



REPUBLIKA E KOSOVËS / REPUBLIKA KOSOVA / REPUBLIC OF KOSOVA

**ZYRA KOMBËTARE E AUDITIMIT
NACIONALNA KANCELARIJA REVIZIJE**

NATIONAL AUDIT OFFICE

Document No: 22.19.1-2016-08

AUDIT REPORT
ON THE ANNUAL FINANCIAL REPORT OF THE MUNICIPALITY
OF KACANIK
FOR THE YEAR ENDED 31 DECEMBER 2016

Prishtina, june 2017

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control which, according to the Constitution and domestic laws, enjoys functional, financial and operational independence. The National Audit Office undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

Our Mission is to contribute to sound financial management in the public administration. We perform audits in line with internationally recognized public sector auditing standards and good European practices.

The reports of the National Audit Office directly promote accountability of public institutions as they provide a base for holding managers' of individual budget organisations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Municipality of Kacanik 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 by Florim Maliqi (Team Leader) Mexhit Ferati and Arben Hundozi (team members) under the management of the Head of Audit Department Fatlinda Ramosaj.

TABLE OF CONTENTS

Executive Summary.....	4
1 Annual Financial Statements and other External Reporting Obligations	7
2 Governance.....	11
3 Financial Management and Control	17
ANNEX I: Audit Approach and Methodology	31
Annex II: Explanation of the different types of opinion applied by NAO.....	32
Annex III: Prior Year Recommendations	35
Annex IV: Letter of confirmation	39

Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2016 Annual Financial Report of the Municipality of Kacanik, which determines the Opinion given by the Auditor General. The examination of the 2016 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions. Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in our External Audit Plan¹ dated 09.11.2016.

Our audit focus has been on:



For more details see Annex 1.

The level of work undertaken by the National Audit Office to complete the 2016 audit is a direct reflection of the quality of internal controls implemented by the Management of the Municipality of Kacanik.

Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

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

Emphasis of Matter

As Emphasis of Matter we would like to mention the fact that during 2016 the amount of €97,428 was paid and recorded as capital assets which in fact are subsidies and transfers.

Full formulation of the opinion is given in detail in Chapter 1.1 of this report.

¹ The term External Audit Plan replaces the term Audit Planning Memorandum

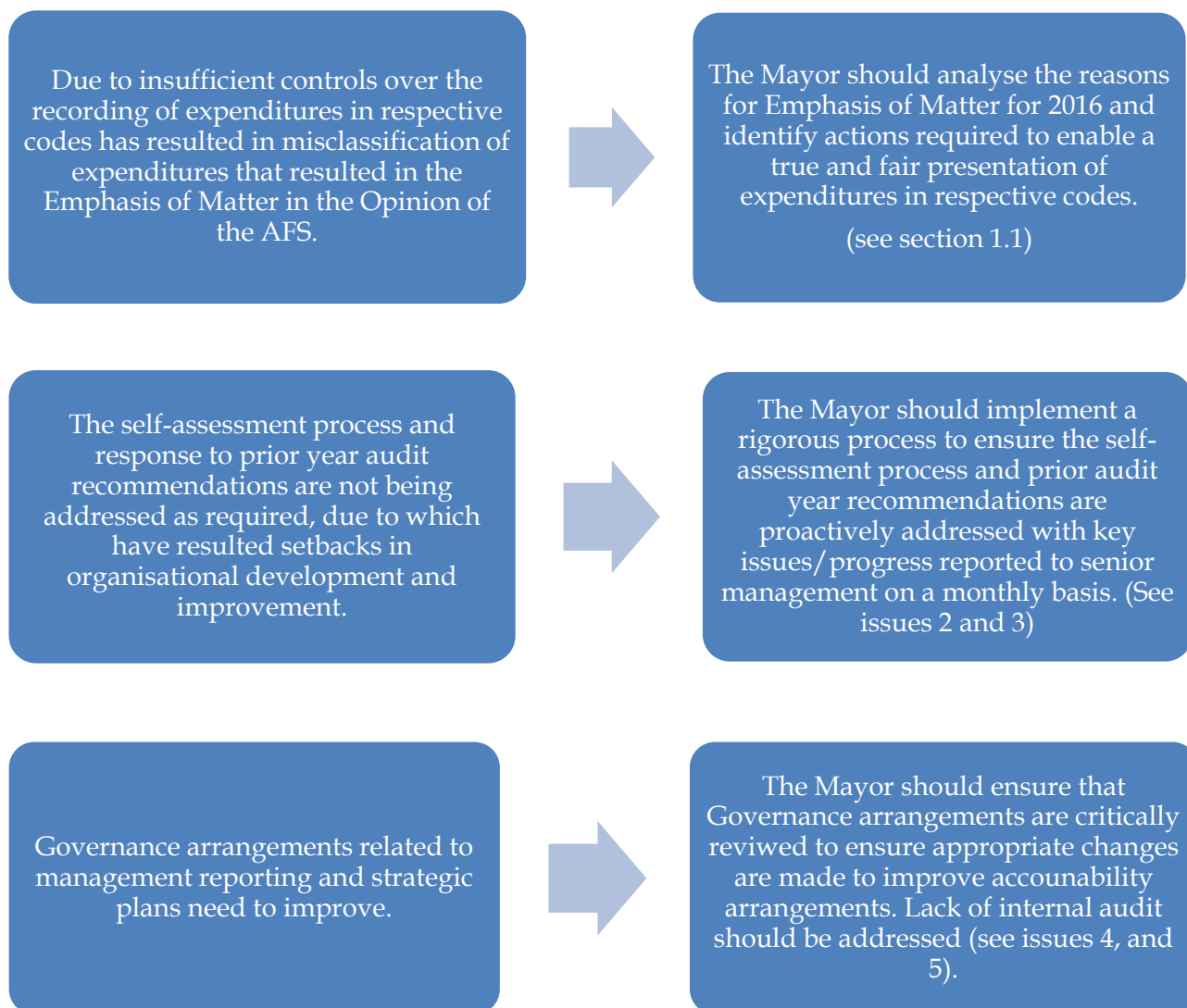
Annex I explains the different types of Opinions applied by the National Audit Office.

