



**REPUBLIKA E KOSOVËS / REPUBLIKA KOSOVA / REPUBLIC OF KOSOVA**

**ZYRA KOMBËTARE E AUDITIMIT  
NACIONALNA KANCELARIJA REVIZIJE**

**NATIONAL AUDIT OFFICE**

**Document No: 22.1.1-2016-08**

**AUDIT REPORT**  
**ON THE ANNUAL FINANCIAL REPORT OF MITROVICA**  
**MUNICIPALITY 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 Mitrovica 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 by Imer Vitija (Team Leader) and team members , Kreshnike Haziri and Shefkije Beka , under the management of the Head of Audit Department Zukë Zuka.

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## Executive Summary

### Introduction

This report summarises the key s arising from our audit of the 2016 Annual Financial Report of Mitrovica municipality, 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 Plan<sup>1</sup> dated 20/10/2016.

Our audit focus (detailed in Annex 1) has been on:



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.

### Opinion of the Auditor General

#### Unmodified Opinion

In our opinion, the Annual Financial Statements for the year ended on 31<sup>st</sup> of December 2016 *present a true and fair view* in all material respects.

#### *Emphasis of Matter:*

As an Emphasis of Matter we would like to mention the fact that Mitrovica Municipality did not manage to fully register owned assets, land and buildings.

In regard to the advance payment of €369,438 made on behalf of co-financing the project KSV/018<sup>2</sup> the specific report on the progress on progress of executed works, as counter value to the payment until 31.12.2016, was not received.

For more, please refer to Section 1.1 of this report.

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

<sup>1</sup> The term External Audit Plan replaces the term Audit Planning Memorandum

<sup>2</sup> KSV/018 "Institutional and Technical Support to Mitrovica Region for the Water Supply System"

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

**Key Conclusions and Recommendations**



### **Response of the Mayor**

The Mayor has taken into account and is reconciled with the detailed audit findings and conclusions, and is committed to address all recommendations given.

Furthermore Mayor is committed to:

- review Audit Report at the Municipal Assembly; and
- by the end of January 2018, to discuss in the Municipal Assembly the progress regarding the implementation of the Action Plan on Audit Recommendations, before the PFV 2017 have been 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 Executive 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 on the matter**

We have audited the AFS of the Mitrovica municipality for the year ended on 31<sup>st</sup> 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, the Annual Financial Statements for the year ended on 31<sup>st</sup> 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 by the Ministry of Finance.

### **Basis for the 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 opinion.

### **Emphasis on the matter**

We draw your attention to the fact that the Municipality still has not managed to register all owned lands and facilities. This is due to the fact that the Asset Evaluation Commission has not finished the true and complete assessment and verification of all owned assets. As a result of failure to register properties owned by the Municipality in the cadastre registers, we concluded that schools, the FMC facility and the Municipal Assembly building are not recorded in the

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municipal property register. According to register number 6374, there was no documentation proving the ownership of an equipment named SCOPIA recorded in the amount of €120,000. Therefore, ownership to the municipality and its physical existence could not be verified.

In addition, the Municipality has made an advance payment of €369,438 to Lux Dev on behalf of co-financing of the project KSV/018 - Institutional and Technical Support to Mitrovica Region for the Water Supply System. The municipality did not receive any specific reports on the progress of the executed works as counter a counter value to this payment until 31.12.2016. Moreover, the municipality was not involved in monitoring the progress of works as foreseen in the agreement. Payments in the accounting registers are recorded as ongoing investments.

### **Responsibility of Management and Those Charged with Governance and AFS**

The Mayor of Mitrovica 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 is responsible to ensure oversight of the 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.

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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

From 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 with Law no.03/L-221, Law no. 04/L-116 and Law no. 04/L-194;
- Compliance with Financial Rule no.01/2013 and 02/2013;
- Action Plan on implementation of recommendations; and
- Requirements of Financial Management and Control (FMC) procedures.

In the context of AFS, the issues related to reporting framework were not addressed when preparing the draft financial statements, where we have identified the following non-compliance:

- Article 14, Report on budget execution notes 9 and 10;
- Article 25, Report on employees number;
- Article 26, Report on Employees Out of the Payroll List; and
- Article 27, Report on Employees with Special Services Contracts.
- Following our suggestions, the financial statements have been adjusted. However, with regard to the disclosure of assets, their value in AFS remains understated, as the municipality is not yet able to fully register and evaluate the its land and facilities. In the context of other external reporting requirements, we have no issues to raise.

Given the above - the Declaration made by the Chief Administration Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance can be considered to be correct, apart from the fair disclosure of assets.

## 1.3 Recommendations for the first part of the report

For the abovementioned issues we have the following recommendations;

**Recommendation 1** The Mayor should ensure that an analysis is undertaken to determine the causes of the qualification and emphasis of matter, undertake actions to address the causes behind failure to complete the registration and full assessment of the property, and to ensure that the municipality will receive the counter value for advance payments made under the co-financing agreement for the project KSV/018.

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## 2. Governance

### Introduction

Effective governance arrangements are fundamental to Mitrovica 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 compliances in key income and expenditure systems (these areas are considered in Section 3 of this report)

### Overall Governance Conclusion

Good governance procedures require both strategic and operational activities to be implemented and monitored effectively. We have evaluated the existence of the Municipal Development Plan 2009-2025 as well as the approvals of some other plans in different sectors, approved by the Municipal Assembly. We assess the impact of these plans on good governance, by suggesting the inter-connection of all sectorial plans with the Municipal Development Plan.

