



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

Document No: 22.1.1-2017-08

AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF THE
MUNICIPALITY OF MITROVICA FOR
THE YEAR ENDED 31 DECEMBER 2017

Prishtina, May 2018

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 through quality audits strengthen accountability in public administration for an effective, efficient and economic use of national resources.

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 Mitrovica in consultation with the Assistant Auditor General, Valbon Bytyqi, who supervised the audit.

The report issued is a result of the audit carried out by Igballe Halili (Team Leader) and Abdurrahmon Berbatovci and Arnisa Aliu (team members) under the management of the Head of Audit Department Zukë Zuka.

TABLE OF CONTENTS

Executive Summary	4
1 Audit Scope and Methodology	6
2 Annual Financial Statements and other External Reporting Obligations	7
3 Financial Management and Control	12
4 Progress in implementing recommendations.....	25
5 Good Governance	26
Annex I: Explanation of the different types of opinion applied by NAO	29
Annex II: Progress in implementing Prior and Earlier Year Recommendations	31
Annex II: Letter of confirmation	43

Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Statements of the Municipality of Mitrovica, which determines the Opinion given by the Auditor General. The examination of the 2017 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 dated 04/10/2017.

Our audit focus has been on:



The level of work undertaken by the National Audit Office to complete the 2017 audit is determined depending of the quality of internal controls implemented by the Management of the Municipality.

The National Audit Office acknowledges the Municipality's Senior Management and Staff for cooperation during the audit process.

Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

The Annual Financial Statements for 2017 *present a true and fair view* in all material aspects.

Emphasis of Matter

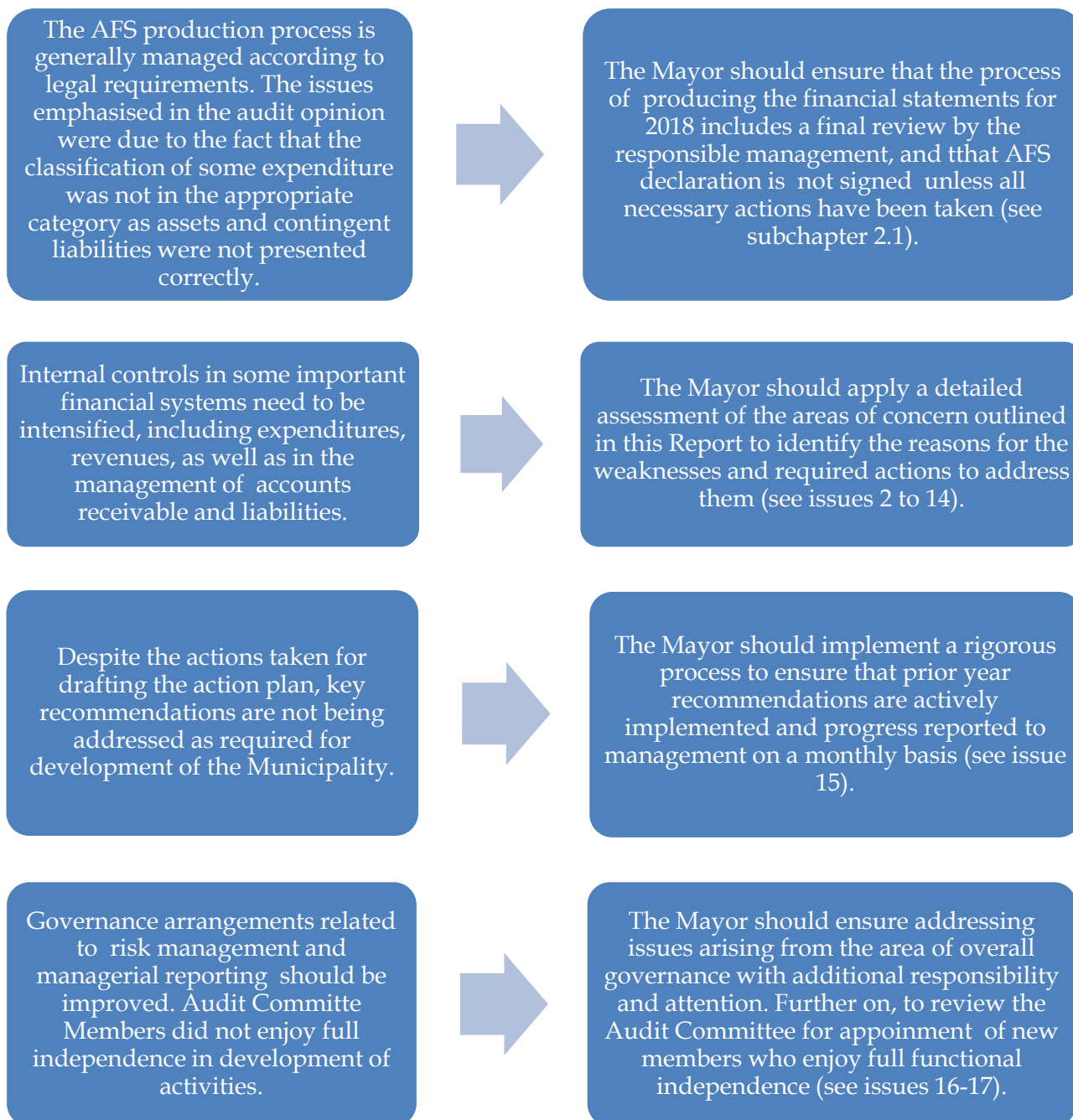
As Emphasis of Matter, we would like to draw your attention to the fact:

