



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

Document No: 22.26.1-2014-08

**AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF
ZVEÇAN MUNICIPALITY
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 Zveçan Municipality 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 Svetlana Perović (Team Leader), Stana Dančetočić and Agim Sogojeva (Team members).

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Executive Summary

Introduction

This report summarises the key findings from our audit of the 2014 Annual Financial Statements of Zveçan Municipality 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 dated 10.11.2014.

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:

We were unable to carry out adequate audit procedure to obtain assurance regarding the occurrence and regularity of payments for wages and salaries in amount of €724,018 in the health and education sectors.

Employees' files were missing and many of them did not contain work contracts. We were not able to confirm whether the adequate procedures were adhered to when registering staff in the payroll system and if payments of salaries were executed properly.

Disclaimer of Opinion

Due to the significance of the matter described above, we are not able to express an opinion on whether or not the annual financial statements present a true and fair view in all material aspects.

Other Issues

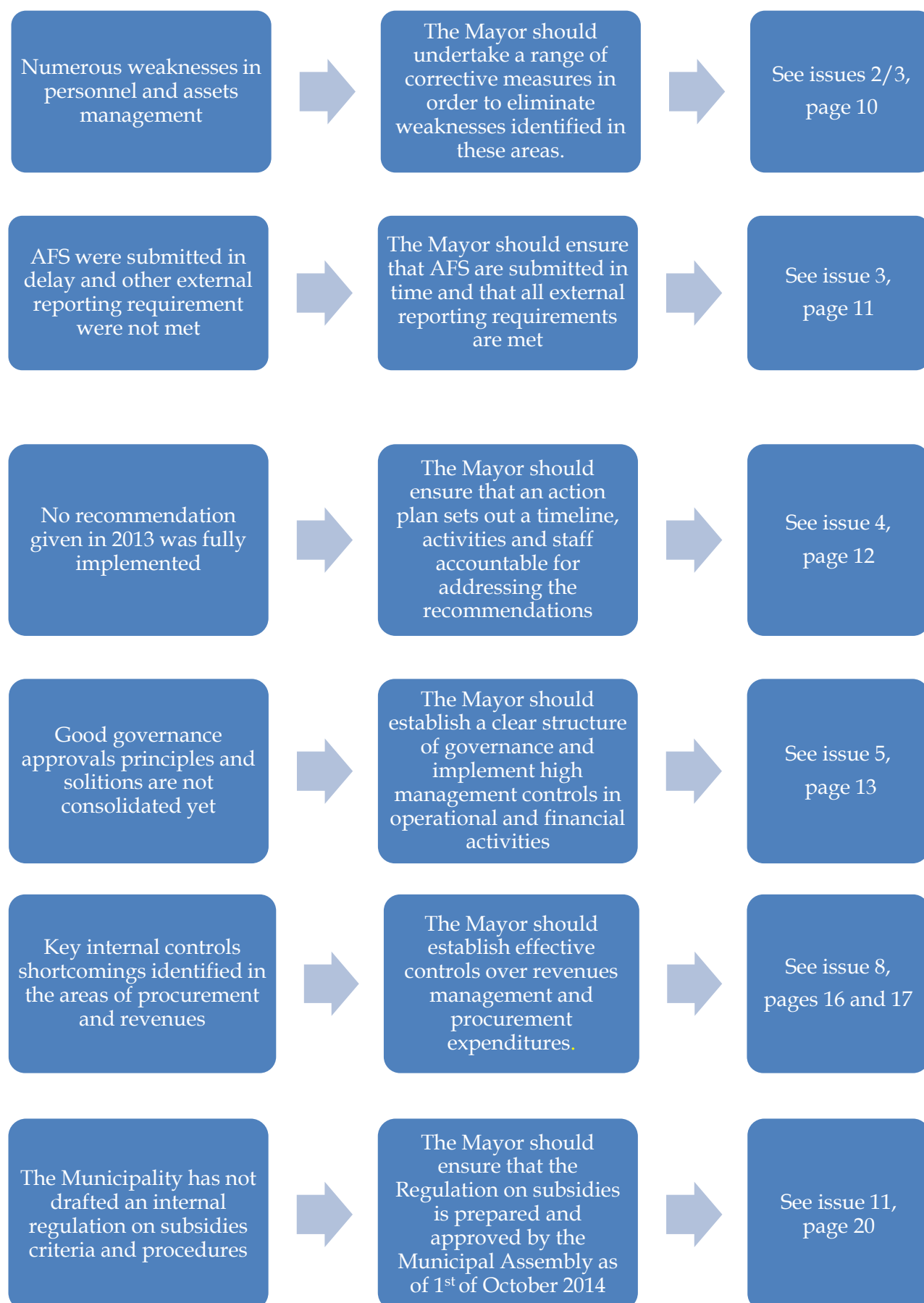
The Fixed Assets have not been disclosed in the annual financial statements.