The self-assessment checklist, completed by the municipality, reflects a more positive situation based on evidence. However, proper risk management procedures were not established yet.

Other arrangements that would support governance development, such as the effective response to audit recommendations and the operation of a high quality internal audit system, still remain a challenge for the municipality.

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## 2.1 Progress in the Implementation of Prior Year Recommendations

Our Audit Report on the 2015 AFS of municipality resulted in 25 key recommendations. Municipality had prepared an Action Plan stating how all these recommendations will be addressed.

At the end of our 2016 audit, five (5) recommendations have been implemented; ten (10) were in process of implementation and ten (10) have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex III.

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### Issue 2 - Addressing Prior Year Audit Recommendations - High Priority

**Finding** From the abovementioned paragraph we can see that majority of prior year recommendations have not been implemented because the municipality has not followed any formal process to manage and monitor the actions taken in implementing the Auditor General recommendations.

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

- poor municipal assets management;
- inadequate procurement controls;
- an increase of liabilities entered into compared to the committed funds;
- procedural weaknesses in the management of own source revenues; and
- continued increase in accounts receivable.

**Recommendation 2** The Mayor should strengthen control and accountability measures towards the persons in charge to fully address the recommendations in order to ensure that the actions envisaged in the action plan are implemented and receive from them regular progress reports on the recommendations against the action plan.

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## 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 that we have conducted, we have tested the quality of FMC self-assessment, completed by the municipality by assessing one key question in each component of the checklist. We have summarised all our findings for the below mentioned issues. 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.

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### Issue 3 -Self Assessment Checklist - High Priority

<b>Finding</b>	<p>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:</p> <ol style="list-style-type: none"><li>1. The self-assessment checklist completed by the municipality has verified that the required risk management systems were not functional yet;</li><li>2. The effective monitoring processes as well as the comprehensive strategy of the municipal development plan and other operational plans are considered as established. Likewise, the reporting issues are discussed in more details in subsection 2.5.3; and</li><li>3. The links between the procurement plan and the budget as well as drafting of adequate reports on a regular basis requires a more comprehensive review, since the project liabilities and direct payments from the Treasury (bailiffs) are increasing as a result of lack of funds .</li></ol>
<b>Risk</b>	<p>Poor governance arrangements weakens strategic and operational processes and reduce the quality of services provided to citizens through inefficient and ineffective activities.</p>
<b>Recommendation 3</b>	<p>The Mayor should ensure a review of the processes for completing the risk assessment list, strengthening of other management issues and ensure that active addressing of areas of weaknesses is implemented.</p>

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## 2.3 Specific Governance Reviews

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

### 2.3.1 Setting of Strategic Objectives

The budgetary organizations are obliged to prepare and follow strategic plans at the organization level. The Municipal Assembly has approved strategies and action plans such as: The Strategy of Economic Development for Mitrovica 2014-2017; Strategy and Action Plan for Local Youth 2014-2017; Plan of Feasibility Study, Plan of Local Tourism Development in Shalë të Bajgores; the Anti-Corruption Plan 2016-2018; The Municipal Energy Efficiency Plan 2014-2020; and the three-year residential program 2016-2019. All these plans and strategies are foreseen to be under the auspice of mayor of municipality.

### 2.3.2 Management Reporting and Accountability

A range of internal controls are 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.

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#### Issue 4 - Management Controls - Medium Priority

<b>Finding</b>	Our review of management controls implemented in the main financial system of municipality has highlighted weaknesses in control levels. As such, overall control arrangements require strengthening, in particular with: budget planning and execution in capital investments, registration and reporting of assets, admission of works executed as counter value of paid advances and lack of payment certification controls.
<b>Risk</b>	Non application of effective controls from management, reduces the ability to react in timely manner, to actively manage the activities of the municipality and successfully address the existing challenges.
<b>Recommendation 4</b>	The Mayor should ensure that the quality of audits and budget oversight is systematically reviewed in order to ensure that appropriate controls are established in areas where weaknesses have been identified.

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## 2.4 Internal Audit System

The Internal Audit Unit (IAU) operates with three auditors , including also the Head of the unit. An effective audit requires a comprehensive work programme that reflects financial and other risks of municipality and provides sufficient assurance over the effectiveness of internal control. 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. The Audit Committee has held four meetings in 2016, and based on the meeting minutes it is noticed that reports of internal auditor have been reviewed.

IAU has planned and conducted 11 audits. The audit reports have tackled different areas and were completed in timely manner. Likewise, IAU has prepared the strategic and annual audit plan, quarterly reports , which were submitted also to Central Harmonization Unit.

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### Issue 5 - Insufficient implementation of IAU recommendations - High Priority

**Finding** The management of the municipality has not drafted an action plan for implementing the recommendations given by IAU for the period under audit. The Audit Committee during the year met 4 times, had commented in general the audit reports, and has issued conclusions on management with regards to what actions they should take towards implementing the recommendations. However, concrete actions have not been observed.

**Risk** Failure to draft an action plan by the management, towards addressing the recommendations made by the IAU increases the risk of not correcting the identified weaknesses and their repetition.

**Recommendation 5** The Mayor should undertake concrete actions towards drafting an action plan for IAU recommendations and request from responsible individuals to whom recommendations are being addressed to formally report on the implementation of those recommendations.