- The Municipality incorrectly paid for goods and services in the amount of €182,010 from the category of capital investments and subsidies in the amount of €18,996 from goods and services;
- Although progress has been made in identifying certain properties, the Municipality has not yet managed to register all lands and facilities in the asset register; and
- Contingent liabilities were not properly disclosed as some lawsuits against the Municipality are not reported in the financial statements.

For more, please refer to Section 2.1 of this report.

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

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.

1 Audit Scope and Methodology

Introduction

The National Audit (NAO) is responsible for carrying out a Regularity Audit which involves the examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

Audit work undertaken reflected our audit risk of Annual Financial Statements. We have analysed the Municipality's business to the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the Auditor General's opinion.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review.

Our procedures included a review of the internal controls, accounting systems and related substantive tests and related governance arrangements to the extent considered necessary for the effective performance of the audit. Audit findings should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.

2 Annual Financial Statements and other External Reporting Obligations

Introduction

Our audit 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 (MoF).

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 assertions are intended to provide the Government with the assurance that all relevant information has been provided to ensure that an audit process can be undertaken.

2.1 Audit Opinion

Unmodified Opinion with Emphasis of Matter

We have audited the AFS of the Municipality of Mitrovica for the year ended on 31st of December 2017 which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement, Disclosure and other accompanying reports.

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

Basis for the opinion

The audit is carried out 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 of Matter

We draw your attention to the fact that:

- The Municipality has collected and executed payments in the amount of €177,570¹, incorrectly from the code for Capital Investments, which belonged to the category of Goods and Services. Also in four other payments, two² of them, in the amount of €4,440 were executed from the code of investments, which belong to the goods; while two³ other payments in the amount of €18,996 were executed from the code of Goods and Services, while they belonged to the category of Subsidies;
- The Municipality has managed to identify municipal assets for properties in 27 rural areas (villages) but not estimated them, while it failed to identify properties for the urban area. Consequently, the municipality has failed to perform complete registration of assets (lands and facilities); and
- The Municipal lawyer's report was incomplete and inaccurate; 16 lawsuits⁴ were not included in the lawyer's report, nor were disclosed in the AFS. These lawsuits were of no value. While for six other charges⁵, the lawyer's report was not updated. By not updating the report, contingent liabilities were understated by €17,456. Further on, if legal decisions on lawsuits are in the favour of the accusers, the municipality is expected to have serious financial loss.

Presented weaknesses highlight that the Municipality had inaccuracies in: expenditure classification, asset registers, and inaccuracy in presentation of contingent liabilities. This is caused by the lack of controls in their management and reporting.

Our opinion is not modified for this issue.

Key Audit Matters

As key Audit Matter we highlight the fact that the Municipality has presented the balance of Accounts receivable but disclosures were improper, which could have been considered for budget planning needs for own source revenues. Accumulated accounts include debts that are carried forward for more than five years and the possibility of collection is minimal.

The action for settlement of accounts receivable for the taxes on exercise of business activity in the amount of €1,587,196 (from €3,270,000 to €1,682,804) was not performed through official procedures or by a decision issued from Municipal Assembly or the Mayor, and it is not disclosed in the financial statements. The settlement was due to the removal of businesses related to the relocation

¹Support for management of waste" in the amount of €10,000; "Construction and maintenance of cemeteries and monuments" in the amount of €9,967; "Construction and Maintenance of Parks in Public Spaces "in the amount of €12,000; Maintenance of green areas " in the amount of €43,238; "Demolishing of illegally built buildings" in the amount of €38,500; "Urgent Intervention in Vllahi" in the amount of €22,865; "Signalisation of the roads" in the amount of €20,000, as well as the Construction of the roads in Stan-TRG "in the amount of €21,000.

²"Wood for heating the facility of the primary and secondary education "€1,240 and €3,200".

³"Various Health Services of Caritas Kosova" €10,000 and €8,996 ".

⁴ information for Lawsuits are secured from the Ministry of Justice.