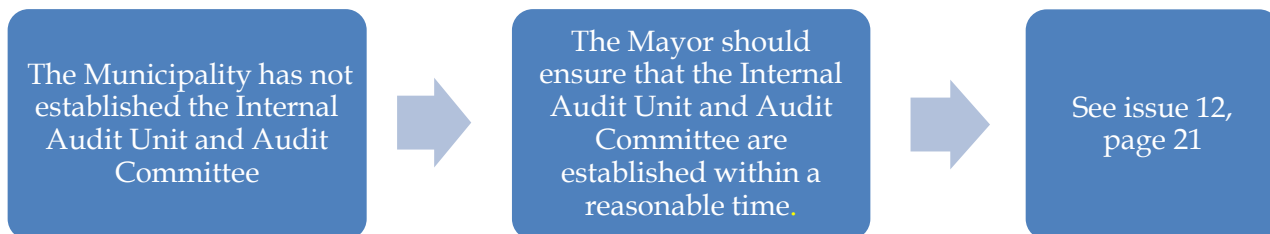
(ISSAI 200: Disclaimer of Opinion)

Overall Conclusion

The Municipality has shown a slight progress in terms of improving the internal control environment. However, processes and controls need further consolidation in order to be operational and effective.

Our key conclusions and recommendations directed 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 Zveçan Municipality's management 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 activities also determine 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. 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

Description

Our review of the AFS considers compliance with the reporting framework and the accuracy and quality 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.

2.1 Audit Opinion

We were unable to carry out adequate audit procedure to obtain assurance regarding the occurrence and regularity of payments for wages and salaries in amount of €724,018 in the health and education sectors.

Employees' files were missing and many of them did not contain work contracts. We were not able to confirm whether the adequate procedures were adhered to when registering staff in the payroll system and if payments of salaries were executed properly.

Disclaimer of Opinion

Due to the significance of the matter described above, we are not able to express an opinion on whether or not the annual financial statements present a true and fair view in all material aspects.

Other Issues

The Fixed Assets have not been disclosed in the annual financial statements.

(ISSAI 200: Disclaimer of Opinion).

2.2 Significant Risks to the Annual Financial Statements

Description

Our Audit Planning Memorandum dated 10.11.2014 identified two significant risk to the AFS related to the regularity of wages and salaries and completeness of assets.

Identified Risks

Issue 1 - Failure to register all assets may result in a material misstatement of assets value in AFS.

Audit Response and Findings

During the interim audit, we examined the management controls and associated guidance applied to the registration of assets and provided advice to management to take the required action. Based on our assessments, the Management has not taken actions required to ensure complete presentation of assets in the AFS. The Municipality did not disclose any assets value in the AFS. This was because the Municipality did not manage to implement the Financial Rule 02/2013 on the Management of Government Assets.

Recommendation 1 High Priority – The Mayor should review the existing processes of assets management. A first step in this regard would be the annual stocktaking of assets available followed by the registration of other properties and premises owned by the Municipality. Clear guidelines should be issued in order to monitor the use of public assets, including vehicles, computer equipments, telephones and public premises and spaces.

Issue 2 - Lack of employment contracts for employees in the Municipality may result in material values of irregular payments for wages and salaries.

Audit Response and Findings

During our interim audit, we reviewed management's controls and associated processes applied to address the identified risk and provided advice for taking immediate actions. During the final audit stage, we reviewed management's actions to determine whether our advice was implemented. The risk identified has materialised because the municipality did not implement our advice and we were not able to obtain evidence on the regularity of payments for wages and salaries. We consider that the value of misstated expenditures on wages and salaries may be material and may result in a modified opinion.

Recommendation 2 High Priority – The Mayor should take immediate actions and ensure that all expenditures on wages and salaries are made based on regular contracts. No salary should be paid to employees having no employment contract with the Municipality.

