



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

**Document No: 22.18.1-2014-08**

**AUDIT REPORT**  
**ON THE FINANCIAL STATEMENTS OF THE MUNICIPALITY OF**  
**PRIZREN 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 Prizren in consultation with the Assistant Auditor General, Qerkin Morina, who supervised the audit.

The opinion and report issued are a result of the audit carried out under the management of the Audit Director, Bujar Sejdiu, supported by Florim Maliqi (Team Leader), Bekim Mikullovcic and Radojica Milovanovic.

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## Executive Summary

### Introduction

This report summarises the key findings from our audit of the 2014 Annual Financial Statements of Municipality of Prizren-which determines 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 dated 13/10/2014.

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:

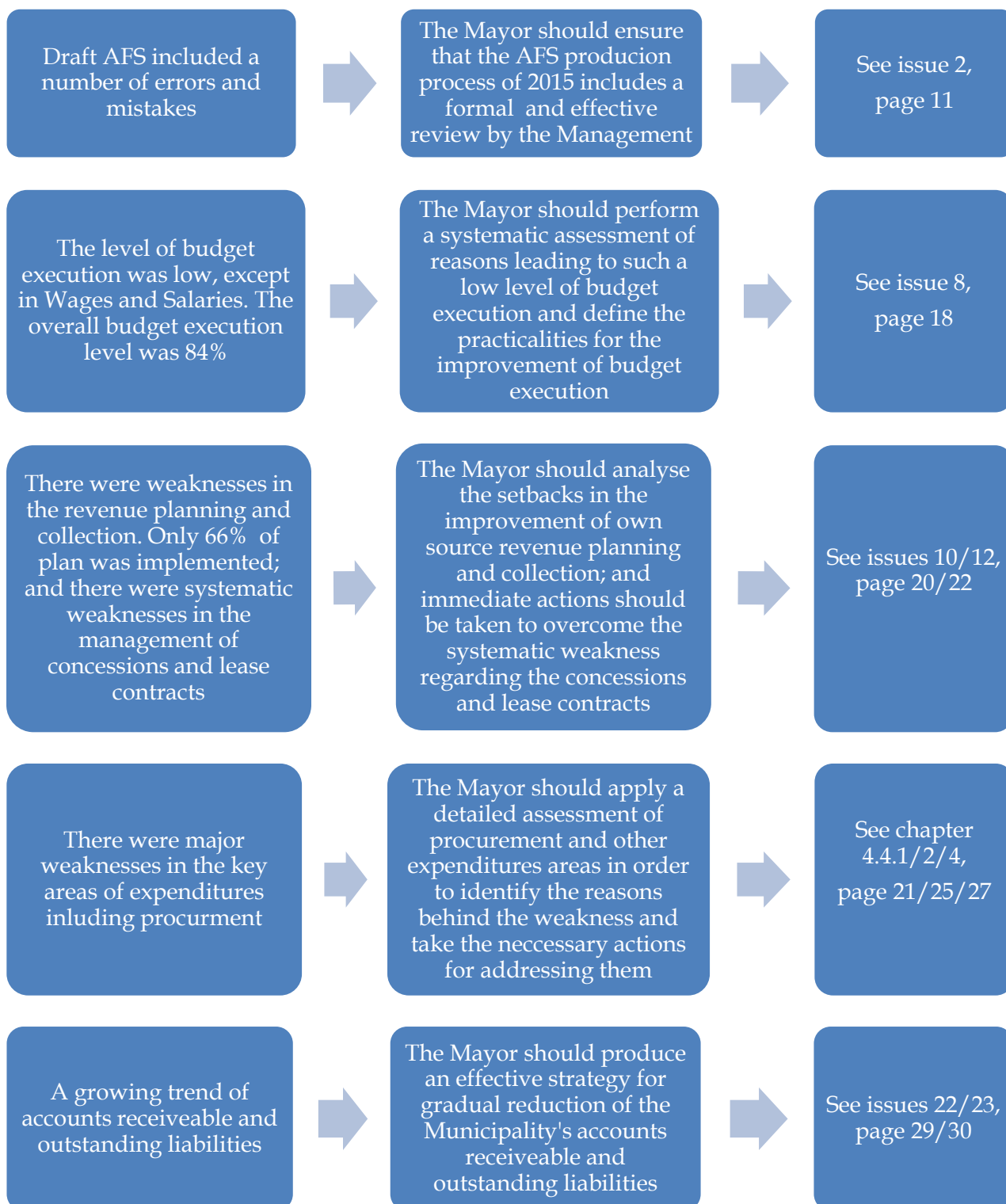
In our opinion the Annual Financial Statement present *a true and fair view* in all material aspects.

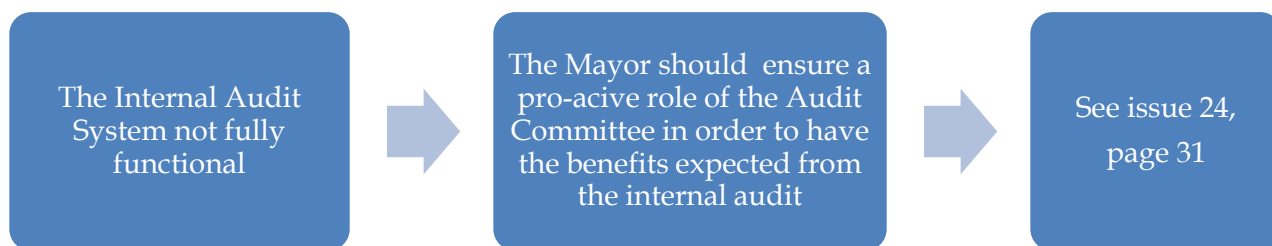
As an *Emphasis of Matter* we would like to draw your attention to the fact that the Assets Registry and their disclosure on AFS are not complete and because of misclassification of expenditures, capital investments are over-stated with €487,000 while the expenses for goods and services are under-stated for the same amount

**(ISSAI 200/1706: Unmodified Opinion with Emphasis of Matter).**

## Overall Conclusion

Our main conclusions and recommendations for the Mayor are as follows:





### **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 Management of Municipality of Prizren 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 thereof in efficiently delivering high quality operational outputs. 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 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 Municipality has failed to address the material error in assets presented in the AFS. Except this, €487,000 spent for goods and services was misclassified as capital investment and €11,000 was irregularly transferred to donors' accounts. Hence, 'the Declaration' made by the Mayor and CFO, to which we have referred above, was not accurate in all aspects. This resulted in Emphasis of Matter. All other external reporting obligations not related to the AFS were fully met.