⁵ The process of four lawsuits was finished but it still appeared in the reports in the amount of €8,050 in one case the financial value of the claim was underestimated by €25,394 and one in the amount of €112 was not recorded at all.

of businesses in the northern Mitrovica municipality, the removal of some businesses that have won court cases and the use of out-dated software which has also calculated passive businesses, and some of which do not exist at all. Failure to disclose them to AFS may lead to miss- interpretation of potential loss.

Responsibility of Management and Persons Charged with Governance for AFS

The Mayor of the Municipality 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 no. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented).

The Mayor of the Municipality is responsible to ensure the 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 detect every material misstatement that might exist. Misstatements may 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 the Management, as well as evaluating the presentation of the financial statements.

2.2 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 and 02/2013;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures; and
- Other Budget Reporting Requirements such as quarterly reports, including nine-month reports in time and procurement plan.

In the context of the AFS, issues related to reporting frame were not addressed when preparing AFS, submitted in January 2018.

- Note 12, in the report for budget execution, the column on execution presented grants determined by donators as expenditure and not as an income. This error has reflected also in disclosure of initial and final budget allocation, article 14.6.

Further on, there were following errors in the disclosures of financial statements:

- Receivables were understated in total amount of €26,601⁶; and
- The number of employees with special services agreements was not correctly presented 39 employees were presented in the AFS, but there were 32 employees during the year.

During the audit period, the Municipality has noticed the non-disclosure of the high issues listed in the AFS and has made the requires adjustments, except for the part of the accounts receivable on overstated rent by €2,102.

Given the above, the Declaration made by the Chief Administrative Officer and the Chief Financial Officer, when submitting the AFS to the MoF, can be considered correct in all material respects.

In the context of other external reporting requirements, we have no issues to raise.

⁶ Property tax was overstated by €52,458; payments for household waste were understated in the amount of €81,161; the rent was overstated in the amount of €2,102.

2.3 Recommendations related to Annual Financial Statements

In relation to the issues mentioned above we give the following recommendations:

Recommendation 1 The Mayor should ensure that an analysis is undertaken to determine the causes for emphasize of the audit opinion and key⁷ matters. Specific actions should be taken to address the underlying causes in a systematic manner to eliminate presented weaknesses.

Further on, the Mayor should ensure that effective processes are in place to confirm that the 2018 AFS production plan formally addresses all issues related to compliance The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be signed unless all necessary checks have been applied to the draft AFS.

⁷ Misstatement of expenditures, inaccurate value of assets and contingent liabilities disclosed in the AFS.

3 Financial Management and Control

Introduction

Our work related to Financial Management and Control reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Municipality. Specifically, the focus of the audit was Budget management, Procurement issues, Human Resources as well as Assets and Liabilities.

Financial Management and Control Conclusion

In the context of financial systems, controls over a range of expenditure areas require further improvement.

In the context of the financial system, controls are in place; however, controls over a range of expenditure areas require further improvement. Key areas that require more improvements are: budget planning, planning and management of revenues, human resources management, accounts receivable, outstanding liabilities and asset management.

3.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ⁸	2017 Outturn	2016 Outturn	2015 Outturn
Sources of Funds	16,684,897	17,546,947	16,682,266	16,285,762	17,367,291
Government Grant -Budget	14,247,965	14,591,682	14,471,605	13,980,967	15,773,053
Carried forward from previous year ⁹ -	-	344,361	328,678	291,289	255,570
Own Source Revenues ¹⁰	2,436,932	2,436,932	1,759,351	1,755,799	1,230,437
Domestic Donations	-	126,525	78,665	175,152	68,547
External Donations	-	47,447	43,967	82,555	39,684

⁸ Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

⁹ Own Source Revenues unspent in previous year carried forward into the current year.

¹⁰ Receipts used by the entity for financing its own budget.

The final budget in relation to the initial budget is increased by €862,050. This increase is a result of external and domestic donations, by revenues carried forward from the previous year, and an increase applied with Government decisions.

Municipality used 95% of the final budget in 2017, with a decrease of 1% compared to 2016.

Table 2. Spending of funds by economic categories - (in €)

Description	Initial Budget	Final Budget	2017 Outturn	2016 Outturn	2015 Outturn
Spending of funds by economic categories	16,684,897	17,546,947	16,682,266	16,285,762	17,367,291
Wages and Salaries	11,410,884	11,429,077	11,338,652	11,485,848	11,262,513
Goods and Services	1,305,856	1,312,930	1,201,215	1,337,968	1,427,375
Utilities	465,000	483,000	474,854	354,108	446,348
Subsidies and Transfers	545,043	576,661	537,369	589,308	625,418
Capital Investments	2,958,114	3,745,279	3,130,176	2,518,530	3,605,637

Explanations for changes in budget categories are given below:

- Increase of the budget for wages and salaries by €18,193 is reflected from the carried forward revenues in the amount of €13,348 and external donations in the amount of €17,428, while on behalf of the budget savings, there was a budget reduction by €12,583;
- Goods and services increased by €7,074, budget increase included carried forward revenues in the amount of €6,035 and donations in the amount of €1,039. Meanwhile, the municipal budget was increased by €18,000 from the carried forward revenues;
- Subsidies and transfers increased by €31,618, the budget increase included the carried forward revenues in the amount of €1,001 and from internal donations - citizen participation in projects for subsidizing farmers in the amount of €30,617; and
- The capital investment category had an increase with a total value of €787,165, respectively with budget review; there was an increase in capital investments for the project "Renovation of the Musa Hoti School" in the amount of €356,300 (Government Decision). There was an increase from the carried forward revenues in the amount of €305,977 and from external and domestic donations in the amount of €124,888.

Despite the increase in the budget for capital projects, the level of execution of capital investments was 84% of the amount of the final budget. While in other categories, the level of budget execution was high (over 90%).

Issue 2 – Budget Execution

Finding Although the budget in total was executed at 95%, in context of performance the situation shows that planning and spending was quite challenging. At the end of the year, there was a need for some budget adjustments, using the remaining funds in the directorates, in order to execute payments, respectively to settle liabilities. Such adjustments were also affected by direct payments executed by Treasury and payments through court decisions.

Increased needs for adjustment provide that the initial budget preparation was not done properly. Failure to properly plan and adjust had caused inadequate classification of economic categories (subchapter 2.1).

Risk Improper initial planning and failure to execute liabilities in time increase the risk that the established municipal objectives will not be met. Further on, the inadequate classification of expenditures in economic codes provides incorrect presentation in the AFS.

Recommendation 2 The Mayor should ensure that a thorough analysis of all factors that have an impact on the budget execution is carried out prior to preparing budget requests. Whereas, planning and budgeting of certain projects should be done based on the accounting plan approved by Treasury.

3.2 Revenues

Revenues generated by the Municipality in 2017 were in value of €1,951,350. These relate to property tax, revenues from construction licenses, and revenues from business activities, revenues from rent and administrative taxes, etc. Also, the Municipality collected indirect revenues from police fines and punishments in value of €116,111.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2017 Receipts	2016 Receipts	2015 Receipts
Own source revenues	2,436,932	2,436,932	1,951,350	1,995,219	1,517,742
Total	2,436,932	2,436,932	1,951,350	1,995,219	1,517,742

In 2017, the Municipality has collected 80% of planned revenues. Planning of revenues from Property tax had significant differences compared to its execution. The Municipality in 2017 planned €607,728, billed €846,625, while it collected only €261,640. These non-reconciliations indicate an unrealistic planning by the Municipality in this area.

Issue 3 – Improper management of revenues

Finding 2017 is the first year that the municipality has started to collect revenues from waste service payments for households and businesses.

The municipal waste management process regulated by the “Regulation No.03 / 2016 on Waste Management” does not correspond to the agreement on primary waste management services between the Municipality of Mitrovica and the RWC “UNITETI” SHA, which is based on framework contract of 2015 -2018 “. According to the regulation, the depositing of funds should be done on a daily basis¹¹, and according to the agreement between the Municipality and the RWC Unity, it was stated that the deposit of the funds is done every three days by the cashers of the RWC Uniteti.

From our testing we have observed that the collection/deposit of the funds by the cash collectors were deposited at the municipal bank after 3-4 days, and it reached the value of €4,500, contrary to the requirements of the Financial Rule 03/2010 on revenues and regulation on waste.

The Municipality has failed to manage an adequate system on management of revenues generated by waste collection services, as a result of an inadequate basis of internal rules and internal controls.

Risk Non-compliance between regulations may create risk of misinterpretation. Keeping cash and not depositing them on time into the bank accounts increases the risk of misuse.

Recommendation 3 The Mayor should provide an appropriate registration system in order to support revenue collection and management. The municipal waste management process should be reviewed in order to comply with applicable laws/regulations.

¹¹ Regulation 03/2010 on revenues requires daily depositing of funds

Issue 4 – Weaknesses in management of public properties

Finding Testing the lists of public property users (providing housing for qualified staff), we have noticed that in 12 cases, contracts are not valid in terms of time period (expired). However, properties are still used without any formal decision or renewal of the contract. In the absence of renewal of contracts, the municipality does not invoice these users.

The lack of controls and the neglect of the municipality in this regard have raised the mentioned weaknesses.

Risk Lack of adequate controls and failure of the municipality to respond in time concerning the use of public property increases the risk for misuse of properties and non-collection of the funds foreseen for the use of public properties.

Recommendation 4 The Mayor should undertake measures to provide the lessees with contracts as soon as possible in order to have the legal basis for using the revenues from municipal property.