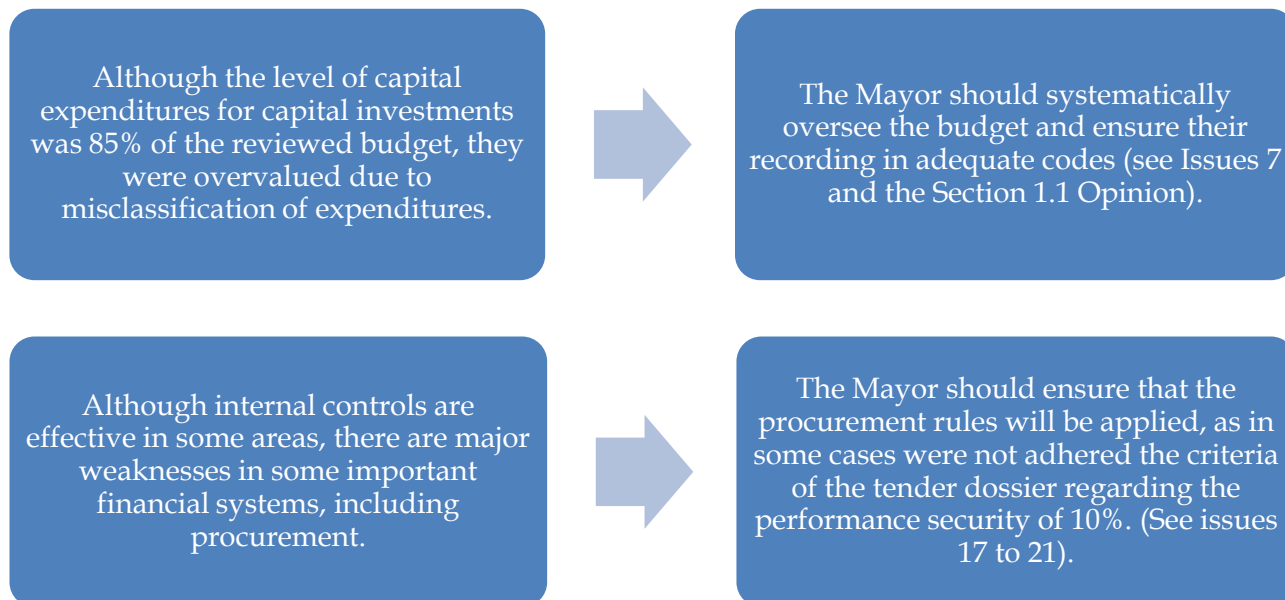
We would like to thank the Mayor and his staff for the cooperation during the audit process.

Key Conclusions and Recommendations

The management of the Municipality has designed the internal control system, but these controls had not operated in some key areas of financial management. These should be continuously monitored to ensure that they are operating as intended. In the following we are presenting are in which shortcomings were noticed:

Our key conclusions and recommendations are:





Mayor's Response

The Mayor has considered the detailed audit findings and conclusions in this report and has committed to address all given recommendations. In addition, the Mayor is committed to:

- discuss the audit report in the Municipal Assembly; and
- By the end of January 2018, he shall discuss in the Municipal Assembly about the progress in the implementation of audit recommendations Action Plan before the annual financial statements of 2017 are submitted to the Ministry of Finance.

1 Annual Financial Statements and other External Reporting Obligations

Introduction

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

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 AFS. These declarations are intended to provide the Government with the assurance that all relevant information has been provided to ensure that a comprehensive audit can be undertaken.

1.1 Audit Opinion

Unmodified Opinion with Emphasis of Matter

We have audited the AFS of the Municipality of Kacanik for the year ended on 31st of December 2016, which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement and the Explanatory Notes of the Financial Statements.

In our opinion Annual Financial Statements for the year ended on 31st of December 2016 present a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (cash based Accounting), Law no.03/L-048 on Public Finance Management and Accountability (as amended and supplemented) and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations issued by the Ministry of Finance.

Basis for Opinion

We conducted the audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the AFS section of our report. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the qualified opinion.

Emphasis of Matter

We draw your attention to the fact that the Municipality had misclassified expenditures, as out of the category of Capital Investments had paid €97,428, on behalf of co-financing with the NGO "Caritas Kosova Luxemburg". Co-financing with this donor was done on behalf of the project "Communities Development" and the project "Relocation of Medical Personnel" to a rented facility due to the construction of the new facility of MFMC in Kacanik. Expenditures incurred

were approved under the budget tables 2016 as capital investments, but the projects presented in the tables do not meet the conditions to be treated as capital projects. Errors relate to initial planning by the Municipality and inadequate approvals by the MoF. In addition, the value of assets recorded in the assets register and presented in the AFS were overvalued for the abovementioned amounts.

Responsibility of Management and Those Charged with Governance and AFS

The Mayor of Kacanik is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Modified Cash based Accounting and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law number 03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

The Mayor and Chief Financial Officer are responsible to ensure oversight of Municipality's financial reporting process.

Auditor General's Responsibility for the Audit of the AFS

Our responsibility is to express an opinion on the AFS based on our audit. We conducted our audit in accordance with ISSAIs. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

An audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the entity's circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the presentation of the financial statements.

1.2 Compliance with AFS and other reporting requirements

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

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
- Requirements of LPFMA no. 03/ L-048, (as amended and supplemented);
- Compliance with Financial Rule no.01/2013;
- Compliance with Financial Rule no.02/2013;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedure;
- Whether the AFS have been prepared within the timeframe and submitted to the MoF;
- Whether the draft and final procurement plan were submitted on time; and
- Whether the Municipality had prepared and submitted regular quarterly reports to the Municipal Assembly and one copy to the MoF.

All the above-mentioned requirements were met, but in the draft Annual Financial Statements were noticed some shortcomings. We have given a number of suggestions in order to improve the data in the AFS and to ensure necessary disclosures. Some of the financial adjustments are as follows:

- In the Article 13 Statement of Cash Receipts and Payments, the total of funds used was incorrectly presented in the amount of €1,219, as it should have been the total of expenditures in the amount of €6,651. The same error was repeated in the data of previous years;
 - Article 14, budget execution report, in the column of the initial budget at the cash outflow for goods and services and utilities were presented the values of reviewed budget;
 - At the disclosures in Note 3, in the category of Goods and Services there are differences between what was spent according to the KFMIS and what was disclosed in the AFS, between the following economic codes:
 - Economic Code 13470 (technical services) according to the Treasury the value is €5,456, while in disclosure €5,507;
 - Economic Code 13503 (Computers under €1000) according to the Treasury the value is €4,296 while in disclosure €3,996;
 - Economic Code 13504 (IT hardware under €1000) according to the Treasury the value is €1,078, while in disclosure €0;
 - Economic Code 13917 (Bank Provisions NLB) according to the Treasury the value is €196, while in disclosure €2,996;
-

-
- Economic codes from 14010 to 14060 (Maintenance) according to the Treasury the value is €126,795, while in disclosure €122,257;
 - Economic Codes 14210, 14220 and 14230 (Publications and Advertisements) according to the Treasury the value is €6,019, while in disclosure €6,219; and
 - Other costs for services are not presented in the Treasury, but in disclosure were presented as a separate item in the amount of €2,866.
 - In the disclosures of Note 3 Goods and Services and Note 6 Capital Investments, were incorrectly presented values at the Dedicated Revenues, while they should have been presented in Designated Donor Grants;
 - In the explanatory Notes 2, 3, 4, 5 and 6, in the final budget column, is missing the disclosure by economic codes and the total in this column;
 - In the disclosures of Note 12, were incorrectly included last year's donations in the amount of €2,377.