### 3. Financial Management and Control

#### Introduction

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

#### Financial Management and Control Conclusion

In the context of financial systems, the certification of payments are still not being implemented effectively. Other areas where more improvements are needed are; budget planning, debts, leasing management, contract management (entering into obligations in accordance with available and committed funds), projects management with co-financing as well as asset management.

#### 3.1 Budget Planning and Execution

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

**Table 1. Own Source Revenues ( in €)**

Description	Initial Budget	Final Budget	2016 Receipts	2015 Receipts	2014 Receipts
Own Source Revenues	2,267,582	2,267,582	1,995,219	1,517,742	1,645,625
Police fines	0	0	67,772		
Court fines	0	0	36,730		
Total	2,267,582	2,267,582	2,099,721	1,517,742	1,645,625

From the planned revenues of €2,267,582 for 2016, €2,099,763 or 93% were collected. This includes court and police fines as well. This level of revenue collection is positive and very close to the planned one. Compared to last year, an increase of revenues is marked for 581,979€.

However, planning of property tax revenue had significant differences compared to execution. The municipality has billed €819,907 for the year 2016, and collected €777,166, whilst according to budget law only €350,000 were planned. These discrepancies indicate a non-realistic planning in this area.

The amount of own source revenues was allowed to be spent on capital investments, goods and services, utilities and subsidies.

**Table 2. Sources of budgetary Funds (in €)**

Description	Initial Budget	Final Budget <sup>3</sup>	2016 Outturn	2015 Outturn	2014 Outturn
<b>Sources of Funds</b>	<b>15,948,321</b>	<b>16,932,293</b>	<b>16,285,762</b>	<b>17,367,291</b>	<b>15,051,981</b>
Government Grant - Budget	13,680,739	14,014,986	13,980,967	15,773,053	13,477,762
Carried forward from previous year <sup>4</sup> -		291,631	291,289	255,570	125,102
Own Source Revenues <sup>5</sup>	2,267,582	2,267,582	1,755,799	1,230,437	1,391,035
Domestic Donations		246,499	175,151	68,547	45,270
External Donations		111,595	82,555	39,684	12,812

The final budget was higher than the initial budget by €983,972. This increase is a result of External and Domestic Donations and Revenues carried forward from the previous year, and an increase applied after budget review and in line with Government decisions. In 2016 the municipality has utilized 96% of the final budget, with a decrease of about 6% compared to year 2015.

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

Description	Initial Budget	Final Budget	2016 Outturn	2015 Outturn	2014 Outturn
<b>Spending of funds by economic categories</b>	<b>15,948,321</b>	<b>16,932,293</b>	<b>16,285,762</b>	<b>17,367,291</b>	<b>15,051,981</b>
Wages and Salaries	11,182,774	11,560,023	11,485,848	11,262,513	10,299,754
Goods and Services	1,214,439	1,347,708	1,337,968	1,427,375	1,565,467
Utilities	465,000	372,356	354,108	446,348	344,815
Subsidies and Transfers	545,043	610,995	589,308	625,418	816,527
Capital Investments	2,541,065	3,041,211	2,518,530	3,605,637	2,025,418

Explanations with regards to changes in budget categories are given below:

Despite the budget increase for capital projects (Government decision €983,977), the execution level of the planned amount was 83%. While in other categories, the level of budget execution was high (over 90%). However, an important issue that should be taken into consideration with regards to the budget execution are also payments through court decisions from category of capital investments (€271,734), because the municipality has entered into obligations without sufficient commitment of funds.

<sup>3</sup> Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

<sup>4</sup> Own Source Revenues unspent in previous year carried forward into the current year.

<sup>5</sup> Receipts used by the entity for financing its own budget.



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### 3.1.1 Revenues

The planned revenues for 2016 were in the amount of €2,267, 582, whereas the execution from tax and non-tax revenues was €2,099, 721. These revenues are related to revenues from property tax, administrative taxes, rental incomes and construction permit.

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#### Issue 6 - Business activity registration taxes - High Priority

**Finding** The municipality did not plan revenues from exercising business activities, even though for 2016 it has billed businesses in total amount of €177,220, whilst €21,433 were collected.

**Finding** With regards to the businesses that exercise their activities, the municipality has a list in an Excel program at its disposal, but there is no assurance that the list can be complete given the absence of the commissions to identify new businesses, those closed but still exist in the books. The municipality does not maintain regular monthly billing and that the invoice is issued once the payment from business is done.

**Risk** Incomplete database of business activities, lack of the appropriate commissions for identification of seized and newly registered businesses and failure to plan revenues in this area increase the risk for mismanagement in the collection and recording of revenues by the municipality.

**Recommendation 6** The Mayor should ensure drafting of a plan for collecting revenues from business taxes by billing every business on regular monthly basis, provide an updated list with active businesses and apply appropriate measures for reducing the revenues accumulated throughout years.

**Issue 7 - The non-formal learning taxes - High Priority**

**Finding** The lower secondary school "Hasan Prishtina" has continued to collect revenues as of June based on an old regulation which is contrary to the internal Regulation no: 07/2013 on taxes and charges, by charging 62 candidates with unrealistic taxes<sup>6</sup>.

**Risk** Charging of candidates without being referred to regulation on current taxes and charges increases the risk of damaging applicants financially and not respecting the regulation for informal secondary education.