Issue 5 – Failure to perform verification of properties

Finding There was no general report for verification of 1/3 of the properties to document the performed verification of properties according to the law no. 03/L204 and applicable administrative instructions.

The Municipality was in possession of reports only on new registrations and modifications but, not for the existing ones.

Risk Shortcomings in the documentation required for the verification of property for property tax purposes may lead the Municipality not have sufficient information if the same have paid all property taxes, which may also be reflected on the citizens.

Recommendation 5 The Mayor should ensure that the verification of municipal properties is carried out according to the law, so that the database incorporates all eventual changes to the taxable properties.

3.3 Wages and Salaries

Wages and Salaries are paid through a centralised payment system. Control applied at local level are related to: a) controlling of payment each month by signing payroll list, b) verification of eventual changes that may arise from used formats, and c) budget review for this category and reconciliation with the Treasury.

Issue 6 - Contractual Arrangements and recruitment of staff for a fixed term

Finding The Municipality had recruited 32 employees with the agreements for special services. When recruiting these employees, the Municipality have not applied simplified recruitment procedure as foreseen by law. Furthermore, in three¹² cases the employees with special service agreements were holding regular positions and didn't perform specific duties.

Risk Covering of important positions with the short term agreements affects the performance and poor staff monitoring, and increases the risk for recruitment of inadequate staff for such positions. Lack of due competition, may lead to poor quality of provided services and non-achievement of organisation objectives.

Recommendation 6 The Mayor should provide a rational plan for the duties that are related to the special service agreements. Further on, to discuss additional needs for regular positions with relevant authorities, to find an acceptable solution, and make the proposals when planning the budget. Further on, when recruiting employees with special service agreements to ensure that a simplified recruitment procedure has been applied as set by the legal acts.

¹² "Budget and Finance Officer" and two positions "Administrative Assistant"

3.4 Personnel Management

Personnel management is done according to the Internal Regulation no.01/2017 for administration, competencies and responsibilities of the Municipal Administrative Bodies.

Issue 7 – Failure to apply internal procedures for promotion

Finding Department of Education had not applied internal procedures for promotion to the post of chief of sector in administration and finance, as foreseen by Regulation¹³.

Risk Non-compliance with legal and procedural requirements for promotion is disrespecting of regulation and granting of equal treatment and opportunities for competition.

Recommendation 7 The Mayor should ensure that procedures for career development of employees are adhered to and grant equal opportunity for competition to all potential candidates. Such procedures allow selection based on merits.

3.5 Goods and Services and Utilities

The final budget of Goods and Services in 2017 was €1,795,930 (including Utilities). Out of which €1,676,068 were spent. Those relate to supply with expendables/office supply, services, maintenance and utilities.

Issue 8 – Contracting out of procurement plan

Finding Although the procurement plan have not foreseen the activity “Office Supplies for the needs of the MFMC in Mitrovica” in value of €8,785, the contract was still signed. Inadequate planning has led to the signing of contract out of procurement plan.

Risk Signing contracts out of procurement plan, risks execution of planned contracts and changing of priorities, or entering into obligations without funds available.

Recommendation 8 The Mayor should ensure that the procurement plan is drafted upon a thorough analysis of all requesting units and has included priorities based on projects, securing proper funds for them.

¹³ Regulation No.. 21/2012 on carrier development for civil employees, article 5.

Issue 9 – Receiving supplies not on regular basis

Finding medical supplies in value of €10,175 were received by the warehouse officer, without a proper committee in place, as required by Regulation No.01/2013 on receipt of supplies, which foresees establishment of the committee. Failure to comply with the regulation resulted with inadequate internal controls.

Risk Receiving supplies without a committee in place increase the risk of receiving poor quality supplies and in non-compliance with contracted terms.

Recommendation 9 The Mayor should perform an internal review to decide about establishment of relevant committees, to confirm that the supplies are received according to the quality and quantity foreseen by contract.

Issue 10 – Administrative shortcomings in development of procurement procedures

Finding The evaluation report of the Contract “Supply of schools with inventory and cabinets” in value of €7,021 was not signed by the procurement officer.

Further on, a committee of three members was established for the contract “Supply, maintenance and assembling of medical equipment” in value of €44,964 but, one of the members had not signed the declaration under oath. Further on, the decision for opening the tender was not signed by the procurement officer.

Risk Lack of a formal confirmation for evaluation and opening process shows that internal controls are not functioning at best and it may produce the risk of disregarding procedures in procurement processes and incorrect evaluation of offers.

Recommendation 10 The Mayor should ensure that the opening and evaluation of the tender is accompanied with proper monitoring by the committee and procurement officer, through formal confirmation of the entire process in compliance with the requirements of the Law on Public Procurement.

3.6 Subsidies and Transfers

The final budget of Subsidies and Transfers was €576,661, out of which €537,369 was spent in 2017. Those relate to burial expenses, scholarships, support of farmers, and other natural persons, in capacity of an individual beneficiary in bad socio-economic situation.