2.3 Compliance with AFS and other reporting requirements

Description

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

- Compliance with Financial Rule no. 03/2013;
- Requirements of LPFMA no. 03/ L-048;
- Quarterly reports, including nine month financial statements in time;
- Whether AFS were prepared in Albanian and Serbian within the statutory deadline;
- Whether AFS were signed by the Mayor and Chief Financial Officer (CFO);
- Report on outstanding liabilities;
- Draft and final procurement plans;
- Self-assessment; and
- Performance reports;

Issue 3 – AFS and other reporting requirements – High Priority

Finding

In the context of AFS and other reporting requirements we identified the following non-compliance:

- AFS were not submitted in the legal deadline. They were submitted 20 days in delay;
- AFS were not in compliance with Financial Regulation 03/2013 because they did not contain disclosures on Municipality's assets;
- Quarterly reports and nine-month financial statements were not submitted;
- Report on outstanding liabilities was not submitted;
- Procurement plan was not submitted;
- Self-assessment was not made as required by FMC; and
- Performance report was not prepared.

- Risk** The Municipality's Management did not implement many of the reporting requirements. The abovementioned non-compliances reveal weaknesses in complete reporting and information by the Management. This may result in unclear view of the Municipality's financial position and in difficult decision making.
- Recommendation 3** The Mayor should establish needed processes controls in order to ensure that requirements for producing quality AFS and external reporting are met. Compliance with these requirements is a legal obligation that budget spenders should fulfil.

3 Prior Year Recommendations

Overall Conclusion

Zveçan Municipality did not prepare an action plan to implement prior year's recommendations. As a consequence, none of the prior year's recommendations were fully addressed. This resulted in repetition of weaknesses in key areas of financial management systems.

Description

Our Audit Report on the 2013 AFS resulted in 11 key recommendations. The Municipality did not prepare an Action Plan stating how all recommendations will be addressed. By the end of our audit 2014, three recommendations were partially addressed, whilst nine were not handled by the Management. For a more thorough description of the recommendations and how they are addressed, see Annex II.

Issue 4 - Addressing Prior Year Audit Recommendations – High Priority

Finding	The Municipality did not fulfil its obligation towards OAG to prepare and submit an action plan for the implementation of prior year's recommendations. As a consequence, only three recommendations were partially addressed, whilst the other were not handled at all.
Risk	Management's failure to address issues raised from the previous audit has resulted in on-going weaknesses in staff management, procurement, assets recording and internal auditing.
Recommendation 4	The Mayor should ensure that an action plan to implement the 2013 and 2014 recommendations is prepared, preceded by an adequate assessment made. This plan should identify the timeline, activities and staff accountable for implementing the recommendations and with initial focus on those of greatest significance. The plan implementation of the plan should be directly monitored by the Mayor.

4 Governance

Overall Conclusion

Robust governance provides support for effective planning, implementation and monitoring of Municipalities' activities. Zveçan Municipality has a number of weaknesses in Financial Management and Control area and should take concrete measures to improve the overall governance.

Key aspects of a governance framework not applied by the Municipality are as follows:

- Clear procedures and adequate segregation of duties for process management;
- Risk management;
- Systematic monitoring of activities;
- Self-assessment; and
- Establishment of the Internal Audit system (internal audit services and an effective Audit Committee).

The Municipality did not put in place basic governance arrangements. As a result, different weaknesses were found in all areas.

4.1 Good Governance

Description

Governance and public finance control are implemented through an integrated system of daily financial and operational activities. In order to ensure effective Financial Management and Control a formal process of qualitative and timely reporting and management is required.

Issue 5 – Management and control processes – High Priority

Finding	Our review has identified that the established administration, directorates and job systematisation are not properly structured. High level controls over expenditures and revenues have not become formal. The expenditures management decentralisation process did not take place and financial officers have not been certified for independent expenditures management.
Risk	Failure to establish clear governance structures, inadequate segregation of duties and responsibilities and poor financial and operational management reduce the Municipality's effectiveness and efficiency in achieving the set objectives.

Recommendation 5 The Mayor should review the current situation in order to determine structure of administration bodies, right segregation of duties and clear format of quality reporting as well as strengthen the accountability process to provide for effective operations in the Municipality. An appropriate solution should be introduced by the end of 2015.