### 2.1 Audit Opinion

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

As an *Emphasis of Matter* we would like to draw your attention to the fact that the Assets Registry and their disclosure on AFS are not complete and because of misclassification of expenditures, capital investments are over-stated with €487,000 while the expenses for goods and services are under-stated for the same amount

**(ISSAI 200/1706: Unmodified Opinion with Emphasis of Matter).**

## 2.2 Significant Risks to the Annual Financial Statements

### Description

Our Audit Planning Memorandum dated 13.10.2014 identified a significant risk in AFS related to the completeness of assets.

The risk of material misstatement that we identified relating to the completeness of assets occurred because no management actions were taken to address the highlighted risks. The lack of actions may result in an Emphasis of Matter.

### Identified Risk

**Issue 1 – Failure to record all assets may result in a material understatement of assets’ values presented in AFS.**

Municipality-owned assets worth over €1,000 were not fully recorded in the assets’ accounting register, resulting in a material misstatement in the AFS notes. In our interim memorandum we provided advice to management on the action required to ensure that the assets figure in the AFS was correct. However the risk identified has materialised because management has not been able to implement the necessary improvements in internal control and we have confirmed that the assets’ value in AFS is not complete.

**Recommendation 1 High Priority** – The Mayor should initiate an analysis of the reasons behind the repeated errors in presenting the assets values in AFS and the Municipality’s inability to undertake the necessary actions for addressing the errors. The management’s additional actions would be to initially record all assets over €1,000 in the accounting register and then the same is presented in 2015 AFS. The Mayor should directly monitor this process.

## 2.3 Compliance with AFS and other reporting requirements Description

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

- Compliance with the Financial Rule no.03/2013;
- Requirements of LPFMA no. 03/L-048;
- Budget requests;
- Quarterly reports including nine month financial statements in time;
- Operational (performance) reports;
- Draft and final procurement plans in time; and
- Self-assessment report.

The reporting requirement were fulfilled except Performance Report for 2013 which was not produced and published. .

We have noticed several shortcomings in the draft Financial Statements. We made a number of suggestions to improve the presentations in AFS and to ensure completeness of some disclosures. These are presented in the following:

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## **Issue 2 – Production of AFS – High Priority**

### **Finding**

The management did not apply an effective review of the AFS production process which resulted in following errors:

- The allocated amount was presented in the Budget Execution Report under column B (final budget);
- Third Party Payments in the amount of €100,000 were presented in the Statement of Receipts and Payments, but was not disclosed in Note 6;
- Third Party payments in the amount of €100,000, presented in the Statements of Receipts and Payments, were not registered in KFMIS;
- Capital investments disclosures in Note 11 were incomplete. We found that such disclosure was overstated €487,000 for the operating expenses; and
- Disclosures of Municipality’s assets were incomplete.

After our advices on correction AFS, they were corrected, except the last three points.

Given the above - the Declaration made by the Mayor and CFO when the draft AFS are submitted to the Government can be considered to be incomplete and incorrect. This is a basis for Emphasis of Matter or Modification of the Opinion.

### **Risk**

Lack of an effective review of AFS by high level of management resulted in material errors which may lead to a Modified Opinion. Furthermore, AFS that contain errors could be considered as unreliable resulting in damage of financial reporting credibility of the municipality.

### **Recommendation 2**

The Mayor should ensure that the 2015 AFS production plan addresses all compliance requirements. Reporting lines should be put in place and managing staff should be held to account for the quality of recording and classification of expenditures. This requires continuous monitoring. The Declaration made by the Mayor and CFO should not be submitted, unless all the necessary checks have been applied in draft AFS.

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## 3 Prior Year Recommendations

### Overall Conclusion

Despite the preparation of the action plan to address the recommendations of 2013, a number of important issues are still to be addressed.

### Description

Our Audit Report on the 2013 AFS of the Municipality resulted in 18 main recommendations. By the end of our 2014 audit, six (6) recommendations were fully implemented; six (6) were partially implemented; and six (6) were not implemented at all. For a more thorough description of the recommendations and how they are addressed, see Annex II.

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

**Finding** The level of addressing the recommendations is not at the expected level and in the future the management of municipality should be more focused. This was due to the Municipality's failure to implement a formal process to manage, monitor and hold people to account for the progress of implementing the Auditor General's recommendations.

**Risk** Non addressed audit recommendations on key financial systems may result in repetition of:

- Incomplete assets register;
- Low level of budget execution and non-fulfilment of set objectives;
- Continuous weaknesses in revenue management;
- Continuous weaknesses in procurement expenditures and poor value for money; and
- Limited benefits from the Internal Audit work

**Recommendation 3** The Mayor should ensure that a revised action plan clearly sets out a timetable for implementing the 2013 and 2014 recommendations with accountable staff members identified and with initial focus on the areas of greatest significance.

## 4 Governance

### Overall Conclusion

Sound governance is intended to support effective planning, implementation and monitoring of Municipality's activities.

Key aspects to be addressed for enabling a proper governance framework are:

- Clear procedures and adequate segregation of duties for managing the processes;
- Risk management;
- Systematic monitoring of activities;
- A well-functioning Internal Audit System; and
- Self-assessment.