Recommendations

We have no recommendations in this area.

3.7 Capital Investments

The final budget of Capital Investments was €3,745,279, out of which €3,130,175 was spent in 2017. Those relate to investments in construction of road infrastructure and different capital facilities. Under the Law on Budget was planned implementation of 55 capital projects, out of which were executed 44 projects through procurement procedures. The other 10 did not require development of the procurement procedures since they were related to the previous years as framework contract, and three other projects were not implemented. As a result, four capital projects were not foreseen by the procurement plan, three projects were supplied with the approval from CPA and one capital project was foreseen for "Construction of the burned roof in school "Musa Hoti" (urgent case).

Recommendations

We have no recommendations in this area (despite issues identified in subchapter 3.8).

3.8 Common Issues on Goods and Services and Capital Investments

The following common issues relate to Goods and Services and Capital Investments:

Issue 11 - Failure to sign contract management plan

Finding Contract managers were assigned in four¹⁴ tested cases, and the procurement plan for management of contract was prepared but, the plan was not signed by contracting authority and in some cases it was also not signed by the contract manager.

Risk Lack of a formal confirmation institutes the risk for inadequate management of contracts and may result in conclusion of contracts not in accordance with contracted terms.

Recommendation 11 The Mayor should ensure assignment of contract managers for all contracts, who should prepare and sign contract management plan in compliance with the requirements of the Law on Public Procurement.

¹⁴ Supply of schools with inventory and cabinets " in the amount of €7,021" Supply of expendable material for MFMC in Mitrovica" in the amount of €8,785; "Supply with vehicles for the Municipality of Mitrovica and Municipal Institutions" in the amount of €9,618; and "Fitting of sanitary network in primary and secondary school (Eqrem Qabej)" in the amount of €4,810.

3.9 Capital and Non-Capital Assets

Asset management is an important part of financial management and control in public sector. Proper asset management requires the Municipality to have a comprehensive view of assets, control and management procedures, and to constantly update changes in its registers. The main guideline for this area is the Regulation No.02/2013 on management of non-capital assets in budget organisations. The capital assets value in AFS at the end of 2017 is 27,426,412€.

Issue 12 – Weaknesses in E-asset system

Finding The Municipality has not managed to register all assets under €1,000, including assets, expendable materials, etc. In nine¹⁵ cases, assets under €1,000 in the amount of €5,139 were not recorded in the e-Asset system, but only in one list for internal use in the Municipality (Excel registry).

Risk Weaknesses in the e-Asset system increase the risk of errors when registering assets and manual calculation of depreciation. This may also result in non-compliance with the requirements on accounting and financial reporting of assets.

Recommendation 12 The Mayor should ensure undertaking of necessary actions to apply asset management system (e-Asset), in order to get asset management and reporting in compliance with the requirements of the Regulation on management of non-capital assets. Further on, to provide proper training to the Municipality staff who shall be responsible for implementation of this system.

¹⁵ Four computers in the amount of €3,350, Termo-3, in the amount €340, Inventory (furniture) in the amount of €498, Monitor in the amount of €156, UPS in the amount of €245, Laptop-i7 in the amount of €550.

3.10 Handling of Cash and Cash Equivalents

Petty cash is a small fund maintained and controlled by budget organisations, departments or smaller budget units, depending on budget allocation, and it is used to cover expenditures of small value (up to €100).

Recommendations

We have no recommendations in this area.

3.11 Receivables

The Municipality has established an internal control system to oversee the process of receivables by managing them through respective directorates. However, the control system requires further strengthening to prevent increase of receivables from year to year and to maintain its low value to an acceptable degree.

Accounts receivable at the end of 2017 were in the amount of €7,497,745, including property tax, municipal fees, urbanization fees and charges, rent, household waste payments, systematic control of Trepça-PAK employees, as well as payments for issuing death certificates.

From billed property tax in 2017 (excluding previous year's receivables, interest and penalties) in the amount of €846,625 was collected only €261,640 or 31%.

Issue 13 – Inefficient management of accounts receivables

Finding The Municipality have not set internal procedures for reporting and recording receivables and applying of collection procedures.

Increase of receivables from year to year continues to be a challenge for the municipality. The lack of an analysis to identify/extract the causes of their non-collection has resulted in poor collection.

The Municipality had provided municipal property for rent for long-term periods. In four cases we have noticed that the users had never paid monthly rent to the municipality. The obligation of three tenants reached the amount of €81,888 and is from 2011, while another obligation in the amount of €5,058 is from 2016. In the signed contracts it was specified that if the obligations are not paid the contract is terminated. However, the municipality did not take specific actions to collect these revenues, except for some written notice on non-payments made in 2018.