4.2 Budget Planning and Execution

Description

We have considered the sources of budgetary funds for Zveçan 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	1,828,627	2,038,000	1,978,111	1,868,731	1,657,419
Government Grant -Budget	1,816,227	1,989,138	1,945,703	1,868,731	1,654,020
Carried forward from previous year ² –	0	1,353	1,353	0	3,399
Own Source Revenues ³	12,400	16,454	0	0	0
External Donations	0	31,055	31,055	0	0

The final budget was €209,373 higher than the initial budget as a result of:

- Increased Government Grant by €172,911;
- Increased Own Source Revenues of the current year by €4,054;
- Unspent revenues of €1,353 carried forward from 2013; and
- External Donations of €31,055.

The final budget execution in 2014 was 97%, which can be considered quite a good performance. Compared to the current year, overheads have increased by 5%. Explanations on the current position are detailed 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.

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 - by economic categories	1,828,627	2,038,000	1,978,111	1,868,731	1,657,419
Wages and Salaries	837,820	1,012,084	1,003,883	826,771	835,049
Goods and Services	129,534	129,534	96,827	80,614	86,005
Utilities	14,700	14,700	4,597	5,435	1,176
Subsidies and Transfers	10,000	14,054	9,936	5,000	0
Capital Investments	836,573	867,628	862,868	950,911	735,189

Explanations for changes in budget categories are given below:

- The budget for Wages and Salaries in 2014 increased by €177,264 to finance the increase in salaries by 25% upon Government's decision;
- The budget for Goods and Services for 2014 was spent by 75% of the total budget allocated for this category. Compared to the previous year, expenditures in this category have increased by 20% as a result of the payment of €6,308 for salaries of Municipal Assembly's MPs as the budget line for the later was not planned;
- Expenditures in Utilities were low, 31%, although it does not represent a significant amount to the total budget; and
- The budget for Capital Investments increased by €31,033 due to UNMIK donations. The budget for this category was executed by 99%, out of which 88% was spent in the last quarter.

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

Description	Initial Budget	Final Budget	2014 Receipts	2013 Receipts	2012 Receipts
Own source revenues	12,400	16,454	16,454	718	635

In 2014, Zveçan Municipality exceeded the revenues collection initial plan by 33%. This shows an improvement compared to previous years, although the own source revenues' share in the total of expenditures remains symbolic (only 0.8%). This increase is because the Municipality started to record and report the revenues received. The fact that the Municipality has started to apply administrative fees and charges to citizens for municipal services provided is encouraging.

Receipts of €4,157 from sale of municipal services and revenues of €12,297 from traffic fines and court penalties constitute the total amount of collections. The exceeded plan was more a result of

poor initial planning than any effective implementation of measures for tax collection. This was because the application of the property tax was not included in their plan on own source revenues.

Recommendations

Issue 6 – Budget Execution – Medium Priority

Finding The overall budget execution was 97%. However, while only €1,353 was spent from own source revenues, some of the expenditures categories have resulted with considerable underspending. In addition, more than half of expenditures (52%) incurred in the last quarter of the year.

Risk Poor budget planning and increased trend of payments made in the last quarter increases the risk that effective controls are overlooked and may result in potentially irregular payments.

Recommendation 6 The Mayor should systematically monitor budget performance on a monthly basis in order to ensure a planned flow of budget execution. Spending in the last quarter of the year to a large extent should be prevented from happening in future periods.

4.3 Revenues (including own source revenues)

Description

The Municipality applies only a limited category of taxes and fees. Administrative fees and fees for birth and death certificates are the Municipality's main sources of revenues. All receipts from these fees are collected by the office situated in Lipa village. Zveçan Municipality is still not applying adequate controls over revenues collection and reporting.

Recommendations

Issue 7 – Systematic weaknesses in the management of own source revenues – High priority

Finding Our review has identified a range of systematic weaknesses regarding revenues planning, collection and reporting. This was because the Municipality did not implement legislative rules on revenues collection. As result, we found the following weaknesses:

- The Municipality does not have an updated regulation on revenues collection. It collects revenues based on an out-dated UNMIK regulation;

- Inadequate planning of own source revenues: revenues from property tax, construction license tax and other taxes are not planned. Therefore, no revenues are collected; and
- Revenues are collected in cash: collected revenues are neither reported nor deposited properly in the Municipality's account.