The Municipality has failed to strengthen the general arrangements of governance. As a result, different weaknesses have been occurring on yearly basis. Furthermore, OAG has published the discussion paper 'Financial Performance and Service Delivery in Municipalities, 2013'. This document was intended to serve as a basis for a better focused approach in the improvement of local governance. It is evident that the Municipality did not pay sufficient attention to this document in order to improve the delivered service. This fiscal year was also characterised with weaknesses in the management of main systems:

- The Municipality has spent high amounts on official lunches and recreation visits in sea-coasts, whilst being in need of investments in economic and social development of citizens and a lot of projects were not implemented due to the lack of budget;
- Poor management of own revenue collection. This resulted in a low collection of own resources and very weak management of contracts on Municipality's rented properties; and
- Systematic procurement weakness resulting in weak management of procurement processes in both contract planning and implementation stages.

All these are presented in details further in this report.

## 4.1 Good Governance

### Description

Good governance procedures are intended to confirm that management has implemented a range of internal controls to ensure that financial systems operate appropriately. It is important that these include appropriate reporting to management to enable an effective and timely response to identified operational and financial problems.

### Recommendations

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#### Issue 4 - Weaknesses in High Level Management Controls - High Priority

**Finding** Our review of the management controls applied in the Municipality's key financial system highlighted poor control over expenditures and revenues. This is because the format of management reports does not provide explanations for variances between budget and budget outturn.

**Risk** Poor quality financial reporting to senior management reduces the management's ability to actively manage the operations of Municipality's and undermines effective budgetary control. This may result in unplanned over or under spending and delay necessary actions to address them. It may also result in revenues not be collected as expected.

**Recommendation 4** The Mayor should ensure that a review is carried out to determine the format of qualitative financial and operative reporting to senior management, which is required to ensure effective business management and introduce an appropriate solution by 1<sup>st</sup> of October 2015.

#### Issue 5 - Avoidance of open procurement procedure - Medium Priority

**Finding:** During 2014, the Municipality conducted 100 procurement activities using the price quotation procedure for procurements where open procedure could have been used. Two cases are presented as follows:

- The contract "Supply with combustibles - woods for schools" was subject to two procurements in a total amount of €21,660 conducted by using price quotation procedure. The Municipality has a contract of €179,580 delivered through open procedure; and
- The Municipality had signed three contracts in a total amount of €28,540 by using the price quotation for organising three traditional festivals.

The total amount of contracts with price quotation amounts to €805,078.

**Risk** The Municipality does not apply proper procurement procedures. Use of quotation procedure for expenditures that can be incurred through open procedure, increases the risk of low value for money, eliminates the competition and may be subject to fraud.

**Recommendation 5** The Mayor should initiate an analysis of the rationality of the high number of quotations, especially in cases when an open procedure contract is in place for the same expenditures. The Mayor should strengthen controls over procurement planning and execution and ensure that the open procedure is used for same expenditures in order to reach the highest value for money spent.

## 4.2 Budget Planning and Execution

### Description

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

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

Description	Initial Budget	Final Budget <sup>1</sup>	2014 Outturn	2013 Outturn	2012 Outturn
<b>Sources of Funds</b>	<b>35,877,659</b>	<b>39,476,719</b>	<b>33,265,428</b>	<b>31,780,415</b>	<b>30,274,489</b>
Government Grant -Budget	29,452,625	31,976,693	28,783,661	27,324,442	25,683,770
Carried forward from previous year <sup>2</sup> -	0	883,066	753,697	887,220	976,455
Own Source Revenues <sup>3</sup>	6,425,034	6,425,034	3,634,429	3,364,987	3,317,382
Domestic Donations	0	93,120	37,796	153,878	125,610
External Donations	0	98,806	55,845	49,888	171,272

The final budget is higher than the initial budget by €3,599,060. The budget increase is a result of:

- Increase in the Government grant by €2,524,068, based on the Government's decision
- Increase of External and Domestic Donations by €191,926; and
- Own source revenues carried forward from 2013 in amount of €883,066.

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

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

<sup>3</sup> Receipts used by the entity for financing its own budget.

In 2014, the Municipality used 84% of the final budget, a lower rate of 6% compared to 2013. In general, the level of budget execution remains at an unsatisfactory level and explanations for the current position are detailed in the following:

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

Description	Initial Budget	Final Budget	2014 Outturn	2013 Outturn	2012 Outturn
<b>Spending of funds broken down by economic categories</b>	<b>35,877,659</b>	<b>39,476,719</b>	<b>33,265,428</b>	<b>31,780,415</b>	<b>30,274,489</b>
Wages and Salaries	15,229,800	17,917,124	17,766,430	15,139,595	14,856,794
Goods and Services	3,172,120	3,388,150	2,477,087	2,585,716	2,082,843
Utilities	1,097,777	1,097,777	864,970	804,029	802,795
Subsidies and Transfers	535,979	535,979	521,614	504,157	350,288
Capital Investments	15,841,983	16,537,689	11,635,326	12,746,918	12,181,769

Explanations for changes in budget categories are given below:

- The final budget for capital investments compared with the initial one was increased by €695,705, whilst the expenditures rate for this category was 70% of the budget or 12% less than the previous year. This represents a poor budget performance. This budget was planned to be spend on on-going and new projects. The low level of expenditures was due to the lack of controls over proper planning and adequate management of contracts. As a consequence, some projects did not started at all, and in some others works were executed in delay;
- The budget for Wages and Salaries was increased by €2,687,324 based on the Government's decision to increase wages by 25%. The Municipality ended the 2014 financial year with liabilities of €174,155 to the educational staff due to lack of funds for this category. This happened because the Municipality has failed to make a proper planning of needs for wages in education. The 1/12 of 2015 budget for wages was exceeded by €16,729, which may lead the Municipality to financial difficulties followed by Municipality's failure to invest and deliver services;
- Budget for Goods and Services increased by €216,030, although the total rate of expenditures in this category is only 73% of the budget appropriation. This level of budget execution is due to the lack of budget planning which is a reflection of Municipality's real needs. While the budget execution is low, the Municipality's liabilities in this category have increased from €70,000 in the end of 2013 to around €124,000 **in the end of 2014**. On the other hand, the Municipality did not undertake any formal process to manage the Government's decision on the budget cut of 15% on Goods and Services. This did not have any impact on the Municipality's activities, taking into consideration the low level of



budget execution. However, Municipality should be prudent by undertaking adequate arrangements to manage future budget cuts;

- The budget for Utilities was spent at 79%. The amount of €232,807 was not spent while the outstanding liabilities for this category at the end of the year were €45,598. This was due to the Municipality's inability to plan and manage the available budget;
- The Municipality received external and domestic donations in amount of €191,925, whilst €93,641, or less than the half, were spent. This was due to the weak performance of the Municipality for using the donations having a negative impact in the fulfilment of the Municipality plans; and
- Year after year, the Municipality has an increasing trend of low use of own revenues. Due to the weak budget performance €883,000 were carried forward in the end of 2013 whilst €1,848,000 were carried forward in the end of 2014. While the need for investments is high, the failure to use own revenues for investments may discourage citizens to pay their liabilities to the Municipality, particularly those on property taxes.