**Recommendation 7** The Mayor should ensure that current regulations are in place in order to make fair tariff charges by avoiding the possibility of errors, and at the same time review such cases and take into consideration dealing with past mistakes.

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<sup>6</sup> According to Regulation 07/2013 on Informal Higher Education the fee is €150, whilst payments were made for €205.

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**Issue 8 - The weaknesses in managing construction permits -High priority****Finding**

The Municipality issues construction permits under the Construction Law no.04/L-110 and sets the administrative fees recommended by the Ministry of Environment and Spatial Planning. In three cases, the municipality did not adhere to the legal deadline of 30 and 45 days for the examination of cases for granting or refusing construction permits. In one case the construction permit was issued with five (5) months delay, the other with three (3) months delay and for individual homes with four (4) months of delay.

On the other hand, the municipality has provided the applicant with a construction permit without paying municipal fees, without any valid decision justifying the issuance of the permit.

Failure to respect the legal deadline for reviewing applications for construction permits increases the risk that applicants will use administrative silence and start illegal construction and contrary to the urban plan, and as a result the municipality may not reach the revenue collection plan.

**Risk**

The provision with construction permits without commitment of the obligations to the municipality is contrary to the construction law and as a consequence the fees set out in the municipal regulation are not collected and the citizens feel discriminated for the same services.

**Recommendation 8**

The Mayor should ensure that certain time limits are being implemented under the construction law. Applicants have to be provided with a construction permits or refusal within the terms provided by law. Likewise, additional checks should be made in order to ensure that no construction permit will be issued if the obligations to the municipality were not previously carried out.

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**Issue 9 – Weaknesses in management of public property – High Priority**

**Finding** The building facilities given for rent to martyr families and social cases ( 36 families) , the state of users as well as contracts were not verified from 2011. As stipulated in the contract, every two years the commission should be established by Municipal Assembly in order to verify social state of the users and based on their report to extend or terminate the contract. As a result the contracts are not considered valid if there is a lack of verification even though they are being used by the same families. The debt identified by the municipality for these cases (€47,701) is considered as unreal, because from 2012 there were no obligations for the users and the identified debt belongs to the period until 2011.

Pro Credit Bank uses the municipal property to exercise its activity since 2015 with expired contract. Even though for the year 2016 the remaining debt was €1,189. The municipality did not provide any reasons with regards to this issue.

Likewise, the businesses that utilize public properties during certain seasons, are not regularly monitored and as a result do not meet the municipal obligations. According to the registers that municipality possesses the current debts is €1,039.

**Risk** The lack of adequate controls by the municipality with regards to the utilization of public property increases the risk of misusing these properties, an increase of the debt towards the municipality and failure towards collecting revenues.

**Recommendation 9** The Mayor should take immediate measures towards equipping the lessee with contracts in order to have a legal basis for using municipal property and take concrete measures to collect all outstanding debts from rents. Also, all users of municipal property to be charged with tax. On the contrary, the municipality should take steps in order that same properties are given for usage to responsible tenants.

### 3.1.2 Wages and Salaries

The budget for wages and salary category for 2016 was planned €11,560, 023, whereas €11,485, 848 were spent.

Wages and salaries are paid through a centralized payment system. The controls that operate at local level from municipality have to do with; a) Checking payments every month by signing the payroll list, b) Verifying possible changes that may be presented through forms, c) Reviewing the

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budget for this category, and reconciliations with Treasury. We tested the compatibility of payroll lists with the payment system, recruitment, departure, overtime, and special service contracts.

We have also reviewed whether employees were paid under the contract and we have raised the issues that are presented below:

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#### **Issue 10 - Contracts for Special Services - High Priority**

**Finding** In order to carry out activities in the municipal administration and parking services, the municipality had engaged 15 employees with special services contract. Some of them in the municipal administration are financial officers, and exercise their duties in regular positions. The Municipality has not developed simplified recruitment procedures, as required by the AI.

**Risk** Failure to comply with recruitment procedures of special services agreements increases the risk of hiring staff without criteria for a particular position. Covering important positions (municipal administration) with contracts for specific services may result in poor performance and uncertainty in engaging adequate staff.

**Recommendation 10** The Mayor should review the real needs for engaging employees with special service contracts. This issue needs to be tackled seriously, as well as foresee the needs for additional staff for regular positions in the budget planning.

#### **Issue 11 - Overtime Payments - High Priority**

**Finding** Out of four tested overtime payments (CMFH), three of them are not completed with decisions, supporting evidence for payment or there is no decision on compensation for overtime work. In addition, in some other cases, on behalf of overtime, officers working in certain commissions as well as accountants were compensated.

**Risk** All overtime payments and commissions were paid on behalf of overtime through payroll system.

**Risk** Payments for overtime as remuneration represent an unrealistic state of salary spending, and unsupported overtime hours poses a risk that the taxpayers money of is not properly spent.

**Recommendation 11** The Mayor should take actions regarding the decisions taken and comply with the legal provisions, as well as evaluate the needs and payments for overtime work, while respecting Article 13 and Article 40.2 of the Law on Administration of Local Self-Government and other relevant legal provisions.

### 3.1.3 Goods and Services and Utilities

The final budget for Goods and Services in 2016 was 1,720,064€, out of which 1,692,076€ were spent. Those relate to supply of equipment and inventory, office supplies, contractual services, derivatives etc.