The abovementioned corrections were made in the final version of the AFS, but the summary of non-financial assets over €1,000 was not presented correctly. We have dealt with this issue more extensively in subchapter 1.1 Audit Opinion.

DECLARATION MADE BY THE MANAGEMENT OF THE MUNICIPALITY

Given the above - the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance can be considered to be accurate, with the exception of issue mentioned in the Opinion, which is not considered to have a material impact.

1.3 Recommendations for the first part of the report

On abovementioned issues is given the recommendation

Recommendation 1 The Mayor should ensure that an analysis is undertaken to determine the causes of Opinion with Emphasis of Matter, and to take adequate actions to eliminate errors in misclassification of expenditures and incorrect recording of assets. In addition, to ensure establishment of effective processes in order to confirm that the plan for drafting AFS for 2017 addresses all issues raised in the report, and the Declaration made by the Chief Administrative and Financial Officer should not be submitted unless all necessary checks have been applied to the draft AFS.

2 Governance

Introduction

Effective governance arrangements are fundamental to the management of the Municipality for successfully managing the challenges it faces and ensuring that service delivery is optimised for the benefit of taxpayers and other service users.

A key tool supporting effective Governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. Similarly, the self-assessment checklist completed by all Budget Organisations provides a framework for developing enhanced Governance arrangements. It is important that the answers provided by an individual budget organisation are supported by appropriate evidence.

The remainder of our review of governance arrangements reflects a consideration of:

- those areas of Governance Arrangements where significant improvements are required and where we believe that our recommendations can generate positive improvements including consideration of the Internal Audit system; and
- areas of Financial Management and Control identified through our audit work including specific work directed at compliance issues in key income and expenditure systems (these areas are considered in Section 3 of this report)

Overall Governance Conclusion

There are number of governance weaknesses within Municipality particularly related to accountability, risk management and the quality of management reporting. The self-assessment checklist completed by the Municipality only partially reflects this situation, by responding to most of the questions with an average score of 2.27. According to the self-assessment list, the Municipality had given negative answers to 28 questions. This means that management should consider issues that have not reached the expected level.

One of the key elements of effective municipal governance is implementation of recommendations given by the external audit. This year's audit has revealed that the level of implementation of last year's recommendations was low, as only 5 out of 18 recommendations were implemented.

The Municipality has a development plan as of 2011, but this plan does not include cost calculation to measure results of its objectives. The municipal development plan contains more statistics than the development trend of the Municipality.

With the exception of an emergency plan, the Municipality had not prepared a risks list, which is a requirement of procedures of Financial Management and Control.

2.1 Progress in the Implementation of Prior Year Recommendations

Our Audit Report on the 2015 AFS resulted in 18 key recommendations. The Municipality of Kacanik has prepared and submitted on time the Action Plan for implementation of prior year's recommendations. Our report was discussed in the Municipal Assembly. At the end of our 2016 audit, five recommendation have been implemented; seven were in the process of being implemented and six have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex III.

Issue 2 - Addressing Prior Year Audit Recommendations - High Priority

Finding Only a proportion of prior year recommendations have been implemented because the management has not implemented any formal process to manage and monitor the way that the AG's recommendations are implemented.

Risk The continued weakness of management and other controls in key financial systems have resulted in:

- Repetition of misclassification of capital expenditures;
- Weaknesses associated with receivables from rent;
- Weakness in drafting of risks list;
- Continued weaknesses in expenditures incurred through procurement and poor value for money; and
- Limited benefit by the work of the Internal Audit.

Recommendation 2 The Mayor should ensure application of a strengthened accountability process by the responsible staff on implementation of recommendations in line with timeframes and priorities set out under the action plan. Monitoring of implementation progress should be done in a systematic manner.

2.2 Self-Assessment Checklist of FMC components

The Ministry of Finance has produced a detailed self-assessment checklist for Budget Organisations to support effective governance arrangements. For all audits we undertook we have tested the quality of FMC self-assessment submissions made to the Ministry by assessing one key question in each component of the checklist. We have summarised our findings for Municipality below and the summary of our work across all audits will be consolidated in our Annual Audit Report. This is not intended to give a commentary on the quality of the whole self-assessment questionnaire submission but will provide a ‘snapshot’ across a number of key questions to support the Ministry of Finance in its attempts to increase the effectiveness of the process and develop the FMC system as a whole.

Issue 3 –Self Assessment Checklist – High Priority

Finding

As part of our audit we have considered key questions related to the five components of the self-assessment checklist. For the questions considered we found that:

1. The Self-Assessment questionnaire completed by Municipality acknowledged that the Municipality has not yet drafted the list of risks which can occur and affect achievement of objectives.
2. Effective monitoring processes and Comprehensive strategy development (involving stakeholder liaison and ensuring a fully costed strategy) are not established by the Municipality. The Municipality during 2016 had reported to the MoF on the physical and financial progress of projects in line with the budget law, which have been reviewed in detail in sub-chapter 2.3.1;
3. The internal audit has not highlighted issues above. For more, the action taken to address issues identified by the self-assessment of 2016 is limited. This situation has occurred due to lack of clarity within the Municipality that relates to the importance of this checklist and who is the official responsible that uses these mechanisms to support operational improvements.

Risk

The fact that risks list was not drafted and the manner in which they are managed disclose weaknesses in governance, and as such reduce management’s ability to respond on time to potential risks.

Recommendation 3

The Mayor should ensure that the completion of the self-assessment checklist is reviewed and the areas of weaknesses have been proactively addressed. Furthermore, should be applied a mechanism that confirms accuracy of the checklist and to provide supporting documentation. We suggest that the self-assessment checklist is not be submitted to the MoF prior to being reviewed by the internal audit.

2.3 Specific Governance Reviews

Our work on specific areas of governance arrangements has been informed by our audit planning which considered the context within which Municipality operates and the challenges that it faces.

2.3.1 Setting of Strategic Objectives

The Municipality is obligated to prepare and follow strategic plans at the organisation level, such as urban, spatial plans, emergency operational plan, strategic anti-corruption plan, regional development strategy, etc.

The Municipality has drafted a number of strategic documents, such as the: Urban Plan; Municipal Development Plan and Strategic Development Plan 2017-2019.

Issue 4 - Strategic Plans - High Priority

Finding The Municipality has an overall development plan, but has not clarified responsibilities for its coordination and development, and is missing the calculation of costs of the development plan. The Municipality has an anti-corruption plan, but the requirements under this plan have not yet started to be addressed.