## Recommendations

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### Issue 6- Overstatement of capital investments-High Priority

**Finding** Municipality paid €487,000 from the Capital Investments budget for expenses on operation activities. This happened due to the Municipality's poor planning and due to MoF constraints to budget all needed amounts in Goods and Services.

**Risk** Overstatement of expenditures for capital investments may lead to a misunderstanding of Municipality's financial position and may have impact on audit opinion.

**Recommendation 6** The Mayor shall ensure that all actions are taken for having all expenditures planned in adequate budget appropriation and that they are not subject to misclassification in AFS of 2015.

### Issue 7- Low budget execution - Medium Priority

**Finding** The Municipality has shown a low level of budget execution in all categories of expenditures, except in Wages and Salaries. Low level of execution is noticed in Capital Investments (73%) and Goods and Services (75%). This was due to the lack of systematic planning and Municipality's control over budget and partly due to some external factors.

**Risk** The low level of budget execution reduces the efficiency of Municipality's expenditures plan. Failure to fulfil the budget program may result in reduction of government grant and loss of donations leading to setbacks in the Municipality's overall development.

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**Recommendation 7** The Mayor should ensure that a systematic assessment of the reasons leading to level of budget execution and repetition of the situation year after year is carried out. Practicalities for the improvement of budget planning and execution in the future periods should be developed, and a systematic monitoring on execution of planned budget is introduced.

**Table 3 Own Source Revenues collected and budgeted in 2014 (in €)**

Description	Initial Budget	Final Budget	2014 Outturn	2013 Outturn	2012 Outturn
Own source revenues	6,425,034	6,425,034	5,353,482	4,020,374	4,339,726

During 2014, the Municipality managed to collect 83% of the planned own source revenues. The level of own source revenues collection increased by 25% compared to 2013, and 23% compared to 2012. An increase in revenues in 2014 was as a result of other indirect revenues collected from traffic fines, court verdicts and those of forest agency.

### 4.3 Revenues (including own source revenues)

#### Description

Revenues generated by Municipality of Prizren in 2014 totalled to €5,353,482. The Municipality collected €4,227,247 whilst €1,126,235 are revenues from traffic tickets, courts and forest agency.

The Municipality has installed a range of controls regarding the generated revenues, but they need to be strengthened and systematically monitored in order to give the expected result.

#### Recommendations

##### Issue 8 – Planning and execution of own source revenues– High Priority

#### Finding

The Municipality did not manage to install effective controls of the collection which would ensure real planning and adequate mechanisms for collection of planned revenues. The two following cases are consequences of these weaknesses:

- Municipality planned the waste management tax in the amount of €1,200,000. The collection of this tax for 2014 was zero (0)
- Billing for property tax in 2014 amounted to €2,117,263 whilst €1,824,232 or 86% of the total amount billed were collected. Compared to 2013, the property tax collection rate has decreased by 20%. The Municipality did not apply any proactive approach on the collection of

property tax. We found that in 7 out of 16 tested samples not even a cent was paid. This might be because the Municipality did not achieve to return the collected revenues into public investments for citizens at a satisfactory level. A part of uncollected revenues from property tax belongs to properties under management of Privatisation Agency of Kosovo.

**Risk** Lack of effective controls over management of the collection of Own Source Revenues will continue to result in low rate of their collection. As a consequence, the Municipality will face reduced possibilities to meet the objectives on provision of services and capital investments financed by the own source revenues.

**Recommendation 8** The Mayor should initiate a comprehensive analysis of the setbacks in implementing the recommendation for elimination of weaknesses in the management of own source revenues. A solution should be provided and sustainable controls should be installed ensuring an authentic and effective collection.

#### **Issue 9 - Construction permits- Medium Priority**

**Finding** Construction permits are one of the main own source revenues. Municipal revenues from construction permits in 2014 were €593,643. Our review has identified that only 502 out of 784 applications submitted during the year were approved required documentation was missing. We found that even those being awarded with the construction permit did not comply with the criteria set by urbanisation. Furthermore, the Municipality did not undertake adequate measures to prevent this practice.

**Risk** The Municipality did not manage to establish effective controls and proper monitoring while handling construction cases. Low number of applications for construction permits had a direct impact on the reduction of potential revenues from this source and the increased risk for a larger number of illegal constructions. On the other hand, lack of controls and monitoring over the construction permits issuing process may result in violation of legal requests and construction standards.

**Recommendation 9** The Mayor should ensure that a sufficient number of skilled staff is engaged in Directorate of Urbanisation in order to handle all applications for construction permits in time. Controls and monitoring in this process should be strengthened in order to prevent constructions without permit and overbuilding, If necessary, penalties foreseen by law should be applied.