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#### Issue 12 - Supplies outside the contract - High Priority

**Finding** For the project "Supply with laboratory medical material, dental and laboratory medical supplies of family medicine and medicines", the project manager was appointed and a contract management plan was prepared. However, in two payments there are items that are not foreseen by the contract. In the payment of €1,697 three items were added in the amount of €331, and in the second payment of €11,471 three items were paid in the amount of €5,120, which in total amounts to €5,451.

**Risk** Supplying outside the contract and lack of adequate oversight of contractual payments may result in financial loss for the municipality and poor value for money. Certification checks have failed to prevent these payments.

**Recommendation 12** The Mayor should ensure the supplies are made only with the contracted items and with the acceptance report from the contract manager, while the certifier should add controls when verifying the documentation and ensure that they comply with all legal requirements in order that payment is certified.

#### Issue 13 - Weaknesses in contractual agreements- High Priority

**Finding** For the project "Emergency execution<sup>7</sup> in rural areas in Vllahi village" the municipality has contracted Economic Operator (EO) "UNITETI" sh.a. The contract was valid until 11.03.2015. After this period, the municipality has continued the contract with the same EO until 15.11.2015 but without procurement procedures. However, EO has continued work during this period. Furthermore, the Municipality did not pay the amount (€18,064) to the contracted EO but to a subcontractor.

Likewise, the municipality for the project "Management of Wild Waste, Washing, Cleaning and Winter Maintenance of Roads in the City of Mitrovica", has contracted (EO) RWC "UNITETI". However, the municipality entered in an irregular arrangement with the subcontractors of the EO, by executing the payments (€42,129 and €5,732) directly to the subcontracted companies in the agreement.

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<sup>7</sup> Roads maintenance, wiping and washing of roads, squares and sidewalks, cleaning of sewages, cleaning of manholes etc.

**Risk** The Municipality has failed to comply with procurement regulation requirements, and as a result the contract term has been unlawfully extended. In addition, payments made to subcontractors accounts are irregular and gives possibility to principal contractor to request reimbursement of these payments on his account.

**Recommendation 13** The Mayor should consider why legal requirements have not been met in these cases and increase controls in order to ensure that such situations will not be repeated anymore and that all requirements of the applicable legislation are respected.

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**Issue 14 - Other weaknesses on procurement field - High Priority****Finding**

The Municipality has signed a draft contract for the project "Mobile telephony services for municipalities and other municipal institutions" in the amount of €65,147. To the statement of needs and the determination of the availability of funds, the value was €60,000. The evaluation report of the tenders by the commission is completed in electronic form and with errors, not in compliance with the requirements of the Tender Dossier, and the selection was made for the operator with the highest price.

The Municipality has developed procurement procedures for the Projects "Supply with Corn seeds and Artificial Fertilizer" (€7,000); "Supply with beekeeping and Hives" (€4,625); "Supply with administrative expendable material for office" (€75,000). The Municipality did not commit the funds prior signing of these contracts.

Likewise, for the project "Supply with food and beverages" for kindergartens, it has developed price quotation procedures for supplies in the amount of €2,942 without commitment of funds, and the evaluation report of the bids was not signed by the evaluation commission.

**Risk**

Failure to commit funds prior to the contract may have budgetary implications during the contract execution and in absence of funds, increase the obligations towards the EO and result in punitive fines. On the other hand, not signing the evaluation report and non-realistic evaluation of the bids according to the criteria required by the tender dossier, increases the risk of selecting of an irresponsible economic operator and of unfavourable price.

**Recommendation 14** The Mayor should increase controls during the conduct of procurement procedures, adhere to planning, and secure funds before entering into obligations. Likewise, to ensure that during the evaluation of tenders, the Commission should comply with the requirements of the tender dossier and that the evaluation is carried out and followed by formal reports, signed by the commission.

### 3.1.4 Subsidies and Transfers

The budget planned for this category was €610,995, while €589,308 were spent, or 96% of the budget. The expenditures mainly were related to support of cultural activities, farmers support, sport and gender issues, as well as of physical persons as individual beneficiaries in difficult socio-economic conditions.



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**Issue 15 – Weaknesses in regulation for subsidies - Medium Priority**

**Finding** The Municipality has internal regulations for the allocation of subsidies, which determines the value of the subsidy allocation, but not how many times the same natural/legal persons can be subsidized within a year, resulting in subsidizing of some non-governmental organizations several times a year or in consecutive years.

**Finding** For the non-governmental organization SHKA "AD-LIBIDUM" we have noticed that it was subsidized three times during the year in the total amount of €3,095; for "Hunters Association for treatment of stray dogs in urban and rural areas of the Municipality of Mitrovica" six times in the amount of 8,965€; "Voice of Parents" five times in the amount of €5,510; "Association of Figurative Artists " four times in the amount of €7,190; And " Subsidy for Private Person" five times in the amount of €3,090. Decisions are signed by the mayor, although they are in separate payments, but when it comes to the same beneficiary, these cases should be addressed through the Committee for Policy and Finance, or clarified in the internal regulation<sup>8</sup>.

**Risk** The approval of payments by the municipality, which in total exceeds the amount of €2,000, increases the risk of violating the right of other applicants for subsidies.

**Recommendation 15** The Mayor should consider the possibility of supplementing/ amending the existing regulation in order to determine additional criteria regarding the limits for granting subsidies so that the possibility of obtaining subsidies is reasonable.

