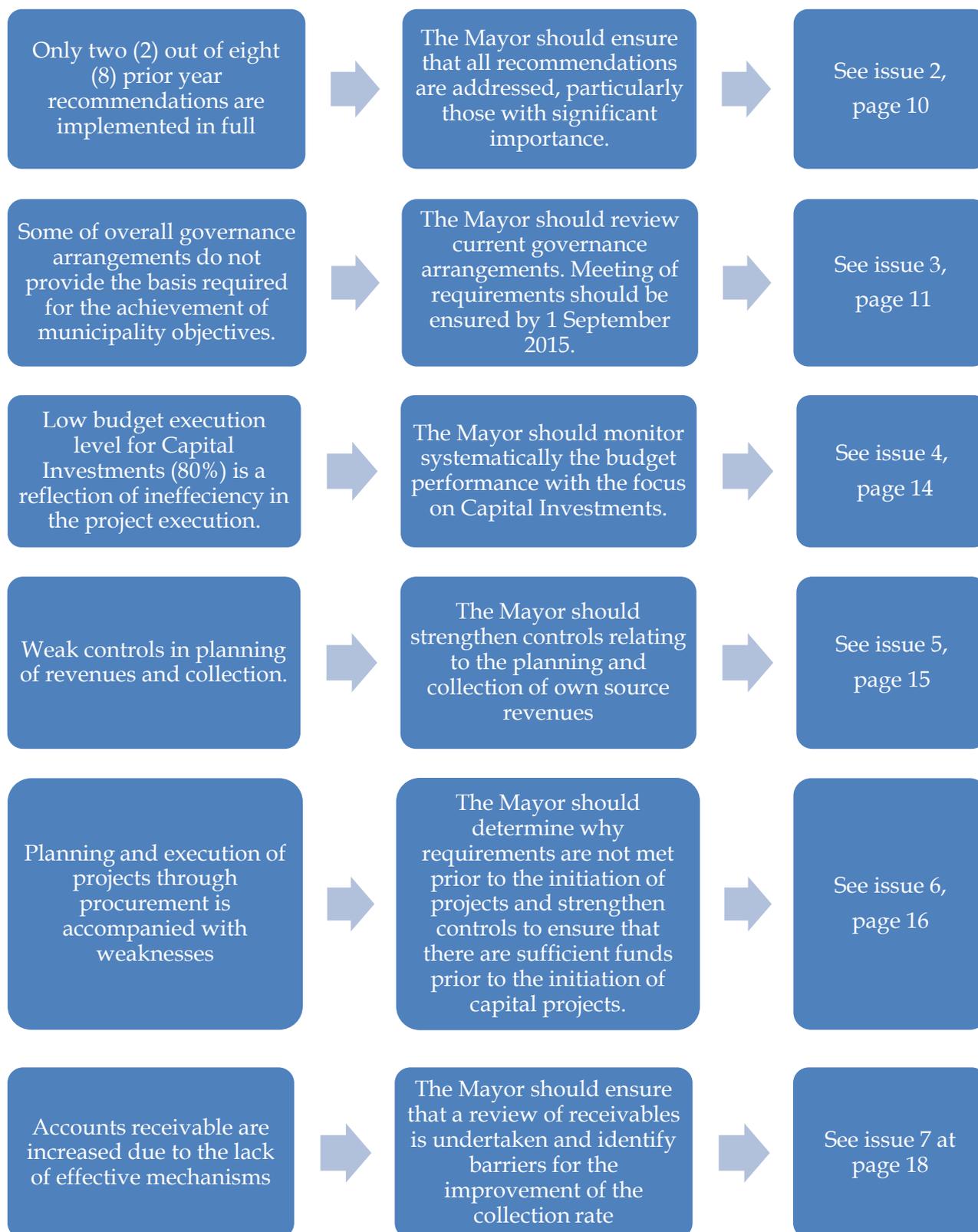
The Auditor General's opinion is:

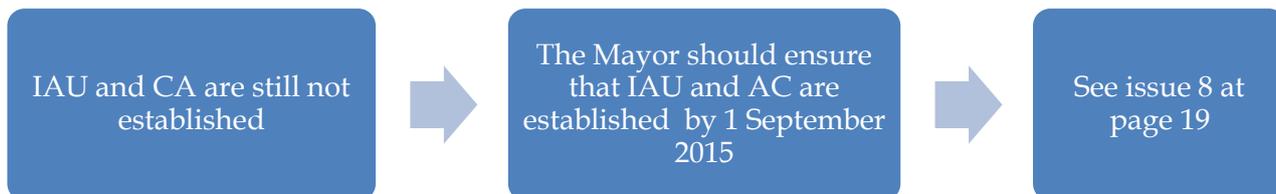
In our opinion the Annual Financial Statements *present a true and fair view* in all material aspects.