Risk

Besides the clear legal basis for collection of revenues, the Municipality has not been willing to implement the property tax law and issue the sub-normative acts needed for the application of taxes and fees for service provided to the citizens. Therefore, collection of revenues based on an out-dated regulation may result in irregular revenues. Moreover, revenues collected in cash and failure to regularly deposit them in the Municipality's account increases the risk for financial fraud and losses for the Municipality.

Recommendation 7 The Mayor should immediately initiate the preparation of a regulation on application of taxes and fees and submit to the Municipal Assembly for adoption. We would suggest the Municipality to cooperate with other municipalities which could serve as a good example in this regard and to use good practices to ease the process. Based on this regulation, the Mayor should ensure that all types of taxes and fees are applied.

4.4 Expenditures

4.4.1 Procurement

Description

Procurement expenditures include all capital investments and a large portion of goods and services. There are some aspects of procurement process whereon controls were not effectively applied.

Recommendations

Issue 8 – Systematic Weaknesses in Procurement – High Priority

Finding

Our review has identified that management controls have not been effectively operating. As a result, some of the administrative requirements of the Law on Public Procurement have not been implemented as follows:

- The Municipality did not produce the procurement plan and the report on procurements conducted during 2014. Capital projects were not adequately recorded in PIP either;

- In the contract “Execution of works for road lights instalment in the area of Rudar village”, worth €23,805, the declaration on the availability of funds and the decision to establish the bids evaluation commission were not signed by the Mayor. In addition, the declarations under oath were not signed by the members of the commission;
- Performance Security of €782,234 for the Contract “Paving of Local Roads with Asphalt” was submitted 20 days after the contract execution;
- Companies engaged for project management services were paid the amount of €19,213 through the budget of Capital Investments.

Risk Failure to produce the procurement plan and report increases the risk of legal requirements violation. Entry into contract without ensuring availability of funds increases the risk that municipalities will not be able to pay their financial liabilities to economic operators. On the other hand, entry into contract without Performance Security leads the municipality to financial loss if the economic operator fails to deliver the contracted works.

Recommendation 8 The Mayor should strengthen controls over procurement procedures and ensure that all administrative requirements are fully in compliance with the Law on Public Procurement. Preparation of procurement plan should be the point of departure.

4.4.2 Remunerations (Wages and Salaries)

Description

Wages and Salaries are paid through a centralised system operated by the Ministry of Public Administration. Controls that operate at the local level by the municipality deal with: a) authorisation of payroll lists; verification of eventual changes that may occur through forms; and reviewing the budget for this category and reconciliations with the Treasury.

Recommendations

Issue 9 – Lack of employment contracts – High Priority

Finding Our review has identified systematic weaknesses in personnel management which had an impact on most of the tested cases. This was because the Municipality did neither implement the regulations nor put adequate controls in place. As a consequence, the Municipality has not appointed the Administration Director and the Human Resources Manager. Personnel records were not complete and a number of employees have no

employment contracts signed. As a result, we were not able to compare contract of individual officers with the Payroll System.

Risk Lack of the Administration Director and HR Manager have resulted in repetition of weaknesses in the payroll. Lack of employment contracts may result in fictive or irregular payments which may lead to modification or disclaimer of opinion.

Recommendation 9 The Mayor should analyse the payments carried out in the payroll system. Management positions should be manned and all employees should sign employment contract. Immediate actions should be taken for the needed improvements.

Issue 10 – Payments to education staff – Medium Priority

Finding Our review identified cases where 14 high school professors and 58 primary school teachers were paid €385, same as preschool teachers, instead of €405. This was because the Municipality did not establish the same standard for recognising the qualifications of teachers in all schools.

Risk Payment of staff to lower amounts than the ones foreseen constitutes violation of employees' right to get paid for the service delivered. This may result in low quality teaching and retroactive payments.

Recommendation 10 The Mayor should ensure that a procedure for standardisation of teachers' qualifications is produced. This would provide a basis whereon teachers would be paid for the service delivered.

4.4.3 Subsidies and Transfers

Description

The budget for Subsidies and Transfers was €14,054, out of which €9,936 was spent. This system is not fully consolidated yet and internal control needs to be enhanced.

Recommendations

Issue 11 – Lack of regulation – High Priority

Finding Our review has identified that Zveçan Municipality did not prepare a regulation that would set forth the criteria and procedures for allocation of subsidies.

Risk Lack of an internal regulation that would set forth the criteria and procedures for allocation of subsidies may result in irregular payments, low value for money and may be subject to fraud.