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<sup>8</sup> According to the internal regulation, subsidies up to €2,000 are granted upon Mayor's decision, subsidies beyond that amount are granted through the Commission for Policy and Finance.

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### 3.1.5 Capital Investments

The final budget for capital investments was €3,041,211. From this amount in 2016, €2,518,530 were spent. They relate to investments in building of road infrastructure and of various capital facilities.

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#### Issue 16 – Registrations in wrong economic codes - High Priority

**Finding** From the category of capital investments, a payment of €34,930 was made for the removal of illegal landfills, which payment should be categorized in goods and services.

**Risk** Payments in the inappropriate categories represent a wrong reflection of spending, and increases the risk of overestimating of one category and underestimating the other by the municipality.

**Recommendation 16** The Mayor should ensure that expenditure planning is made in accordance with appropriate economic codes divided by categories.

#### Issue 17 - Weaknesses in procurement procedures- High Priority

**Finding** The Municipality has several draft contracts with regards to the provision of services or supplies. The prices per unit were set only in four contracts and there is no fixed value for the execution of the contract for supplies / works. In one case the contract supervisor was not appointed. Also, in the contract "Feasibility study of underground and over ground parking in former Kosova trans" some criteria were not met by the winner as: tax certificate was older than three months, the contract manager was not appointed, contract management plan and the evaluation commission was appointed by the procurement office and not by the Chief Administrative Officer.

**Risk** The abovementioned findings indicate the application of weak controls in the procurement process. The lack of determined value of the project increases the risk of uncontrolled expenditure and out of budget allocations. Likewise, the absence of a contract manager increases the risk of non-application of contract under contractual agreements.

**Recommendation 17** The Mayor should ensure that draft contracts, apart from unit prices, include the total estimated value of the project in order to avoid irregularities in utilization of funds. Likewise, each contract should have contract manager, contract management plan, and ensure that evaluation commissions are assigned by the Chief Administrative Officer.

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**Issue 18 - Irregularities in payments - High Priority**

**Finding** The municipality has received an invoice in the amount of (€5,497), by economic operator for the works performed without a contract amongst municipality and EO. On the other hand, there was no report on performing of billed works. This has resulted in non-commitment of payment funds. As a result, the municipality did not make the payment, but eventually the payment was executed directly by the Treasury.

**Risk** Admission of invoices for un-contracted projects and without commitment of funds had urged the municipality to enter into obligations that have budgetary implications. Likewise, it increases the risk of misusing the municipality budget and is contrary to Financial Regulation 01/2013 on spending of public funds.

**Recommendation 18** The Mayor should increase controls towards utilization of public funds and ensure to not accept irregular invoices, without having a signed contract and in compliance with financial rules.

## 3.2 Assets

### 3.2.1 Capital and Non Capital Assets

The municipality still did not manage to provide a comprehensive and complete register with regards to non-financial assets. Challenges towards registration and assessment of assets have resulted in material devaluation of assets in disclosing AFS, in particular with regards to lands and buildings.

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**Issue 19 - Weaknesses in asset management - High Priority**

**Finding** The municipality did not establish yet the internal procedures with regards to the asset management according to the requirement of Treasury Rule 02/2013. The established commission with regards to the inventory has only conducted the verification of existing assets, and did not conduct the assessment for old assets, with usage expiration or their alienation. Likewise, the municipality has established also the commission for identification of assets, which has partly conducted the identification of non-financial assets.

The e-asset system is still not fully operational, including also the non-registration of stocks for the Directorate of Education and Health.

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**Risk** The lack of internal procedures for asset management increases the risk for the municipality of not having under control its assets and have deficiencies in reporting. The respective commissions shall come up with final reports and report on asset state in order to avoid the risk of misusing or asset loss.

**Recommendation 19** The Mayor should ensure conducting of identification and evaluation of the municipality assets and possess registration of full assets. The inventory commission should compare the accounting status with the factual situation and verify the physical existence of the assets and stocks. In areas where discrepancies are observed, the commission through a final report should report to the management. The registration results should also be updated in the accounting registers. Likewise, register all assets of the municipality under 1,000€ in the e-asset system, including also Health and Education.

#### **Issue 20 - Construction of houses for social and other cases- High Priority**

**Finding** From capital investments, the municipality carries out construction of houses and supplies of construction materials for social cases and the occurrence of disasters, but they are not listed in any of the municipal registers (as the next investment). The amount of these payments in 2016 amounts to €225,555. There are no data available with regards to the stage reached on construction, if the houses are under construction, are completed, or were given for utilization.

**Risk** The municipality conducts weak controls in this area. The current level of control does not provide any assurance that the funds spent are achieving value for money. Taking into consideration the lack of progress reports on the construction of these houses , carries the risk toward manipulation and misuse of scattered building materials.

**Recommendation 20** The Mayor should undertake immediate measures that through reports of responsible officials to comprehensively assess the degree of progress in building these homes, spending reasons, overruns, the need for additional funds and the expenditure compliances with financial rules. The residential homes should be registered as the following investment in municipal property register until project completion and technical acceptance. Upon completion of the project, the transfer of assets should be done to the beneficiaries.

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### 3.2.2 Receivables

Receivable Accounts ( R/A) are invoices for which the Municipality did not manage to execute as own source revenues from rendered services and property tax.