## Issue 10 - Weakness in concessions and rent contracts - High Priority

### Finding

We have identified weaknesses in the management of contracts on concession and rent of Municipality's properties. As a consequence, only €44,844 (17%) out of the total of €249,284 of annual charges on use of the Municipal properties during 2014 were collected. The most emphasised cases are the following:

- The Municipality has signed three (3) contracts with 'Is-Company' for using the Municipality's property. The rent charged for 2014 was €84,000, whilst the lessee paid €14,000. The Municipality asked the lessee to pay the previous debt in order to continue using the Municipality's property. This did never happened, nevertheless and the company is still using the property. Moreover, this lessee was awarded by the Municipality a contract of €161,929 to execute some works;
- 'Alcom Construction' Company entered into a concession contract with the Municipality. The company's liabilities towards the Municipality were €12,420 for 2014, whilst the collection was zero (0).
- 'Auto-Teuta' Company owns the Municipality a liability of €71,754 for using the Municipality's property, whilst the collection is zero (0)
- The KLA Invalids Association entered into a contract with the Municipality for using the Municipality's property. The Association's liability was €26,798, whilst the collection was zero (0);
- The Municipality signed contracts with five (5) companies for using the Municipality's property for parking lots. The liabilities of these companies toward the Municipality were €52,688, whilst €6,760 were collected; and
- During 2014, the Municipality had leased out some properties/premises without entering into contracts with property users. The lessees did not pay all liabilities and their debt to the Municipality for this period was €177,251. The Municipality did not take any actions to collect this debt.

### Risk

Only in the above mentioned cases, the amount of uncollected debts is over €400,000. This reveals significant weaknesses in Municipality's controls over leased out properties. Identified weaknesses on the management of concession and rent contracts result in a considerable financial loss for the Municipality and reduce the Municipality's ability of financing projects from own source revenues.

**Recommendation 10** The Mayor should initiate immediate actions by starting a detailed assessment of the reasons behind the low level of revenue collection in the field of leased out properties. Necessary measures for collecting all outstanding debts within a reasonable period should be taken, otherwise, to stop the use of public properties.

## 4.4 Expenditures

### 4.4.1 Procurement

#### Description

Expenditures for Capital Investments during 2014 were €11,635,326, whilst expenditures for Goods and Services were €2,477,088, where the majority of them are subject of the procurement procedures.

During 2014, Municipality of Prizren conducted 206 procurement activities, 29 of which were cancelled. The value of 157 signed contracts was €5,134,347.

#### Recommendations

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#### Issue 11 - Systematic Weaknesses in Procurement – High Priority

##### Finding

Our review identified cases of service delivered few months after they were finished. Furthermore, these expenditures were planned and executed from the budget of capital investments while belonging to the category of goods and services. Two cases are presented below:

- On 07.02.2014, the Municipality paid €67,215 to 'Ekoregjioni' economic operator for summer maintenance of roads. The payment was made for services provided during September-December 2013; whilst works were accepted on 04.02.2014. The works acceptance minutes do not contain information on works/services executed. Delays in payments occurred due to lack of funds; and
- It was the similar case with the payment of 06/02/2014. The Municipality paid €82,047 to 'Sherbimi' economic operator for summer and winter maintenance of roads. Payment was made for services provided during September-December 2013, whilst works were accepted on 04.02.2014.

The basis these payments are made on is not sufficient and does not confirm the amount of services/works executed by the above mentioned operators. The Municipality does not have any documents that would clearly specify the road maintenance activities in relation to weather conditions.

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**Risk** Acceptance of works few months after their execution increases the risk for the Municipality paying for work/services not executed. This can be subject to fraud whilst the misclassification of expenditures can be a basis for Modification of Opinion.

**Recommendation 11** The Mayor should strengthen controls over acceptance of works or services. The Mayor should ensure that supervisory bodies accept works/services right after their execution. Preparation of clear specifications for these services in relation to weather conditions should be taken into consideration by the Mayor.

### **Issue 12 - Adopting of the tender - High Priority**

**Finding** The Municipality purchased a used vehicle of €9,800. Criteria used in the procurement procedure for ‘Supply with one used vehicle’ were in contradiction with the LPP. Tender’s criteria were favourable. It stipulated for the vehicle to be used, year of production 2009 and 129,000km passed.

**Risk** Setting favourable criteria not only presents a violation of LPP it also increases the risk of not achieving value for money and fraud. Such practices damage the Municipality’s reputation and discourage potential bidders in a fair and transparent procurement process.

**Recommendation 12** The Mayor should analyse the causes leading to such a procurement process and ensure that each purchase through procurement is done fully in compliance with principles and procedures of LPP by ensuring equal transparency and treatment for all bidders.

### **Issue 13 - Shortcomings in tender for treatment of stray dogs - High Priority**

**Finding** The Municipality signed a contract for elimination of stray dogs. The first tendering process was cancelled due to the lack of two eligible operators. During the second tendering process, there was only one bidder who won the contract of €56,700. This contract aimed at the elimination of 700 dogs and contained two items:

1. Capture, transportation, storage, caretaking and sheltering of dogs with a price of €61 per dog; and
2. Application of euthanasia, burial and surface’s disinfection with a price of €20 per dog.

We noticed that the operator has billed a total price of €81 per captured dog. This price for a dog is very high compared to the price of €31 per dog paid by Municipality of Prishtina. Municipality did not perform any formal process of assessment of the situation and needs for this service and does

not possess sufficient evidence for the manner of treatment of caught dogs. Furthermore, the fact that Municipality planned the same amount for this service for four years in row, by considering that the number of dogs would remain the same over the years is astonishing.

**Risk** Invoicing the total price of both items increases the risk for the Municipality not paying a real cost for each treated dog. The lack of two bidders may create the risk for adjustment of tender's criteria taking into consideration that such services are provided in other cities of Kosovo too.

**Recommendation 13** The Mayor should initiate a thorough to clarify what really happened with this contract and what the achieved impact was. Administrative measures should be taken as applicable. In future cases, it should be confirmed that needs assessment presents the real situation, that LPP was adhered to during the tendering process, and that real prices were paid for dog treatment. Public procurement controls should be strengthened in order to ensure that a transparent process of tendering is applied and the right value for the spent money is achieved.

#### **Issue 14 - Budget for road repair exceeded – Medium Priority**

**Finding** In 2014, the Municipality planned to spend €350,000 for repairing roads whilst expenditures were €449,858 due to the some 2013 progress payments made. The overspent amount was taken from other projects. Moreover, in regard to a payment of €60,029 dated 2013 but paid on 03.04.2014, the work acceptance report was not signed by the supervisory body.