Risk The uncertainty over the implementation of the development plan makes it impossible to follow-up the fulfilment of objectives in terms of vision of the Municipality, as one of the essential conditions of good governance.

Recommendation 4 The Mayor should draft an action plan to monitor achievement of objectives by establishing effective oversight functions. To ensure that the anti-corruption plan will also be drafted which will be implemented in line with requirements, and as such serve for more effective governance.

2.3.2 Management Reporting and Accountability

A range of internal controls is applied by Management to ensure that financial systems and operational activities operate as intended. It is important that these include appropriate reporting to management to enable an effective and timely response to identified operational problems. The links between the procurement plan and the budget as well as preparation of adequate reports on regular basis are considered as established by the Municipality, and the evidence that has been given to us supports this conclusion to an extent, although the reports are not always prepared on a regular basis.

Issue 5 – Weaknesses in Management Controls – High Priority

Finding Our review of the management controls applied to Municipality’s key financial system highlighted poor quality financial reporting of expenditures, revenues, receivables, and payables to the senior management, and incomplete analysis of service delivery. This is because the format of management reports does not provide explanations for variances against budget and budget forecasts are not updated on a monthly basis. Similarly operational targets are not systematically managed.

Risk Poor quality of financial and activity reporting to senior management has reduced the management’s ability to manage proactively the operations of Municipality and has undermined effective budgetary control. This can result in unplanned over or under spending and delay necessary actions to address these. It may also result in revenues not collected as expected.

Recommendation 5 The Mayor should ensure that a review is implemented to determine the format of financial reporting to senior management which is required to support effective business management - and ensure that an appropriate solution is in place by the end of 2017.

2.4 Internal Audit System

The Internal Audit Unit operates with one auditor who is also the Director of IAU. The impact of IA output should be judged by the importance that management places on addressing recommendations and the support and challenge provided by an effective Audit Committee.

Issue 6 - IAU and the Audit Committee - High Priority

Finding Under the Strategic Plan on Internal Audit for 2016 were planned 10 audits, while in the annual plan for 2016 were included six audits, which have been carried out within the year. Three of these audits were considered with high risk, two with medium risk and one with low risk. The reason why audit activities were not carried out in line with the strategic plan is due to lack of staff in the IAU.

Implementation of recommendations given in the final reports of IAU is expected to be done by the heads of audited units, but the same did not prepare any plans.

Risk Due to lack of IAU staff, planned audit activities were not carried out in line with strategic plan, and thus not included audit activities based on risk assessment and in proportion with the size of the organisation. While failure by the respective audited management to prepare action plans on implementation of recommendations given by IAU may affect the level of implementation of recommendations, and as such, the acknowledged situation of organisation not to improve and objectives of the organisation not met.

Recommendation 6 The Mayor should ensure that are taken necessary steps so that are adhered legal guidelines in terms of organising IAU's organisational chart, namely to strengthen the role of internal audit services. In addition, to ensure implementation of IAU recommendations by responsible directorates of audited systems, and the Audit Committee to produce an annual report in line with Administrative Instruction 11/2010.

3 Financial Management and Control

Introduction

Our work on Financial Management and Control outside of the areas of Governance referred to in Chapter 2, reflects the detailed work undertaken on Revenue and Expenditure Systems of Budget Organisations. As part of this, we consider Budget management, Procurement and Human Resources issues, and Assets and Liabilities.

Financial Management and Control Conclusion

Procurement remains one of the main challenges for the Municipality, as regulations are not applied properly, and due to this has resulted poor value for money. The large number of annex contracts alone describes the weaknesses in procurement planning, then failure to adhere to procurement procedures, payments carried out without sufficient evidence, etc. In the context of financial systems, controls over revenues in general are good, but controls over a range of spending areas require further improvement in order to prevent the Municipality from suffering budget damage. The main areas where more improvements are needed are payments on behalf of co-financing, misclassification of expenditures and collection of receivables, especially from rent and business tax.

3.1 Budget Planning and Execution

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

Description	Initial Budget	Final Budget	2016 Receipts	2015 Receipts	2014 Receipts
Own Source Revenues	709,672	709,672	632,567	556,372	383,612

In 2016, the revenue plan was implemented at 89%, in 2015 at 80%, while in 2014 at 85%. Thus, in 2016, the collections of own source revenues have increased by 9% compared to the prior year. Revenues including those carried forward from the prior year were mainly spent on capital projects in the amount of €454,682 for goods and services €74,153, for subsidies and transfers €103,580 and wages and salaries €1,667.

Table 2. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2016 Outturn	2015 Outturn	2014 Outturn
Sources of Funds	6,631,386	6,883,478	6,651,210	6,942,159	6,545,962
Government Grant -Budget	5,921,714	6,016,076	6,004,938	6,363,848	6,040,636
Carried forward from previous year ³ -	0	142,982	139,523	143,851	119,390
Own Source Revenues ⁴	709,672	709,672	494,561	421,703	383,612
Domestic Donations	0	6,948	6,788	9,040	0
External Donations	0	7,800	5,400	3,717	2,324

The final budget compared to the initial budget was increased by €252,092. This increase is a result of the increase of Government Grant by €94,362, revenues carried forward from prior year in the amount of €142,982, and Domestic and External Donations by €14,748.

In 2016 the Municipality has spent €6,651,210, or 97% of the final budget, in 2015 96%, and in 2014 95%. In general the Municipality has shown a great budget performance, except in the category of Capital Investments.

Table 3. Spending of funds by economic categories - (in €)

Description	Initial Budget	Final Budget	2016 Outturn	2015 Outturn	2014 Outturn
Spending of funds by economic categories	6,631,386	6,883,478	6,651,210	6,942,159	6,545,962
Wages and Salaries	4,730,156	4,826,026	4,811,836	4,711,887	4,315,980
Goods and Services	510,531	530,050	504,543	453,387	488,117
Utilities	132,750	134,500	116,053	123,890	118,209
Subsidies and Transfers	204,690	205,291	204,270	266,721	169,357
Capital Investments	1,053,259	1,187,611	1,014,508	1,386,274	1,454,299

Explanations about changes in budget categories are provided as follows:

- The capital investment budget in 2016 had increased by €134,352. The level of execution of the final budget was at 85%. Capital expenditures have suffered a decrease by €371,766 compared to 2015. The Public Investment Program includes several on-going projects from the previous year (13) and 34 new projects for the current year. Out of 47 planned projects, 7 had not started being implemented;

² Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

³ Own Source Revenues unspent in previous year carried forward into the current year.

⁴ Receipts used by the entity for financing its own budget.

-
- The increase of budget for wages and salaries by €95,870 is as a result of payments for work experience and the deficit at the end of the year;
 - The increase of budget in the category of Goods and Services in the amount of €19,519 and Utility expenses in the amount of €1,750 was due to remained liabilities of the previous year;
 - The budget for subsidies and transfers has increased by €601 due to the need of assistance of non-public entities. Notwithstanding, at end of 2016 outstanding liabilities owed to individual beneficiaries were €14,145; and
 - Domestic donations were €6,948 and external donations €7,800. Domestic donations were mainly used for capital investments, while external donations were mainly used for goods and services.