Risk Lack of sufficient action or weaknesses in process for collecting receivables may discourage other taxpayers from paying their obligations on time. Further on, non-collection of planned revenues increases the risk for failure of projects that are planned by own sources. Statutory limitation of receivables makes it difficult for them to collect.

Recommendation 13 The Mayor should ensure that controls are strengthened in managing receivables, increasing efficiency and strengthening controls in their management and collection. In this regard, to analyse the causes for increase of receivables in order to undertake legal actions for their collection.

3.12 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2017 was €1,425,216. These liabilities are carried forward to be paid in 2018. Compared with the previous year (€1,072,653), liabilities were increased by €352,563.

While, Contingent Liabilities, at the end of 2017 were €3,452,768, whereas compared with previous year (€1,073,000) have marked considerable increase. This increase was because the Municipality was able to register some contingent liabilities that were not incorporated in the previous year records.

We have not identified any non-compliance in reporting liabilities to the MoF. They are reported in compliance with the requirements of the regulation on reporting outstanding liabilities.

Issue 14 - Inefficient management of outstanding liabilities

Finding Compared with the previous year, liabilities have marked an increase by €352,563. Their highest value was reached from capital investments. As a result of bad management, there were cases when payments for unpaid bills were executed directly from the Treasury according to the Article 39.2 of the LPFMA in the amount of €212,588 and according to the Basic Court decisions in the amount of €528,706. This was due to non-payment of invoices/liabilities.

In 17 other cases the invoices/liabilities were not paid within the legal deadline of 30 days.

Risk Failure to pay suppliers within legal deadline and enormous increase of liabilities during 2017 increases the risk for the current expenditure plans are not accomplished, because the municipality has to execute previous year's liabilities. This can also result in lawsuits or direct payment from the Treasury.

Recommendation 14 The Mayor should consider that, when planning the budget, to discuss the outstanding liabilities with the Ministry of Finance and to set budget priorities for their execution, and to set specific policies for preventing entry into new obligations. Further on, to execute liabilities in time according to the legal deadline.

4 Progress in implementing recommendations

Our Audit Report on the 2016 AFS of the Municipality resulted in 22 key recommendations. Municipality prepared an Action Plan stating how all recommendations will be implemented.

At the end of our 2017 audit, seven recommendations have been implemented, five were in process of implementation and ten have not been addressed yet. While, in 2015 out of 25 given recommendations, eight have been implemented, eight are in process of implementation, and nine have not been addressed by the management.

The Mayor has discussed the 2016 audit reporting in Municipal Assembly but, he didn't present the progress related to the action plan on implementation of the audit recommendation prior to submit AFS to the MoF.

For a more thorough description of the recommendations and how they are addressed, see Annex II.

Issue 15 – Low level in Implementing Prior and Earlier Year Recommendations

Finding

Although the Municipality has drafted an action plan (with delay), it was not supported by a confirmation process that the implementation of recommendations is formally monitored. This presents Management's lack of attention to assure that the recommendations are being implemented in time and that the obstacles are being identified and addressed.

As a result, some of the recommendations such as, poor classification of expenditures, completeness of asset registers, lack of a risk register, expired contracts of municipal property users, poor management of liabilities, and the increase of receivables are the findings that are being repeated in the recent years audit reports.

Risk

Failure to implement recommendation fully increases the risk of constant presence of the same weaknesses and may result in constant inefficiency of controls, difficulty in management of challenges and achievement of objectives or even in financial loss.

Recommendation 15 The Mayor should ensure that the action plan for implementation of the recommendations is drafted on time, monitored on regular basis and reported on regular quarterly basis in relation to the achieved progress in this regard. The Mayor should in the shortest time possible review recommendations that are not implemented within deadlines and to undertake pro-active actions towards obstacles that may arise during their implementation.

5 Good Governance

Introduction

Good Governance implies basic principles of accountability, effectiveness of controls, risk management, independence of internal audit, and coordination of NAO with internal audit and good governance with public assets.

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. The level of compliance with FMC requirements by Budget Organizations is monitored by the self-assessment checklists completed by all BOs, which are submitted at the end of the year to the MoF.

Specific areas of our governance-related reviews have been the accountability and risk management process, while the other components are handled within the chapters or subchapters above.

Overall Governance Conclusion

Governance related to the operational and financial activities in the Municipality are the areas that still require important actions. There is a need for increased attention of management in addressing audit recommendations and risk management processes. There is no effective response set to the audit recommendation and the structure of the audit committee was inadequate.

The Municipality had filled-in the self-assessment (the checklist was supported by evidence) but proper procedures for risk management are yet not set.

The comprehensive local socio-economic development strategy 2014-2017 is considered to be set by the Municipality and some other plans in different sectors are approved by the Municipal Assembly: Action Plan for Transparency in the Municipality; Local Plan on Anti-Corruption; Integrity Plan for 2017 - 2019; 2017 Work Plan of the Municipal Assembly; as well as the Municipal Action Plan on sustainable solution for displaced persons.