(ISSAI 200/1700 Unmodified Opinion)

Overall Conclusion

Our key conclusions and recommendations to the Mayor are:





Management's Response - 2014 audit

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

We take it for granted that the Mayor:

- table the Audit Report for discussion in the Local Assembly; and
- during January/February 2016 initiate a discussion in the Local Assembly regarding the implementation of the Action Plan on audit recommendations, before AFS 2015 are submitted to Ministry of Finance.

1 Audit Scope and Methodology

It is the responsibility of the Municipality of Hani I Elezit 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:

- 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. Management activity also determines the focus of our compliance audit and good governance audit which do not directly impact on the opinion.

Our audit approach to governance is focused on evaluating the actions taken by management to secure effective financial management and control and the results of this action in efficiently delivering high quality operational outputs. 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 including the role undertaken by Internal Audit and Audit Committees as well as inbuilt system controls.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review. An assessment of how the Management have addressed recommendations made in the report on 2013 may be found in Annex II.

For completeness we have included issues identified at the interim audit where they remain relevant. At the interim audit stage we provide advice to enable relevant action to be taken in advance of the AFS production and final audit. 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.

Findings considered low priority will be reported separately to finance staff.

Our procedures included a review of the internal controls and accounting systems and associated substantive testing 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 and other External Reporting Obligations

Introduction

Our review of the AFS 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 Mayor 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.

Overall Conclusion

The quality of the AFS was generally good with only a small number of non-material errors identified and all reporting requirements were met. Other external reporting obligations not related to the AFS were met in full.

2.1 Audit Opinion

In our opinion the Annual Financial Statements *present a true and fair view* in all material aspects.
(ISSAI 200/1700: Unmodified Opinion).

2.2 Significant Risks to the Annual Financial Statements

Description

Our Audit Planning Memorandum dated 07.11.2014 identified one significant risk to the AFS related to the completeness of assets. This is a risk of material misstatement that may result in a modification of the opinion.

The risk of material misstatement that we identified at the planning stage relating to the completeness of assets has not occurred. This was due to the specific action taken by the Mayor to implement our advice for addressing the risk. Municipality undertook a comprehensive action to ensure that all assets over €1,000 are recorded and presented fairly in AFS. When it comes to the presentation of assets under €1,000, some non-material errors are still in place.

2.3 Compliance with AFS and other reporting requirements

Description

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

- Compliance with Financial Regulation no. 03/2013;
- Requirements of LPFMA no. 03/ L-048;
- Budget requests;
- Quarterly reports including nine month financial statements in time;
- Operational (performance) reports;
- Whether the draft plan and final procurement plan are submitted in time;

In the context of the AFS, we have no issues to raise on these matters. Issues raised during our interim audit memo dated 19.12.2014 relating to the reporting framework have been addressed by management, with the exception of some non-material disclosures in note 31 and 32.

In the context of other external reporting requirements for 2014, we would like to emphasise that municipality has not prepared the performance report for 2013 and such a noncompliance may also be repeated in 2014.

Recommendation 1 Medium Priority – The Mayor should ensure that the 2015 AFS production plan includes complete and accurate presentation of assets under €1,000 and stocks at the end of the period. The performance report, as statutory requirement of municipality should be published within a reasonable time.

3 Prior Year Recommendations

Overall Conclusion

Municipality prepared the Action Plan and has made attempts to address prior year recommendations; however, they are still not addressed in full.

Description

Our Audit Report on the 2013 AFS resulted in eight (8) key recommendations.

At the end of our 2014 audit, two (2) recommendations have been fully addressed; four (4) are partially addressed; and two (2) have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex II.