Issue 7 - Budget Execution - High Priority

Finding	The Municipality has shown high efficiency in budget execution in almost all expenditure categories. However, a setback was noticed in the category of Capital Investment (85%) compared to other categories. This has occurred due to lack of planning and systematic budgetary control by the Municipality over the implementation of capital projects in line with the dynamic plan. This was also proved by the 7 planned projects which had not started in 2016.
Risk	Failure to execute the budget in line with initial projections will result in non-achievement of objectives of the Municipality, and in financing projects and current year liabilities with next year's budget.
Recommendation 7	The Mayor should ensure and establish clear objectives for improvement of planning and budget execution in future periods, and establish a systematic monitoring over the planned budget execution, particularly for capital projects.

3.1.1 Revenues

The total revenues in the Municipality of Kacanik for 2016 were €632,567. Out of them the amount of €557,286 were collected by the Municipality, while €75,281 were revenues from traffic fines, courts and the forestry agency.

The Municipality has established a range of controls over the collection of own source revenues, but these controls should be strengthened and systematically monitored to deliver expected results.

Issue 8 - Weakness in property tax management - Medium Priority

Finding The Municipality had not managed to conduct a resurvey for verification of 1/3 of registered properties as required under the Administrative Instruction 03/2011. The verification was done only for 709 out of 2900 registered properties or over 24%.

Risk Incomplete verification of properties in line with legal requirements enables presentation of errors in calculation of the value of the tax can result in irregular charges of tax to citizens.

Recommendation 8 The Mayor should establish controls over verifications of properties, changes should be done on time, and charges to taxpayers to be accurate in order to correctly collect property tax.

Issue 9 - Delays in construction permits - High priority

Finding According to the Treasury data, revenues from construction permits for 2016 were €11,206 or 56% less than in the previous year. While reviewing records for construction permits we found that out of 17 requests, five of them were not reviewed within 30 days from the request received. In addition, there is no systematisation of documentation to prove that the reviewed file contains all documents required.

Risk The mere fact that the number of requests approved was small, delays in approving application for a construction permit poses an increased risk as citizens may not apply for construction permits, and thus cause the Municipality to suffer financial losses as a result of illegal constructions, and not to have adequate controls in the area of construction.

Recommendation 9 The Mayor should ensure that the urbanism service reviews all requests, only after they are completed with all required documentation for a construction permit, and to ensure that the commission for review of requests will adhere to the 30 day deadline from the time of request received, so that services provided to citizens are prompt and accurate.

Issue 10 – Failure to collect rent from public properties - High priority**Finding**

Revenues planned from renting public property for 2016 were €25,000 while were collected €15,938. Regardless the rate of collection, while testing eight cases we found that the Municipality on 08.01.2016 had extended the contract with one of the renters of the public property, even though he had not meet prior liabilities.

The official responsible keeps records on all rented properties, but these records do not have sufficient information to ensure that all values are calculated correctly and fairly. These records lacked information on the amount of debt carried forward from the prior year, as well as information on date of contract, including the period of use of municipal property.

Risk

Extending contracts to renters without meeting prior liabilities risks collection of rents and lack of monitoring over users of public spaces poses a risk for the Municipality as it may suffer financial losses. In addition, due to incomplete records on renters, the management lacks information on the validity of contracts and thus not apply punitive measures to those who do not meet rent liabilities.

Recommendation 10 The Mayor should ensure that no contracts will be extended to those who have not met prior year liabilities, and impose appropriate measures to collect all arrears in a reasonable time. In addition, to ask from the official responsible to create clear and complete records with all necessary information so that management of rents is more efficient.

3.1.2 Wages and Salaries

Wages and Salaries are paid through a centralised system. Key controls that confirm the accuracy and completeness of salaries are: a) authorisation of payroll list; b) verification of potential changes; and c) budget review for this category as well as reconciliation with Treasury. Expenditures for wages and salaries for 2016 were €4,811,836 or about 100% of this this category's budget.

Issue 11 - Execution of salary after the expiry of employment contract - Medium Priority

Finding In one case we have found that an employee in the department of primary healthcare services was paid the salary in the following month after the expiration of the employment contract, while his employment relationship was terminated based on a decision after he received his salary, namely at the beginning of the second month from the expiration of the contract.

Risk Failure to adhere to deadlines of the employment contract, namely paying the salary after the termination of contract, can result in unplanned budget spending.

Recommendation 11 The Mayor should ensure that are taken necessary actions to adhere to procedures so that person whose employment relationship has ended are removed on time from the payroll system.

Issue 12 - Licenses of Healthcare Personnel - Medium Priority

Finding In two cases, we have noticed that healthcare personnel in the Department of Primary Healthcare Services do not have their licenses updated or renewed with a valid timeframe, which serve to exercise the profession independently and in line with legal rules, as they currently have expired work licenses.

Risk Failure to renew work licenses or relicensing of healthcare personnel can result in disagreement with the Administrative Instruction No. 10/2011 on Registration and Licensing of Health Professionals.

Recommendation 12 The Mayor should ensure that are taken necessary actions so that legal requirements related to relicensing are adhered in terms of licensing of healthcare personnel, in line with the Administrative Instruction No. 10/2011 on Registration and Licensing of Health Professionals.

3.1.3 Goods and Services and Utilities

The final budget for goods and services in 2016 was €530,050. Out of them were spent €504,543 or approximately 95% of the budget allocated for this category. Outstanding liabilities for goods and services at the end of 2016 were €3,708.

Issue 13 - Shortcomings in contract implementation and payments carried out - High Priority

Finding

The Municipality had signed a contract on 02.02.2016 in the amount of €53,810 for maintenance of local roads. On 17.03.2013, the Municipality had paid the EO in the amount of €13,130 for an invoice dated 26.02.2016 on behalf of the first stage for maintenance of summer and winter roads. We have not found that the oversight body has confirmed in writing the regularity of the first stage. According to an analysis, we have noticed that the Municipality has implemented this project within 6 months, even though it has signed a one-year contract. This was due to inadequate planning of expenses, as the Municipality needs summer and winter maintenance throughout the year. This has incurred additional costs to the Municipality by entering into a contract with another EO.

On 19.02.2016, the amount of €3,600 was paid on behalf of services provided by the Kosovo Police. According to the list provided by the police, we have not found where these services were provided. The agreement was entered into on 15.07.2015 by three parties: Municipality, Police and Forestry Agency for a four-month period with a price of €2.5 per hour, where the purpose of this agreement was prevention and protection from annihilation of forests. According to the analytical review for 2016 for services provided were paid €21,120. We have not found any other documents on extension of the contract.