Recommendation 11 The Mayor should ensure that all internal regulation on subsidies is drafted within three months. This regulation should be sent to and approved the Municipal Assembly by 1 October 2015.

4.5 Assets and Liabilities

4.5.1 Capital and Non Capital Assets

Description

Assets management in Zveçan Municipality has not shown progress. The Municipality did not appoint the Assets Officer and did not present any of the assets value in AFS of 2014.

We identified a significant risk related to the completeness of Municipality's assets. We handled the risk under Chapter 2.2 - Significant risks.

4.6 Internal Audit System

Description

Internal audit system is a key part of internal control and because of its importance we present it here separately. We take into account the scope of internal audit work and activities of the Audit Committee. In addition, we review the actions taken by senior management as a result of work performed by Internal Audit and the Audit Committee.

The Law no.03/L-128 on Internal Audit stipulates that all public sector entities shall be subject to internal audit in order to obtain assurance that internal controls in the Municipality operate in compliance with law and regulations and to increase the level of services provided to the citizens.

Recommendations

Issue 12 -Non-operational IAU - High Priority

Finding Zveçan Municipality has not establish an Internal Audit System. The Internal Audit Unit (IAU) is not in place and internal audit services is not assessed. The Audit Committee was not established.

Risk Lack of the Internal Audit Unit and Audit Committee may result in repetition of weaknesses in key internal control systems. Moreover, the Management may not be able to identify control irregularities and weaknesses and react in time for that.

Recommendation 12 The Mayor should ensure that an Internal Audit System is installed. An Audit Committee should be established in order to help the internal audit work and to strength the internal control environment and modalities. Internal audit services should be assessed, either in the form of an IAU or contracted/shared.

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	Recommendation fully addressed	Partly addressed	Not addressed
2.3 Compliance with AFS reporting requirements	The Mayor should ensure that the 2014 AFS production plan formally addresses all requirements relating to the AFS. Appropriate measures should be taken to ensure accurate disclosure of assets in the AFS for 2014, by relying on timely activation of Assets Inventory Committee			Not addressed
2.4 Compliance with other external reporting requirements	The Mayor should ensure that external reporting requirements for 2014 are fully met in line with deadlines and with good quality. We suggest Municipality' Management to use current knowledge and practices of other municipalities			Not addressed
4.1 Good Governance	The Mayor should conduct a review and to redesign the organisational structure and segregate duties in accordance with Law on Local Governance and in accordance with rules of Financial Management and Control		Partially addressed	
4.3 Revenues (including own source revenues)	The Mayor should ensure that planning of revenues is based on objectivity and aims to meet planned parameters at the maximum level. Amounts of revenues collected should be deposited in the bank within legal deadlines and the Revenue Officers make regular reconciliations with the Treasury officers in order to confirm the completeness of revenues. In addition, for a more effective management of revenues, the management should establish close cooperation with the Treasury in order to discuss and overcome challenges that may arise in this area.			Not addressed

4.4.1 Procurement	The Mayor should ensure that a preliminary and final procurement plan is drafted fully complying with LPP requirements. In order for the process to be clearer, the management should develop an Internal Procurement Guideline clearly specifying procedures, duties, and responsibilities of the staff involved in the process			Not addressed
4.4.1 Procurement	The Mayor should strengthen supervisory controls over projects to ensure that payments are made for the exact volume of works completed, and that procurement activities are carried out fully in compliance with procurement rules			Not addressed
4.4.2 Remunerations	The Mayor should review recruitment processes and establish controls preventing recruitments without advertisement		Partially addressed	
4.4.2 Remunerations	The Mayor should undertake all appropriate measures to improve the internal control system and undertake urgent measures in accordance with Law, Regulations and applicable Guidelines to adjust personnel files, including signing of employment contracts (appointment acts).			Not addressed
4.4.3 Subsidies and Transfers	The Mayor should immediately approve a regulation which clearly specifies criteria granting, procedures and sources of subsidies			Not addressed
4.5 Assets and Liabilities	The Mayor should appoint an Asset Officer and immediately start fully and accurately recording municipal assets in accordance with the Regulation no. 02/2013 on Asset Management. Assets inventory should be conducted each year end in order to confirm assets existence.			Not addressed
4.6 Internal Audit System	The Mayor should analyse and look into the possibility of establishing an Internal Audit Unit, or obtain internal audit services every year from some other budget organisation			Not addressed