Recommendation

Issue 2 - Addressing Prior Year Audit Recommendations - High Priority

Finding The majority of recommendations have been addressed by management, although half of recommendations have been implemented only partially. Municipality has not implemented any formal process to manage and monitor that the Auditor General recommendations are implemented according to the Action Plan.

Risk A failure to implement all recommendations has resulted in the repetition of some weaknesses identified in previous years. This may cause potential financial loss and poor value for money paid.

Recommendation 2 The Mayor should ensure that an action plan for 2014 clearly sets out a reasonable timetable within which accountable staff members and practical activities are set for addressing the recommendations made by the AG with initial focus on those of greatest significance. We would suggest that the implementation of this plan should be monitored by the Mayor directly.

4 Governance

Overall Conclusion

Sound governance aims at supporting the effective planning, implementation and monitoring of financial and operational municipality activities.

Some of the key aspects should be addressed to enable such Governance framework, as follows:

- Risk Management – where municipality has still not established formal and documented procedures for risk management;
- Internal audit system – where municipality has not established the Audit Unit and Audit Committee; and
- Systematic and effective monitoring of activities – where municipality as of 2015 started to formalise reporting to senior management level and to document it.

Despite the progress achieved, overall governance arrangements require strengthening to ensure effective municipality management, good value for money, and further enhancement of services to citizens.

4.1 Good Governance

Description

Procedures for a better governance aim at confirming that management has implemented a number of internal controls to ensure that financial systems are functioning and decision taking is effective and appropriate. It is important that they include the proper management reporting to enable an effective response and in time to the operational and financial problems identified.

We assessed some activities taken by municipality in order to ensure a better control environment, including self-assessment – where municipality applied the FMC requirement for the completion of self-assessment. As a result of overall governance activities, municipality improved the vehicle management, strengthening of controls on the collection of revenues and monthly reconciliations and proving meetings held through meeting minutes.

Recommendation

Issue 3 – Overall governance arrangements – High Priority

Finding Municipality has no strategic plan which would set forth clear development objectives. The lack of strategic plan makes it difficult to draft and implement of developmental policies of municipality in a longer term, and decision taking for multi-annual projects.

In absence of a strategic document for midterm municipality development, and due to political differences between the Mayor and the Municipal Assembly, the approval of 2014 budget was not made in time. This resulted in same budget as in the previous year, thus limiting the management to carry out objectives planned, particularly the inclusion of new projects; and

Municipality has not established Internal Audit Unit (IAU) and Audit Committee (AC). This occurred due to lack of understanding the importance of their overall governance improvements.

Risk

Lack of a strategic plan reduces the municipality's financial and operational management efficiency and may result in potential stagnation when it comes to execution of overall municipality objectives. Delays in the budget approval have had a negative effect in the execution of projects planned. Lack of IAU and AC has resulted in lack of assessment and assurance on the operation and effectiveness of internal controls.

Recommendation 3

The Mayor should review current governance arrangements. Since it is a quite complex document, we would suggest that Municipality takes an approach in drafting a development strategy, and approve the same within reasonable time period, within 2015. Procedures for the annual budget approval should start in time and should refer to municipalities Midterm Budget Framework. In addition, as an important part of the internal control, the Municipality should establish an Internal Audit System (internal audit service and AC).

4.2 Budget Planning and Execution

Description

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

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

Description	Initial Budget	Final Budget ¹	2014 Outturn	2013 Outturn	2012 Outturn
Sources of Funds	1,832,040	2,046,665	1,902,070	1,877,073	1,920,082
Government Grant -Budget	1,482,040	1,647,998	1,620,495	1,525,696	1,536,638
Carried forward from previous year ² -	0	27,183	27,144	60,262	81,072
Own Source Revenues ³	350,000	350,000	233,030	229,881	169,309
External Donations	0	21,484	21,401	61,235	133,063

The final budget is higher than the initial budget by €214,625, as a result of:

- Increase of Government grant in the amount of €165,958;
- Own source revenues carried forward from previous year in the amount of €27,183; and
- External donations in the amount of €21,484.

Municipality used 93% of the final budget in 2014, a similar performance to 2013 (93%). Other than capital investments, municipality has used in maximum the funds available in other economic categories. Explanations for the current position are detailed below.