While testing the payment of €4,600 carried out on behalf of elimination of stray dogs, we found that the Municipality does not have sufficient evidence on the manner in which eliminated dogs were dealt with. We have found a list of 250 captured dogs, but nothing whether they were sent for further treatment or were eliminated.

Risk

Internal controls have failed to prevent abovementioned processes that are accompanied by irregularities, which can incur additional costs to the Municipality in fulfilling contracts and operational activities. Due to lack of written reports that specify whether the works were carried out or not, poses a risk, as works may not be executed in line with contract's terms and conditions. While payments without a contract pose a risk for non-justification of expenses, and as such can be considered irregular.

Recommendation 13 The Mayor should ensure that project managers for each stage prepare written reports wherein is specified the exact route or location where the works are executed, and confirm the quantity and quality of works. In addition, to ensure that no expenses are certified without the relevant contract.

Issue 14 - Expenses for Utilities - Medium Priority

Finding On 29.04.2016, an agreement was entered into between the Mayor and the RWC "Pastërtia" from Ferizaj to provide services requested by the Municipality of Kacanik. On 24.11.2016, the amount of €6,600 was paid for services related to the disposal of dead cattle. According to the invoice were provided services for 60 head of cattle with a price of €110 per head. In the documentation provided we did not find that under the agreement was stated the invoiced price of €110 per head.

Risk Due to lack of evidence related to price per unit may pose a risk that the price paid for such services not to be in agreement with market prices, given that the agreement was entered into directly with the Economic Operator.

Recommendation 14 The Mayor should ensure that upon entering into any type of agreement to also consider the cost of services, and if the price offered is not reasonable to seek services from another EO with optimal service cost.

3.1.4 Subsidies and transfers

The final budget for subsidies and transfers was €205,291. Out of them were spent €204,270. The amount of €157,354 was spent on subsidies to public and non-public entities, while the amount of €46,916 was spent as transfers of funds to individual beneficiaries.

Issue 15 – Award of Subsidies - Medium Priority

Finding On the subsidies awarded to the Football Club " Lepenci", payment dated 27.09.2016 in the amount of €1000, we noticed that beneficiaries were missing justified requests on spending of funds in line with the criteria of Internal Regulation for Allocation of Subsidies and Transfers.

Risk Failure by the beneficiaries to adhere to criteria set out in the Internal Regulation on Subsidies and Transfers, namely the criteria on submitting complete and justified requests in order to have the right to funds, can result in inadequate spending of funds and not as intended.

Recommendation 15 The Mayor should ensure that are taken necessary actions so that are adhered the criteria set out in the Internal Regulation, whereby are provided well-justified requests by the beneficiaries when deciding on award of financial funds.

3.1.5 Capital Investments

The final budget for capital investments was €1,187,611. Out of them were spent €1,014,508. The Municipality of Kacanik in 2016 has developed 97 procurement activities that amounted €1,382,440. According to the procurement list, the Municipality had additional 13 contracts for additional works in the amount of €40,781. In the following we will present findings that have emerged from the review of procurement files and payments.

Issue 16 - Contract for additional work - High priority

Finding While testing nine samples from capital investments in the amount of €539,923, we have found that in five cases was entered into additional annex contracts for additional works in the amount of €10,935. Annex contracts were not entered into due to unexpected works, but due to inadequate planning and preparation of bill of quantities.

Risk Due to the failure to prepare properly the bill of quantities on specific projects has resulted in annex contracts for additional works, and at the same time it means additional costs for capital projects.

Recommendation 16 The Mayor should ensure that beforehand are reviewed all bills of quantities for capital projects so that implementation of projects is done solely with the initial contract, whenever possible.

Issue 17 - Tender security with a shorter duration than the contract - High priority

Finding In the contract for the project "Construction of road" in village Biqec in the amount of €24,605, we noticed that the Economic Operator had not submitted the tender security in line with requirements of the Tender Dossier. The requirement was that the tender security is done for 90 days, while it was paid for only 60 days.

Risk Failure to adhere to the criteria, in this case to provide tender security makes the Economic Operator ineligible and is in disagreement with the LPP. In addition, another risk is the possibility of the EO to withdraw before the completion of procurement procedures.

Recommendation 17 The Mayor should ensure that upon development of every procurement activity is adhered the LPP and every EO participating in the tender fulfils the criteria established in the Tender Dossier.

Issue 18 - Performance Security - High Priority

Finding On 18.03.2016, was entered into a contract for "Maintenance and servicing of vehicles" in the annual amount of €11,750. According to the criteria in Tender Dossier, the winner should have paid 10% of the value of the contract on behalf of performance security. We have not found that the winner had fulfilled this criterion.

Risk Due to lack of performance security is risked execution of the contract by the Economic Operator and makes it impossible to confiscate performance security in case the works are not delivered.

Recommendation 18 The mayor should ensure that the procurement office will follow all criteria in the Tender, and if the criteria are not implemented, to demand responsibility from the officials, namely from the procurement manager.

Issue 19 - Failure to correct the value of contract - Medium Priority

Finding On 09.11.2016, was entered into a contract with an EO in the amount of €8,227, while his bid was €8,827. We have not found any records that the bid evaluation committee has left any traces on correction of this bid. Moreover, the value of contract was €600 lower than the financial bid. The degree of 7% had exceeded the permitted rate of 2%, which constitutes a violation of rules stipulated under the Public Procurement Law.

Risk The Bid Evaluation Committee had not managed to fulfil legal requirements, as before entering into the contract should have been recalculated the value of the bid. Due to this, was entered into a contract with an ineligible economic operator. Therefore, due to the failure to adhere to LPP requirements, bids may not be controlled and corrected in time and lack of transparency towards other bidders.

Recommendation 19 The Mayor should ensure that the Procurement Office, namely the bid evaluation committee would respect all the criteria of the Tender Dossier and other legal requirements, and in case of their violation, to demand responsibility from the officials, namely from the procurement manager.

Issue 20 - Co-financing and other payments - High priority

Finding In 2016, the Municipality had paid the amount of €97,428 into the account of NGO "Kosova Luxemburg" as a co-financing party in three projects: (1) Communities Development; (2) Support for existing and new businesses; (3) Relocation of Personnel of the MFMC. We have tested all payments and within the payments we have found that the amount of €25,000 paid on the donor's account was done based on an annex for construction of the school roof in the village of Stagove, while we have not found attached the bill of quantities of the project. The other amount of €25,728 was done on behalf of the project assistance to new and existing businesses. Other payments were carried out to the donor under the project "Community Development" by presenting a report on the aid with raspberry plants for 15 beneficiaries and drip irrigation system for 16 other beneficiaries. The Municipality has paid and recorded them incorrectly as advances for investments, while these payments belong to the category of Subsidies and Transfers and not to the category for Capital Investments. Such cases of payments out of the category of Capital Investments were found in all other payments included in the total amount of €97,428.