**Risk** Such payments are in contradiction with financial rules. Exceeding the budget for one project leads to failure to execute other projects. The lack of the supervisory body's signature on the works acceptance report increases the risk for the Municipality paying for unfinished work or services.

**Recommendation 14** The Mayor should strengthen the controls over planning and spending within the set budget appropriations. Controls over acceptance of works should be strengthened and unsigned reports should not be taken into consideration. The Mayor should consider strengthening controls in order to ensure roads construction of high quality thus reducing the costs for frequent repairs.

### **Issue 15 - Weakness in tender for installation of public lightning - Medium Priority**

**Finding** On 14.12.2012, the Municipality signed a contract with the Economic Operator (EO) 'Multi Business Group' for installing public lightning. The contract's value of €2,999 was based on the price per unit. A considerable part of items were offered with an abnormally low price of €0.10. We review the payment of €134,520 made on 10.02.2014 mainly for supply with bulbs and other technical supplies. Out of 150 items offered, 52 were supplied and paid. Furthermore, the works acceptance minutes did not give details on the neighbourhood where the installations were made.

**Risk** Bids with abnormally low prices and the request for supplies with items with higher prices, increases the risk for adjustment and favouring of one economic operator. On the other side, the lack of information on the work site increases the risk for Municipality paying for works never executed or even paying twice for the same items.

**Recommendation 15** The Mayor should ensure that the bill-of-quantities is prepared professionally and reflects the real needs for certain items/projects. The quality of documenting the work executed should be improved in order to ensure that payments are made only when the work is done and the value for money paid has been achieved.

### **Issue 16 - Lack of progress payment/evidence on work/goods-High Priority**

**Finding** Due to the Municipality's failure to adhere to legal requirements for acceptance of works, i.e. goods, the following weaknesses have occurred:

- On 14.02.2014, the Municipality paid €39,655 for construction of canalisation in Caparc village. While testing this payment, we did not find the progress payment for the executed works;
- On 17.07.2014, the amount of €50,000 was paid for a progress payment of the project 'Construction of Memorial Complex of Nation's Martyrs' in Landovica cemetery. While testing this payment, we did not find that this progress payment was received by any commission or any supervisory body of the project; and
- The Municipality paid €57,132 for supply with coal for schools in Prizren. The minutes did neither specify which schools have been supplied nor the amount of supply for each school.



**Risk** Lack of evidence on acceptance of works and/or supplies increases the risk of fictive payments and causes considerable financial loss to the Municipality.

**Recommendation 16** The Mayor should strengthen controls over acceptance of works/supplies and ensure that no payment is done without receiving the progress payment and other underlying documentation.

#### **Issue 17 - Delays in implementation of projects-High Priority**

**Finding** On 11.02.2014, the Municipality paid €129,700 for construction of “Shpenadi-Velezhe” road. The contract for this project was signed on 19.02.2012 and works were foreseen to be finished for 100 working days. Despite the delay of 242 working days, the Municipality did not apply any penalties even though stipulated in the tender dossier. This was due to Municipality’s failure to properly manage contracts.

**Risk** Operators’ failure to adhere to the dynamic plan causes delays in projects implementation. Non application of penalties may have a negative impact on the economic operators’ responsibility for contractual obligations towards the Municipality.

**Recommendation 17** The Mayor should ensure that an analysis is carried out on the causes for long delays in capital projects implementation. Controls over contract management should be strengthened in order to ensure that all projects are finished within reasonable deadlines.

### **4.4.2 Non Procurement Expenditures**

#### **Description**

Non procurement expenditures related purchase of goods and services are not subject to procurement procedures. Examples of these expenditures are utilities, advances for travelling, official lunches, expenditures through petty cash etc. There are some aspects of the non-procurement expenditures process where controls have not been applied effectively.

#### **Recommendations**

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#### **Issue 18 - Co-financing payments - Medium Priority**

**Finding** On 12.02.2014, the Municipality has transferred €10,000 to the account of “IRD” on behalf of co-financing the project ‘Restoration of culture facilities’. In addition, on 10.09.2014, the Municipality transferred €1,000 to the account of IOM on behalf of co-financing the supply with equipment for ‘Mustafa Bakiu’ primary school. These two projects are finished; however, The

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Municipality transferred €11,000 to the accounts of these organizations only based on one memorandum for co-financing..

**Risk** The Municipality's payments to the partner not supported with detailed information on the basis of expenditures may result in non-fulfilment of objectives and can potentially be considered as irregular ones.

**Recommendation 18** The Mayor should revisit co-financing agreements and analyse the possibilities for stopping pre-payment. The agreements should include clear and transparent reporting on costs and results forming a base for monitoring.

#### **Issue 19 - High expenditures for official lunches - Medium Priority**

**Finding** Expenditures for official lunches were €111,878, or an average of €400 per each working day during 2014. We have tested two payments of €14,000 and €10,000. These payments were made in 2014 while they belonged to September 2013. Evidences for these payments did not contain any clear agenda of the event and people participating.

Expenditures for official lunches in 2014 were higher than expenditures for subsidies to sick people who cannot cover their costs for treatment inside or abroad.

**Risk** Spending for official lunches without clear justification leads to the risk for Municipality paying for activities that do not coincide with Municipality's objectives and to irrational spending of public money.

**Recommendation 19** The Mayor should strengthen controls over expenditures for official lunches. All expenditures for official lunches should serve to proper representation and achievement of the Municipality objectives. The Mayor should initiate drafting a procedure to determine allowed limits and rules for spending on official lunches.

### **4.4.3 Remunerations (Wages and Salaries)**

#### **Description**

In 2014, expenditures for Wages and Salaries were €17,766,430 or 99% of the budget for this category. Outstanding liabilities for wages to education staff for 2014 and exceeded budget for January 2015 are addressed in Chapter 4.2.

Wages and Salaries are paid through a centralised system. Controls operated locally by the Municipality relate to a) monthly control of payments by signing the salaries list, b) verification of

changes that may appear in forms, and c) budget review for this category and reconciliations with treasury.