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

Description	Initial Budget	Final Budget	2014 Outturn	2013 Outturn	2012 Outturn
Spending of funds broken down by economic categories	1,832,040	2,046,665	1,902,070	1,877,073	1,920,082
Wages and Salaries	1,079,088	1,245,046	1,239,194	1,067,784	1,043,119
Goods and Services	174,168	174,296	147,697	202,151	257,182
Utilities	37,500	37,500	35,918	33,551	38,764
Subsidies and Transfers	32,000	37,245	37,163	27,477	41,465
Capital Investments	509,284	552,578	442,098	546,111	539,553

Explanations for changes in budget categories are given below:

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

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

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

- Despite an increase in budget from revenues carried forward from previous year and donations for Capital Investment, only 80% of budget was spent. This surplus for this category was due to inadequate planning and management of projects, but also due to budget review since some projects needed reviewing;
- The budget increase for Wages and Salaries by €165,958 is a result of raise of salaries by 25% from April, covered by Government of Kosovo;
- The budget for Goods and Services was spent at the level of 85% or 10% less than in the previous year. This decrease occurred due to Government decision to cut expenditures by 15% for this category; and
- The budget for Subsidies and Transfers was spent almost 100%, because municipality was able to conduct good management of expenditures for this category.

Table 3 Own Source Revenues collected – outturn against budget (in €)

Description	Initial Budget	Final Budget	2014 Outturn	2013 Outturn	2012 Outturn
Own source revenues 2014	350,000	350,000	277,233	248,848	231,380

In 2014, Municipality executed the plan for the collection of own source revenues at 79%. Out of the total amount of own source revenues, €259,662 were mainly collected from property tax, licences for different activities, taxes for the change of destination of land and from vehicle registration. €17,571 were collected from Police fines and courts.

Out of €304,416 (collected in 2014 and carried forward from 2013) of the own source revenues available during 2014, €260,174 or 85% were spent. The remaining part of €44,242 is carried forward to be spent in 2015.

Recommendation

Issue 4 – Low spending for Capital Investments – High Priority

Finding Budget for Capital Investments was spent at the same level with the collection of own source revenues (about 80%) and the major part of expenditures (53%) were done at the end of the year. This occurred because the own source revenues plan was not executed according to the initial expectations and partly due to the inefficiency in project execution.

Risk Unrealistic planning of own source revenues has resulted in the non-execution of policies in the public investment plan. The surplus for Capital Investments by €100,000 may be a result of an inadequate harmonised plan between the cash flow and development of procurement procedures. The issues mentioned may impact on the failure of achievement of municipality objectives in the municipal infrastructure.

Recommendation 4 The Mayor should ensure that, prior to the budget approval, both budget revenues and expenditures are well analysed, and that the cash flow plan is harmonised to the dynamics planned for expenditures. In addition, improvements are needed also with the procurement process, and tendering of capital project should be done in time.

4.3 Revenues (including own source revenues)

Description

The municipality established a number of controls relating to collection and reporting of revenues, including their presentation in AFS. A number of practices that impacted on the increase of collection, such as: conditioning on payment of debts for property tax; for participation in announcements; recruitment; payment of obligations to municipality for tender bidders; and publication of the list of municipal officers that owe property tax were implemented. Despite the progress achieved, some of controls were ineffective at the expected level.

Recommendation

Issue 5 – Weaknesses in planning and collection of revenues – High Priority

Finding Our review identified some weaknesses in planning of own source revenues because municipality has not implemented consistent policies relating to revenues. When drafting the own source revenue plan, Municipality has not considered the collection trend for the three past years, and in 2014, it planned 40% more revenues than the amount collected in the previous year. It is not clear what the starting point for this planning was. As a result, the plan was executed 79%, but the amount collected was 11% higher than in 2013.

Property tax planning was €91,350, roughly as much as was collected, while invoicing was €97,203. In addition, in two cases, municipality issued certificates to businesses that had not paid property tax obligations (€10,810). This occurred with the approval of the management due to financial taxpayers' difficulties.

Risk Unrealistic own source revenue planning impacts on wrong planning of potential projects to be funded from own source revenues, and in the appearance of fictitious budget surpluses.

Recommendation 5 The Mayor, when drafting annual revenues plan, should ensure that the revenue trend during the recent years is considered, and that the overall municipality developments (economic development, new constructions, and potential of collection of previous debts) and other factors that may impact on the enlargement of the basis for the increase of revenues are taken into account.