Risk Paying subsidies and transfers out of the category of Capital Investments may have a negative impact on completeness, quality and accuracy of financial reports. Such payments are classified incorrect and can result in an emphasis of matter.

Recommendation 20 The Mayor should improve the planning process and ensure monitoring of these agreements from initiation up to their complete implementation, in order to prevent subsidies and transfers out of the budget of capital investments.

3.2 Assets

3.2.1 Capital and Non Capital Assets

During 2016 the Municipality has made significant progress in terms of assets recording compared to the prior year. Despite the progress, the assets register is not yet accurate. The failure to record capital assets in their adequate categories was addressed in the section Opinion with Emphasis of Matter, while the following we will present some other issues that Municipality should have taken into account 2017.

Issue 21 - Inadequate use of e-assets - High Priority

Finding The Municipality of Kacanik uses the “e-assets” system to record non-financial assets under €1,000 and stocks. According to the official, this system is not functional enough due to non-calculation of depreciation.

Risk Due to inoperable “e-assets” system, that calculated depreciation of assets under €1,000 results in inaccurate amounts in the annual financial report, and does not help the management plan for timely purchases of equipment.

Recommendation 21 The Mayor should ensure that e-assets system will function in its full capacity, and upon budget planning to obtain accurate information on depreciated equipment, in order to enable their replacement in a timely manner, without disrupting operational activities of the Municipality.

3.2.2 Handling of Cash and Cash Equivalents

Issue 22 -Bank deposits - High Priority

Finding According to the financial rules all funds up to €10 can be collected by the Municipality in cash and at the end of the day they have to be deposited in the bank along with a summary document designated as identification number UNIREF. Testing of the funds deposited in the amount of €1,942 was done on 21.03.2016, while these funds were collected from 14.03 - 18.03.2016. This is a common practice in the Municipality of Kacanik.

Risk Failure to implement Treasury rules on depositing public funds that stipulates that funds should be deposited at the end of the day, poses a risk of loss or misuse of funds.

Recommendation 22 The Mayor should ensure that this practice will be stopped and request from officials responsible to deposit funds collected into bank accounts within the deadlines set out in the Financial Regulations.

3.2.3 Receivables

Municipality's Accounts Receivable represent amounts that citizens and organisations owe to the Municipality for services, works, goods or properties that they have been benefited from the Municipality. According to the data presented in the AFS, the total amount of these Accounts at the end of 2016 was €1,289,500.

Issue 23 – Continuous increase of uncollected debts - High priority

Finding

Even though revenues from property tax comprise the largest share of own source revenues, at the end of 2016 the uncollected amount from property tax was €1,002,540. Another important case was business tax debts, which at the end of 2016 the uncollected amount reached €204,280, while municipal uncollected rent was €82,860. These three types were presented as accounts receivable at the end of the year. We have not found that the Municipality has a specific strategy to collect/reduce receivables.

For 2016, the Municipality had charged business tax in the amount of €42,850, while the revenues collected for 2016 were €23,844 or 56% of the plan. Records held by the official responsible contains only the annual charge, while these records do not contain the balance from the prior year. According to the financial report, at the end of 2016 the amount of receivables remaining was €204,290. We were not able to verify this amount due to lack of records held by the official responsible. Furthermore, the Municipality had taken some limited actions, but does not have a comprehensive strategy for collection of these receivables.

Another case relates to business locations which based on an Assembly decision on 03.05.2012 were torn down about 26 old business locations in order to build the city park. The uncollected amount from renters at the end of 2016 was €33,325. The Municipality has not analysed and reviewed the possibility of collecting this amount from renters.

The Municipality had taken some actions against the users of the municipal property by sending letters/notices to fulfil obligations, which had its effects to some extent. Revenues from rent remain a challenge, and additional commitments are needed by the management of the Municipality.

Risk

Lack of proper records on business tax makes it difficult to compare receivables per year in the annual financial report. Due to lack of strategy from year to year, the amount of uncollected rent has accumulated, while tearing down business locations could drive the renters not to pay debts owed to the Municipality, and thus remain uncollectible.

Recommendation 23 The Mayor should ensure that all records on taxpayers are updated and completed with all the necessary information, and analyse the causes behind low collection and to establish mechanisms to increase collection. In addition, to find a practical solution to collect remaining debts from renters whose business locations were torn down.

3.3 Outstanding Liabilities

The statement of outstanding liabilities owed to suppliers at the end of 2016 was €126,590, while in 2015 were €69,400, namely we see an increase of €57,190. In addition, at the end of the year were presented contingent liabilities as legal contests in the amount of €279,450, while in the prior year they were €194,980. While analysing accounts payable we noticed that the Municipality in 2016 had paid €126,590 outstanding liabilities of 2015.

Issue 24 – Poor management of liabilities - High priority

Finding Based on an analysis we found that the Municipality in 2016 had paid invoices of 2015 in the amount of €126,590, while outstanding invoices presented at the end of 2015 were €69,400. According to this analysis it turns out that the Municipality had not properly presented its liabilities whereby has caused their understatement by €57,190;

The Municipality did not have a proper cash flow plan to payment incurred liabilities. At the end of 2016, liabilities from the category subsidies and transfers amounted to €14,150, while the remaining budget for this category was €1,021. Thus, the budget for this category was exceeded by €13,129. An issue that will require attention in the next audit remains to see whether there are paid and unstated invoices by the Municipality.

Risk The Municipality has not presented prior year's liabilities correctly and accurately and as a result has underestimated its liabilities. In addition, entering into liabilities beyond budget appropriations, especially for subsidies and transfers, poses a risk where a part of current year's budget may be spent on prior year's liabilities.

Recommendation 24 The Mayor should ensure that there is a fair and timely reporting of all outstanding invoices from all departments, and to ensure that budget planning is based on a clear cash flow plan, so that budget appropriations are not exceeded by any means.

This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.

ANNEX I: Audit Approach and Methodology

The responsibilities placed on the Auditor and Those Charged with Governance are detailed in the Opinion set out in Section 1.2 of this report.

While a key output of our work is the audit opinion this report reflects the totality of our work with specific focus also on Governance Issues including Financial Management and Control. The latter is informed by our extensive, risk based, compliance audit programme.

The Executive Summary is intended to highlight the key finding of the audit and the key action that the Mayor should ensure are taken to address identified management/control weaknesses.

The detailed report provides an extensive summary of our audit finding with emphasis on determining the cause audit findings and providing appropriate recommendations to address these. For completeness we have included issues identified at the interim audit where they remain relevant. Our findings are defined as:

High Priority - issues which if not addressed 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 significant 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 and associated governance arrangements 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.