We have no recommendations in this area.

#### 4.4.4 Subsidies and Transfers

##### Description

In 2014, expenditures for Subsidies and Transfers were €521,614 or 97% of the budget.

Expenditures for subsidies mainly include assistance or support for social cases, organisation of social-cultural events, development of small businesses etc.

##### Recommendations

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##### Issue 20 - Weaknesses in subsidies management - High Priority

##### Finding

Despite the fact that the Municipality has a regulation on subsidies in place, it did not manage to establish effective controls over their management. As a result, the following weaknesses occurred:

- Municipality supported Liria FC with the subsidy of €16,100. According to Liria FC request, €7000 would be used to cover the salary arrears from November 2013; €5,100 for trainings in Durres, and the rest for any eventual transfer. We found that expenditures incurred by the beneficiary were not in compliance with the original request. They covered the payments for November 2013 and January 2014, whilst the rest was used for travelling from Prizren to Prishtina;
- The Municipality paid €7,829 to Sfinga operator from the budget for subsidies for the organisation of a cultural manifestation. Although the commission for this manifestation was established, it did not produce any report on the works and services provided by the EO; and
- The Municipality subsidized €7,000 to the Association of KLA Martyr's Families; 38 members for recreation in Durres and 4 members for treatment in Nëna Naile Health Spa in Klllokot. The Payment was made after their return. The beneficiary did not provide sufficient evidence to justify the expenses of the stay in Durres and Klllokot.

**Risk** Spending of funds for subsidies on needs different from the request, giving cash and lack of complete evidence on incurred expenditures increases the risk that public money is neither used for the intended purpose nor in line with the Municipality's objectives.

**Recommendation 20** The Mayor should ensure that the internal regulation is comprehensive and that its requirements are met by the Municipality's staff responsible for subsidies. All funds allocated as subsidies should be spent fully in compliance with the Municipality's objectives. Beneficiaries of subsidies should provide adequate evidence that all benefited funds are spent in compliance with the requests.

## 4.5 Assets and Liabilities

### 4.5.1 Capital and Non Capital Assets

#### Description

The Municipality's assets management was associated with continuous weaknesses.

We identified the Municipality's assets completeness as a significant risk. This risk is related to the carried forward balance and as such is handled in Chapter 2.2.

During ring 2014, the Municipality acquired different assets. These assets were not completely recorded in the accounting register.

#### Recommendations

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##### Issue 21- Weakness in assets' management-High Priority

**Finding** Our review identified that the Municipality failed to register the acquired asses in 2014. This is the case with the land of five acres received as donation from the Catholic Church. The Assets Officer did not do a proper recording.

**Risk** Current controls over assets seem to be ineffective. As a result, the Municipality does not have a final register of its assets. Therefore, it is not possible to have a better management and proper decision-making on the assets available.

**Recommendation 21** The Mayor should ensure a close cooperation between the Assets Officer and with other departments in the Municipality in order to systematically register all assets owned by the Municipality, and that an updated assets register is presented before AFS 2015 are drafted.

## 4.5.2 Handling of Receivables

### Description

Municipality's accounts receivable present the amount of funds which the citizens and organisation owe to the Municipality for services, works, goods, or properties benefited from the Municipality.

### Recommendations

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#### Issue 22 – High level of accounts receivable - High Priority

**Finding** The amount of receivables at the end of 2014 was €14,534,000. Most of these accounts are related to:

- Property tax €9,338,000;
- Other business licences €4,604,000;
- Trade receivables €204,000; and
- Other fees of €388,000.

The accumulated debt, which is increasing every year, presents one of the Municipality's main challenges. This is because the Municipality failed to comply with the Financial Rule for collection of receivables and to put in place effective mechanisms for their collection. The Municipality has not drafted a strategy on activities to be undertaken for decreasing the accounts receivable.

**Risk** Continuous increase in accounts receivable diminished the Municipality ability to finance the projects from own source revenues. Delayed preparation of strategy for collection of outstanding debts may lead to a situation where they may be transformed into bad and uncollectable debts at a certain point in time.

**Recommendation 22** The Mayor should have a comprehensive approach in treating this problem, in terms of both planning and setting of effective mechanisms for bringing these debts down to an acceptable level. The Management should initiate a reassessment process, where all accounts would be analysed in terms of aging, significant amounts, real collection possibilities and exercising of administrative measures.

### 4.5.3 Handling of Debts

#### Description

Debts of Municipality present the liabilities it has to suppliers and to its employees. Even Prizren Municipality has an increasing trend of debts each year. This reflects inappropriate payment management.

The Municipality entered into outstanding liabilities this year as well. The reason of entering into liabilities is not understandable given the budget spending of 84% and the limited use of own source revenues.

#### Recommendations

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##### Issue 23 - Outstanding liabilities - High Priority

**Finding** The statement of outstanding liabilities to the suppliers at the end of 2014 was €2,234,878. These liabilities are carried forward to be paid in 2015. However, this presents just a part of the budget challenge since the Municipality had contingent liabilities of €3,206,000. According to the experience in the past, there are likely to become final liabilities, thus worsening the Municipality's budget situation even further.

**Risk** High level of outstanding liabilities and contingent liabilities increases the risk that the Municipality's budget will be subject to direct executions by MoF and court verdicts. Such a situation may bring the municipality to a difficult financial situation leading to non-implementation of projects and other problem in financing main operations.

**Recommendation 23** Mayor should strengthen the management controls by ensuring a detailed and real budget plan and that funds are used based on a clear cash flow plan by not exceeding the funds allocated by economic categories in any case. For handling the accumulated debts, the Mayor should present a plan setting forth concrete actions for gradual settlement of Municipality's debts. This plan should be directly monitored by the Mayor.

## 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 (AC). In addition, we review the actions taken by senior management as a result of work carried out by the Internal Audit and AC etc.