4.4 Expenditures

4.4.1 Procurement

Description

Procurement process expenditures include payments for Capital Investments and one part of payments for Goods and Services. Procurement rules aim at securing that public funds are spent by achieving the value for money paid, through a transparent and efficient process. The issues raised by audit in this area are presented as follows:

Recommendation

Issue 6 – Systematic Weaknesses in Procurement – High Priority

Finding Our review of contracts and payments for procurement expenditures identified a range of weaknesses of ineffective controls and non-implementation of regulatory requirements. In particular management controls have not been effectively implemented to prevent the following issues to arise:

Project “Construction of a school wing Ilaz Thaqi”, Municipality has signed a two-year contract in the amount of €240,950, while for two years only €137,000 was planned. The contract “Paving the streets in concrete blocks in neighbourhoods and villages” was split into three lots. The contract notice (for three lots) was done at the total amount of €39,426, while only €20,000 was planned. Further, contract was signed only for the first lot in the amount of €22,767 due to lack of funds and lack of pre calculations for two other lots.

Risk Weaknesses identified in procurement expenditures have resulted in stagnation of project executions. Lack of funds for projects started may result in delays in the project execution and increase liabilities of municipality.

Recommendation 6 The Mayor should determine why requirements are not met before the initiation of projects, and should commit sufficient funds before the initiation of any capital project.

4.4.2 Non Procurement Expenditure

Description

Non procurement expenditures are utilities, lunches and official travels, etc.

We have no recommendations in this area.

4.4.3 Remunerations (Wages and Salaries)

Description

Wages and Salaries are paid through a centralised system. The key controls operated at the local level by Municipality deals with a) monthly payment controls by signing payroll lists, b) verification of potential changes that may be presented through forms, and c) budget review for this category and reconciliation with Treasury.

We have no recommendations in this area.

4.4.4 Subsidies and Transfers

Description

Subsidies are mainly awarded to public and non-public entities (individuals) such as scholarships for students and pupils, subsidies for agriculture and sports, subsidising on behalf of the difficult economic situation, assistance with food and healthcare needs, support to war family martyrs, etc.

We have no recommendations in this area

4.5 Assets and Liabilities

4.5.1 Capital and Non Capital Assets

Description

The municipality presented assets in the amount of €1,119,067 in 2014 AFS.

We have identified a significant risk relating to completeness of municipality assets. This issue has been handled in section 2.2 – Significant risks.

We have no recommendations in this area.

4.5.2 Handling of Receivables

Description

Accounts receivable are debts owed to municipality which are expected to be collected in future. The amount of accounts receivables at the end of 2014 was €510,000 or 54% higher than in the previous year (€330,000). The main amounts of accounts receivable are from property tax (€268,000), licences for the exercise of the business activity (€220,000) and the use of public property (€22,000).

Recommendations

Issue 7 - High value of receivables - High Priority

Finding The value of accounts receivable has increased because Municipality was unable to implement effective mechanisms for the collection of receivables. Also the difficult economic situation of citizens was a factor for this low level of receivables.

Risk High level of accounts receivable decrease the potential of municipality to execute projects planned. Lack of a sustainable strategy for the collection of receivables and aging of debts decreases chances for their collection in the future.

Recommendation 7 The Mayor should ensure that a comprehensive review is carried out of the approach applied for receivables and identify barriers in the improvement of the collection rate. Debts considered aged and not collectable should be written off (proving reasons why) while for the other part; an early and effective approach should be applied, including legal actions.

4.5.3 Handling of Debts

Description

Debts of municipality present liabilities to suppliers to be paid in the future. The amount of these accounts at the end of 2014 was €47,193, which presents a considerable increase compared to 2013 (€3,520). These liabilities are carried forward to be paid in 2015.

The biggest part includes the category of Goods and Services in the amount of €44,163.

Municipality prioritised payments of debts and during the first period of the year, (till 05.03.2015) about 52% of these liabilities were paid.

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. In addition we review actions taken by senior management as a result of the work carried out by internal audit and the audit committee.

Municipality has still not established IAU and AC. The establishment of IAU and AC is important to enable the management to obtain assurance for the functioning of internal controls.