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#### Issue 21 - Challenges in management of R/A- High Priority

**Finding** The list of debtors to the municipality, according to AFS data is €8,387,000 which has marked a slight increase from last year (€8,153,000). Most of these accounts relate to property tax (€4,918,000), municipal fees (€3,235,000), municipal rent (€127,000), urbanization taxes (€88,000) and others (€18,000). The Municipality has repaid the debts of previous years, but in the register there are no data of repaid R/A.

**Risk** Failure to collect revenues may affect towards inability of municipality to meet spending plans. Likewise , to reduce the number of potential projects that would be financed by own source revenues. The non-existence of the list for debt forgiveness indicates uncertainty that the process is conducted under the law on debt forgiveness and represents an unrealistic state of forgiven debts and in the financial statements.

**Recommendation 21** The Mayor should analyse the effectiveness of available debt collection mechanisms and propose additional measures and procedures in order to considerably reduce these accounts. Likewise, the lists of debt forgiveness should be reviewed and act in accordance with established rules.

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### 3.3 Outstanding Liabilities

The statement of liabilities not paid to suppliers for 2016 was 1,072,653€. These liabilities are carried forward to be paid in the following year.

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#### Issue 22 - The increase of liabilities - Medium Priority

**Finding** Unpaid obligations, compared to 2015 (€462,695), were increased by €609,958. The municipality has a negative trend of performing its obligations. The unpaid liabilities have increased in all economic areas: goods and services €496,699, utilities €62,906, subsidies €96,624 and capital investments €416,424. This situation has resulted from inadequate management of the municipality.

**Risk** The fact that the municipality has liabilities over one million euros, is a weak indicator of financial discipline. This increases the risk that these obligations will disturb the budget balance of the municipality and the same to be paid next year, by endangering the execution of projects foreseen for 2016.

**Recommendation 22** The Mayor should analyse monthly budget developments and balance needs with available funds and prevent all actions leading to the creation of obligations without prior provision of funds.

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 s 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 s identified at the interim audit where they remain relevant. Our findings are defined as:

**High Priority** - s 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** - s 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 were 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.

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## 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 three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.

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

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

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

153. The auditor should express a **qualified opinion if**: (1) having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are

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material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

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## Annex III: Prior Year Recommendations

Audit Component	Recommendation given	Implemented	Under implementation	Not implemented
2. Financial statements	<p>The disclosure of assets was not done properly. Third party payments are not presented correctly.</p> <p>The Mayor should ensure that effective processes have been established to confirm that AFS 2016 drafting plan addresses all issues raised, by including also significant identified risks. This should also include reviewing of AFS draft by management, with particular focus on high risk areas and/or areas where errors have been identified.</p>		Even this year in AFS there were errors in the voices presented.	
2. Governance	<p>The Mayor should ensure a clear procurement planning, specifying separately the services, goods and planned works that are subject to procurement law. To carry out a good procurement planning, the procurement officer will need close cooperation with the budget department and other departments. Further, ensure that by decision to designate the commission for the receipt of the goods in accordance with the Regulation No.02 / 2013, as well as the report of the acceptance of the goods should be in accordance with the financial rule no. 01/2013 MoF-spending of public funds.</p>		Appropriate procedures for risk management have not been established yet.	
2.3 Prior Year Recommendations	<p>The Mayor has to strengthen control measures and responsibilities towards officials who are responsible for complete implementation of recommendations, so that the actions foreseen under the Action Plan are implemented, particularly in the areas identified with the greatest degree of risk and within the limits set.</p>		From 25 recommendations, only five are implemented.	

2.4 Self-Assessment Checklist	The Mayor should ensure that is taken on a review to supplement the self-assessment checklist and those areas with weaknesses are addressed in an active manner. A review process should be applied by the internal audit in order to confirm the accuracy of the checklist and to provide supporting documentation .	Implemented		
2.5.1 Risk Assessment	The Mayor should ensure that after the risk register has been drafted, direct responsibility for risk management is delegated to a respective director, who in coordination with the unit leaders, will manage this process and report about risks on a regular basis.			They haven't a list of risks.
2.5.2 Managerial Reporting	The Mayor should ensure that the quality of controls and budget oversight should be reviewed critically and systematically in order to ensure that appropriate controls are established in areas where weaknesses have been identified.		At the capital investments category weaknesses regarding planning and execution have been repeated.	
2.6 The system of internal audit	The Mayor should undertake concrete and on-going actions to respond timely to the findings and recommendations given by the internal audit, whereas the Audit Committee to make a work plan specifying job agendas and topics that need to be handled during the year. In the meeting minutes , to draw clear management conclusions on internal audit issues.			Municipality management had not made an action plan for implementing the recommendation given by the IAU and there were no concrete actions of the Audit Comity.

3.3. Planning and execution of budget	The Mayor should ensure that during budget planning, a comprehensive assessment of potential revenue sources is made and determine practical options for improving execution for 2016. A systematic monitoring of budget trends would increase the opportunities for a better and effective performance.			Payments through court decisions from the capital investment category because the municipality had entered into obligations without commitment of payment funds.
3.4 Procurement	The Mayor should consider the reasons why the above mentioned cases in the procurement process have taken place, and strengthen procurement controls at all stages of the process. An improved approach is particularly needed in initial planning of needs, and in the maximum avoidance of small and minimal value contracts, unless this is deemed necessary. Likewise, prior to the initiation of the procurement procedures to ensure the signature of the statement on available funds, appoint the contract managers and approve the evaluation committees, as foreseen by the procurement regulations.		But, there are cases where contract manager was not appointed.	
	The Mayor should ensure compliance with contractual prices, as well as check payment certification, and significantly strengthen and prevent such payments.		But, there are cases when the certificated officer has made concessions.	