The Internal Audit Unit (IAU) planned six audits for 2014 and finalised all of them as planned. The areas covered from the internal audit during 2014 were:

1. Follow-up report for addressing the IAU recommendations for 2013;
2. Procurement process, including second six months period of 2013;
3. Management of procurement activities for eight months of 2014;
4. Own source revenues for 2013 and the first quarter of 2014;
5. Revenues from the main cash register for half of 2014; and
6. Revenues from property tax for 10 months of 2014;

As a result of the audit work, IAU issued some valuable recommendations for the management. However, the management did not pay sufficient attention to the IAU recommendations.

Regardless all the achieved progress, due to scope and methodology applied by this unit, we are not able to rely on IAU work for our audit approach.

### Recommendation

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#### Issue 24 - Weakness in internal audit - High Priority

#### Finding

Our examination has identified the existence of some weaknesses in internal audit system. These weaknesses are as follows:

- Management did not prepare plans for implementation of IAU recommendations. Six out of 32 recommendations given by IAU have been addressed; and
  - Although established, the AC did not contribute in the improvement of control systems. AC held only two meeting during the year where the recommendations of IAU and OAG were reviewed. AC did not undertake any action to assist in the implementation of recommendations.
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These weaknesses reflect management’s lack of commitment to recognize the role of internal audit and optimisation of benefits from the system.

**Risk**

The lack of management’s willingness to have a proactive AC and to recognize the role and importance of IAU may result in delayed elimination of weaknesses as well as in operational inefficiency and financial loss for the Municipality.

**Recommendation 24** The Mayor should ensure that AC takes a proactive role in order to benefit from the internal audit activity. AC should critically review the IUA plans and results and contribute in the Municipality’s management overall improvement.



## 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

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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 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	Fully addressed	Partly addressed	Not addressed
2.2 Significant Risks to the Annual Financial Statements	Mayor should identify the appropriate action in order of addressing these control weaknesses to enable the fair and accurate presentation of assets in 2014.		Partly	
2.3 Compliance with AFS reporting requirements	The Mayor should ensure that the 2014 AFS production plan formally addresses all compliance requirements in terms of their preparation, i.e. Financial Rule 03/2013 and secure that there is a reporting line in place and managerial staff is responsible when reporting financial data drafted by CFO.	Yes		
2.4 Compliance with other External Reporting Requirements	Mayor should ensure that external reporting requirements are fully met in order to achieve an effective reporting by the Municipality, in line with external reporting framework.	Yes		
3. Prior years recommendations	The Mayor should ensure that a revised action plan clearly sets out a timetable for addressing the recommendations with accountable staff members identified and with initial focus on those of greatest significance. The implementation of this plan should be monitored by the Mayor on monthly basis.	Yes		
4.1 Good governance	The Mayor should review reporting aspect of respective directorates to determine the format of financial reporting which allows the Management to have proper and timely decision-making when it comes to progress and monitoring of processes.	Yes		
4.3 Revenues (including own	The Mayor should comprehensively analyse the issue of revenues, in terms of planning as well as the establishing effective mechanisms for executing planned parameters. The Management		Partly	

source revenues)	should initiate a reassessment process , where all accounts are analysed in terms of age, significant amounts, realistic possibilities of collection and exercising administrative measures (if necessary).			
	Mayor should ensure than planning of revenues is based on real parameters with a purpose of stimulating as much as possible the collection of revenues. Also it should implement a systematic review to determine the barriers of increasing the actual rate of incomes and decreasing the rate of historical debts (by including the debts of tax on business) as well as to identify the possibilities for improvement of situations.		Partly	
4.4 Expenditures (procurements)	Mayor should take into consideration the financial rules and to install stronger controls of the finance department and procurement in order of preventing the entering into liabilities without funds. Besides prior ensuring of funds, management strengthen the controls on contract monitoring.			No
	The Mayor should ensure that the Procurement Department implements all the requirements stemming out from Tender Dossier, securing that it obliges an EO to adhere to all the terms of the contract through performance security. Further on, it should ensure that the Municipality establishes clear objectives before entering into any contractual agreement with EO, and ensure that the contract terms are favourable and justify the value for money spent.			No
4.4.2 Non procurement expenditures	The Mayor should enhance controls to similar types of expenditures ensuring that expenditures are in function of operating activities within the Municipality, and as such are grounded and reasonable.			
4.4.3 Remunerations (Wages and salaries)	The Mayor should ensure that staff recruitment is not made before salaries are secured. Further on, this case should be reviewed and all staff payments are made as soon as possible and such practices		Partly	

	are not repeated.			
	Mayor should ensure that the budget planning process for these two sectors is directly linked with real needs of covering wages and salaries, by taking into consideration the prior years' experience.	Yes		
	The Mayor should resolve this inconsistency, and determine whether these are just isolated cases or a widespread phenomenon. Depending on the situation, controls should be strengthened in order to prevent such cases.		Partly	
4.4.4 Subsidies and transfers	The Mayor should ensure that when taking the decision on subsidies, legal grounds are reviewed. Further on, the Mayor should, for subsidies whether for material supplies or transfers of funds, request from relevant departments to maintain all information regarding the beneficiaries of these Subsidies and Transfers.		Partly	
4.5 Assets and liabilities	The Mayor should ensure that the appointed Assets Inventory Committee, within a certain period of time physically records assets in order to compare them with accounting, and clarify all possible differences. Further on, recording of assets over €1,000 should be an on-going process until all assets are recorded.			No
4.5.2 Handling of receivables	The Mayor should introduce a comprehensive approach when addressing this problem, both in terms of planning and establishing effective mechanisms to reduce these debts to an acceptable level. The Management should initiate a reassessment process, where all accounts are analysed in terms of age, significant amounts, realistic possibilities of collection and exercising administrative measures (if necessary).			No
4.6. Handling of	The Mayor should provide a detailed and realistic budget plan and	Yes		

debts	the funds are used based on a clear cash flow plan, not exceeding the funds allocated under the economic category			
4.7 Internal Audit System	The Mayor should address recommendations arising from internal audits, delegating responsibilities to the staff responsible for implementing the recommendations. It should also ensure that in addition to the readiness for addressing the recommendations, this process is also monitored on regularly basis.			No