Annex II: Explanation of the different types of opinion applied by NAO

(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 III: Prior Year Recommendations

Audit Component	Recommendation given	Implemented	Under implementation	Not implemented
1.5 Recommendations	High priority - The Mayor should ensure that an analysis has been made to determine the reasons for the qualified audit opinion and emphasis of matter paragraph. Action must be taken to address material weaknesses in a systematic and pragmatic order to mitigate those weaknesses as disclosed in the basis for qualified opinion paragraph.	Yes, it was implemented.		
	High priority - The Mayor should take appropriate action to ensure full regulatory compliance of the process of preparation of annual financial statements (AFS). The Declaration made by the Mayor and Chief Financial Officer when the AFS are submitted to the Government should only be signed after a comprehensive management review has been undertaken on the content and accuracy of the AFS.	Yes, it was implemented.		
2.3 Prior Year Recommendations	The Mayor has to revise Action Plan to address the recommendations of 2014. This plan must specify a reasonable time frame of implementation, responsible staff and mode of application, being initially focused on areas of high importance i.e. where material weaknesses were identified. Progress against the plan must be monitored directly by the Mayor.	Yes, it was implemented.		
2.4 The self-assessment checklist of MF	The Mayor should ensure that the self-assessment checklist is completed with objectivity and documented in order to identify the weaknesses and mitigated appropriately as required by the Ministry of Finance of the Republic of Kosovo.		Partially, because the risk list has not been drafted.	
2.5.1	The Mayor should ensure that a review of the existing		Partilly, because the	

Accountability arrangements	requirements of accountability and reporting of municipal departments and ensure improved arrangements to achieve specific targets within a year.		reporting was not complete in order for the management to conclude that the objectives are achieved in time.	
2.5.2 Risk Management	The Mayor should ensure that procedure and systems of risk management are established and operational. Furthermore the responsibility for risk management is delegated directly to a relevant director and provides monthly reporting on the implementation of the requirements in this field and the risks are being managed.		Partially, the part of not having an approach of risks is still to be implemented in the future.	
2.5.3 Management Reporting	The Mayor should review existing measures of general governance and the quality of internal reporting of the Municipality. Unimplemented requirements need to be addressed by the end of 2016. The quality of the reporting and budgetary surveillance must be reviewed critically and systematically to ensure the achievement of the Municipality's objectives.		Partially, because but there is still room for improvement on directorates reporting, which needs to be more qualitative.	
2.6 The Internal Audit System	The Mayor should ensure that Audit Committee has proper and enough human resources. Furthermore the Mayor must ensure that future activity of IA should be directed towards the development and implementation of audit strategy based on risk. Furthermore, in order the benefits to be visible, the Mayor should take measures to implement the IA finding within the Municipality.		Partially, because there also should be monitored the implementation of recommendations of IAU.	
3.4 Procurement	The Mayor has to identify the root causes of the deficiencies and take appropriate action to ensure procurement requirements are fully implemented.	Yes		

3.5 Non Procurement Expenditure	The Mayor should ensure that the Municipality takes further steps to improve controls over expenses and payments and strictly comply with the laws and local regulatory requirements.			No, because no measures have been taken for such payments to be made in accordance with relevant laws and regulations.
3.5.2 Remunerations (Wages and Salaries)	The Mayor should ensure that the Municipality takes further steps to improve controls over personnel files in order that files are properly organized and completed and take measure regarding the signing of payroll lists.		Partially. Some of the dossiers were yet to be completed, which according to them will be completed in 2017.	
3.6 Revenues (including own source revenues)	<p>We recommend the Mayor to take these steps:</p> <p>To improve the billing and accounting systems in order to ensure safe, efficient and effective controls on the billing and the revenue. Improvement of the procedures related to such systems would enable the management to monitor and manage significant risks, and to ensure that decisions related to budgeting, planning and collection of revenues are properly carried out.</p> <p>To ensure that surveys and conditioning of provision of services are done as required with Administrative Instructions No. 03/2011 and No. 07/2011.</p>	Yes		
3.7 Assets and Liabilities	The Mayor should ensure the following timely and accurate recording of all assets in the relevant registers in accordance with the requirements of regulation 02/2013. It also should ensure that capital assets register contains complete information, including the date when the asset was put in use, so that the			No, because no concrete actions have been taken to complete the assets register

	calculation of depreciation can be performed accurately. As well as determine the ownership status.			with all the necessary information.
	The Mayor of the Municipality must ensure that the stocktaking of nonfinancial capital assets was conducted in accordance with the Regulation in force for non-financial assets of Budget Organizations and ensure that stocktaking is conducted on an annual basis.			No, because there were no concrete actions for inventory of assets.
	We recommend the Mayor of the Municipality to ensure that the Municipality is making maximum efforts for the obtainment of data from third parties, with particular emphasis on those parties known to have carried out significant investments in the municipality. The data obtained should be correctly presented in the asset register of the Municipality. Best practice would require that on an annual basis reconciliation of data is made between third parties and the Municipality for investments in the Municipality for the respective year.			No. There were no actions taken for collecting the information relating to payments from third parties.
3.7.2 Cash (and cash equivalents when applicable)	We recommend the Mayor ensure that daily cash deposits and controls are performed as required by the legislation in force.			No, because there were no concrete actions taken.
3.7.3 Receivables	The Mayor should ensure that Municipality undertake and implement detailed action plan on collecting old debts.		Partially, because there have been only a few written objections.	
3.7.4 Debts	The Mayor should ensure that the Municipality will take further steps and develop action plans to execute the payments within the required period.			No
Total	18	5	7	6

Annex IV: Letter of confirmation

[Put the Municipality's logo]

LETTER OF CONFIRMATION

For having agreed on the Auditor General's findings of 2016 and implementation of recommendations:

To: National Audit Office

Venue and date:

Honoured,

We hereby confirm that:

- We have received the draft audit report of the National Audit Office on the 2016 Annual Financial Statements of the Municipality of Kacanik, hereinafter referred to as the Report;
- Agree on the findings and recommendations and I have no comment on the content of the Report; and
- Within 30 days from receiving the final report, I will submit the action plan on implementation of recommendations including the deadlines and responsible staff for their implementation.

Mayor:

XXXXXX



Komuna e Kaçanikut
Opština Kaçanik
Municipal Kaçanik

REPUBLICA E KOSOVES REPUBLIKA KOŠOVA KOMUNA E KAÇANIKUT OPŠTINA KAÇANIK		
Data	12.05.17	Vendi
Nj. org.	01	Shtojcë
	12-03-15801	1

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm për vitin 2016 dhe për implementimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Kaçanik, 12.05.2017

I nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për Auditimin e Pasqyrave Financiare të Komunës së Kaçanikut, për vitin 2016 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Për Kryetari: BOSIM ILIRI