3.5 Expenditures not through procurement	The Mayor should ensure that all activities envisaged in the procurement procedure are strictly implemented, as foreseen by the Law on Public Procurement.			Framework contracts continued without the additional procedures.
	The Mayor should ensure that no payments are conducted before confirming that the works or services have been completed. Payments must be documented with invoices and certified confirmations for acceptance of works / services. The aspect of overseeing and reporting the obligations arising from these agreements should be a subject to regular reviews by the municipal management. In order to eliminate the risks of failure of these agreements, we would suggest that such payment practices be discontinued.		The invoice has been received from economic operator without a contract.	
3.5.2 Compensations (wages and salaries) Wages	The Mayor should ensure that the reasons for errors in the execution of salaries should be revised as well as add controls to personnel management in order that such cases are not repeated. The payments conducted inappropriately must be returned to the municipal budget.	Implemented		
	The Mayor prior commencement of the school year needs to analyse the needs for the number of necessary staff in the education sector, and in case of legal barriers to discuss the issue with the line Ministries and the Government in order to ensure that the engaged staff will not remain outside the payroll.	Implemented		
	A systematic review of Personnel Files should be undertaken in order to ensure that all necessary documentation is included within a specified time period, as well as that all payments are supported. The evaluation of the employees must be carried out at least once at the end of each school year.		There are cases where the overtime payments are not completed with the adequate decisions.	

	The Mayor should increase controls in health so that travel expense payments are made from the category of goods and services, by documenting them according to treasury regulations.	Implemented		
3.5.3 Subsidies and Transfers	The Mayor should ensure that controls are carried out on payments, so that all items are paid at agreed prices.		Internal regulation does not determines how many times the same natural/legal persons can be subsidized within a year	
	The Mayor should ensure that the criteria set out in the Subsidiary Regulation are fully applied. On the contrary, subsidies should not be granted.			There are deficiency in the criteria for implementing the regulation.
3.6 Revenues	The Mayor should review the contracts and lease agreements as well as the existing tax collection procedures and take measures to collect all outstanding debts from rents. If this is not possible then the given properties must be taken, and through public auction to be offered to other potential users who make timely payments of the rent.			For the rented residential complexes, their contracts haven't been verified since 2011.
	The Mayor should ensure identification of obstacles that hinder collection of property tax and produce a concrete plan with accompanying measures, in order to maximize property tax collection levels	Implemented		

	The Mayor should ensure that Department of Finance establishes a database (program) and systematize all relevant information for businesses that actively operate within the municipal territory. In addition, effective measures should be applied in order that business taxes are collected based on year periods, without ignoring also previous debts.			Incomplete database of business that actively operate.
	The Mayor should review the case of these payments, and all candidates who have paid more than the amounts determined by the AI and the regulation, to be reimbursed.		As the cases were not repeated, they were not reimbursed.	
3.7.1 Capital and non-capital investments	The Mayor should ensure that the commission as soon as possible carries out a fair and complete evaluation of all assets that are in the ownership of the Municipality, and monitor the results of the assessment. Likewise, in order to have an accurate register of stocks, all incoming/outgoing movable properties under 1,000 € to be conducted through e-asset system.			The municipality did not establish yet the internal procedures with regards to the asset management according to the requirement of Treasury Rule 02/2013

3.7.2 Handling of receivables	The Mayor should initiate a revaluation(reviewing)process where all accounts will be analysed in terms of seniority, the validity of individual debts of significant amounts, real possibilities for collection and the exercise of administrative measures (if needed).			The non-existence of the list for debt forgiveness indicates uncertainty that the process is conducted under the law on debt forgiveness.
3.7.3 Handling of debts	In order to avoid the opening of court disputes and the execution of direct payments by Treasury, the mayor should carefully handle this situation and take the necessary measures in order to plan the budget for the execution of debts towards suppliers and teachers and to prevent entry into new obligations without prior commitment of funds			Significant increase of liabilities.
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## Annex IV: Letter of Confirmation

### 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: 25.04.2017

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 Mitrovica, 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:

Agim Bahtiri

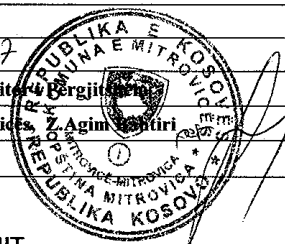


**Republika e Kosovës**  
Republika Kosova – Republic of Kosovo



**Komuna e Mitrovicës**  
Opština Mitrovica – Municipality of Mitrovica

<b>DATË/A:</b>	25.04.2017
<b>REFERENC-Ë:</b>	01-030/01-0032439/17
<b>PËR/ZA/TO:</b>	Qerkin Morina, Ndhimës Auditues Përgjithshëm
<b>NGA/OD/FROM:</b>	Kryetari i Komunës së Mitrovicës, Z. Agim Bahtiri
<b>TEMA/SUBJEKAT/SUBJECT:</b>	Letër Konfirmimi



### LETËR E KONFIRMIMIT

I nderuar,

Ne konfirmojmë se,

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për Auditimin e Pasqyrave Financiare të Komunës së Mitrovicës, 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.

Me respekt

Kryetari i Komunës së Mitrovicës,

**Agim Bahtiri**