Recommendation

Issue 8 - Lack of IAU and AC - High Priority

Finding Municipality of Hani i Elezit has still not established the IAU and AC. This is a reflection of the lack of understanding the role and the importance entrusted with these two bodies to provide management with assurance for the internal control environment.

Risk Lack of internal audit function may result in a failure to identify and address control weaknesses, which would as a result be operational inefficiency and financial loss for municipality.

Recommendation 8 The Mayor should ensure that all actions required are taken to establish an Internal Audit System.

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 1705¹⁹ provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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

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

158. An Emphasis of Matter paragraph should:

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

159. If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, and provided this is not prohibited by law or regulation, this should be done in a paragraph with the

heading “Other Matter,” or another appropriate heading. This paragraph should appear immediately after the opinion and any Emphasis of Matter paragraph.

Annex II: Prior Year Recommendations

Audit Component	Recommendation given 2013	Recommendation fully addressed	Partly addressed	Not addressed
1. Compliance with AFS reporting requirements	We recommend the Mayor ensures that the preparation of the annual financial statements includes procedures and tools that are designed to ensure that the required information is recorded, processed, summarized and appropriately reported in the Financial Statements. Information on payments from third parties, receivables and contingent liabilities should be regularly updated and reviewed to ensure accuracy and completeness of such disclosures in the financial statements. The Municipality should prepare financial statements in the Serbian language.	Yes		
2. Addressing prior year audit recommendations	The Mayor should ensure that a revised action plan determines the exact timelines to address the recommendations, identifies responsible staff members and initially focuses on the most important areas.		Partly	
3. Budget execution	The Mayor should regularly monitor the budget performance on a monthly basis and identify and address barriers to the planned levels of budget execution. Where the initial budget assumptions are found to be inaccurate, this should be addressed in the final budget. The Mayor should ensure that the plan for own source revenues represents a realistic plan and corresponds to the opportunities of the Municipality to collect revenues. Furthermore, the Mayor should ensure that all necessary measures are taken to collect these revenues.		Partly	

<p>4. Control on revenues</p>	<p>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 billing and revenue. Improvement of the procedures related to such systems would enable management to monitor and manage significant risks, and to ensure that decisions related to budgeting, planning and collection of revenues are properly carried out. We recommend that the Municipality considers to:</p> <ul style="list-style-type: none"> • Implement a billing system that includes updated details about the payers, their current address, history and collection rating. Such information should be accessible only to a limited number of people and with the authorization of management. • Enter and centrally control the approved tariffs and tax rates in the system in order to calculate and generate bills automatically. The generation of bills should also be authorized and reviewed. • Automatically inter-connect the billing system with the accounting software so that information is automatically processed into the general ledger. • Automatically link the operational and billing units and perform regular reconciliations between them, in cases where the billing is directly related to services supplied by the operational units. This is especially important where a high volume of transactions is executed. 			<p>Not addressed</p>
<p>5. -Uncertainties in relation to Article 16 Disclosure of Assets</p>	<p>We recommend the Mayor to involve additional resources in the registration, control and valuation of the assets of the Municipality and to ensure that Municipality continuously records and presents all assets in its financial statements, and reconciles information from all sources involved in</p>		<p>Partly</p>	

	financing these assets.			
6. Third party payments	We recommend the Mayor ensures that the Municipality is making its best efforts to obtain information on payments from third parties, with particular emphasis on those parties that are known to have made significant investments in the Municipality. The obtained information should be properly presented in the assets register of the Municipality. Best practice would require an annual reconciliation of information between third parties and the Municipality for the investments made during the year.	Yes		
7. Lack of controls over and assessment of the revenue collection	We recommend that the Mayor ensures that the Municipality take further steps to improve controls and to comply with laws and local regulatory requirements regarding collections of revenues.		Partly	
8. Lack of audit structures	We recommend the Mayor ensures that the Municipality will establish an Internal Audit Department and an Audit Committee, and complies with appropriate policies and procedures to ensure a high standard of corporate governance. The Audit Committee should review the current status and propose actions for improvement on the following: <ul style="list-style-type: none"> • Municipality’s accounting and financial reporting process; • Assessment of internal control systems implemented by management; • Internal and external audit processes; • Review of compliance, reporting and control structures throughout the Municipality to ensure compliance with financial, regulatory and legal requirements 			Not addressed