5.1 Internal Audit System

The Municipality has established an Internal Audit Unit (IAU) which operates with three staff members – The Director of the IAU and two auditors. Along with Strategic Plan, the IAU has drafted the Annual Work Plan that includes six audits for 2017.

IAU had carried out all planned audits, six audits in total. Audit reports have addressed different areas and are finished on time. Further on, has prepared quarterly reports that are submitted to the Central Harmonization Unit.

Issue 16 – Inadequate structure of Audit Committee

Finding According to the administrative instruction no.11.2010 on establishment and operation of the audit committee in public sector, the member of the audit committee should be independent. In this case, this requirement is not fulfilled, since the audit committee is comprised of: the Internal Auditor, Chief Financial Officer and two other members from Finance Directorate.

Further on, the action plan for implementation of the IAU recommendations was prepared for the audit period. However, this action plan was not prepared by the management but from the audit committee

Risk The Audit committee with the current structure does not have due independence and as such cannot provide an unbiased opinion on issues that may involve departments whose members are the Audit Committee members at the same time.

On the other hand, the non-willingness of the Management to draft action plans diminishes the efficiency and the impact of internal audit services towards improving overall governance.

Recommendation 16 The Mayor should review the appointment of the Audit Committee Members and should also ensure that their selection is done in compliance with the requirements of the relevant regulation, excluding the officers that may be subject of the Internal Audit. Further on, should review actions undertaken by the Management in relation to the drafting of the action plan and implementation of IAU audit recommendations.

5.2 Management Reporting, Accountability and Risk Management

In order to have a proper planning, supervise the activities on a regular basis and allow effective decision-making, the Management needs to have regular reports. Accountability as a process is the acceptance of responsibilities, holding persons into account for their actions and disclosing results in a transparent way. Whereas, risk management is a process related to identification, analysis, evaluation and actions/measures taken by the Management to control and respond to risks threatening the Organization.

The Management has carried out a range of internal controls to ensure that the systems are operating properly; we have observed that the applied measures require further improvement.

Issue 17 – Weaknesses in Management Controls and Risk Management

Finding Our audit of management controls of the main financial system of the Municipality has found out that the overall control arrangements require improvements, in management of expenditures by classifying them into adequate codes, handling of outstanding liabilities and their timely execution, and specific actions for collection of accounts receivable.

Municipality has no written policies and procedures for risk management, in particular the risk of fraudulent of irregularities. There is no risk register prepared according to the FMC requirements and a report on their management.

Risk Poor accountability requirements and poor quality financial reporting reduce the effectiveness of financial management within the Municipality, resulting in weaknesses within the budget process and reduces Management’s ability to respond to financial challenges in time.

Recommendation 17 The Mayor should ensure that a review has been carried through to determine the form of financial and operational reporting to senior management, which is required to support effective management of the activity, and to ensure that an appropriate solution is established within a reasonable period of time. Further on, in order to reduce the impact of risks to acceptable levels, the Organization should draft a risk register with all appropriate measures/actions to put the exposed threats under control.

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

Annex I: 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 II: Progress in implementing Prior and Earlier Year Recommendations

Audit Component	Recommendation carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
2.Financial Statements	The Mayor should ensure that are established effective processes in order to confirm that the plan for drafting of AFS 2016 addresses all issues raised including significant risks identified. This should also include a review of the draft AFS by the management, with a particular focus on high-risk areas and/or areas where errors have been identified.		In process, the municipality had established a property identification committee. The committee had only identified the properties in rural areas, while didn't achieve to identify properties in urban area. Furthermore, the evaluation of the identified properties had not been carried out. There are misstatements of expenditures this year too.	
2. Governance	The Mayor should ensure a clear procurement plan, wherein services, goods and works planned that is subject to the law on procurement will be specified separately. In order for the Procurement Officer to develop a good procurement plan he will need close cooperation with the budget department and other departments. Further, to ensure that with a decision appoints committees for receiving of goods according to Rule no.02/2013 and the report on goods received to be in accordance with the Financial Rule No.01/2013 MF - Spending of Public Money.		In process, thorough procurement planning was performed, However, there are still weaknesses in reception of goods.	

2.3 Prior Year Recommendations	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.			No measures taken.
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.		The Municipality had filled in the self-assessment checklist (the questionnaire was supported by documentation). However, proper procedures for risk management are not set yet.	
2.5 Specific Governance Reviews	The Mayor has ensure that after drafting the risks register is delegated direct responsibility for management of risk to a director, who in coordination with Heads of units will manage this process and will report on regular basis on risks.			No measures taken.
2.5.2 Management Reporting	The Mayor should ensure that the quality of controls and budget supervision are reviewed in a critical and systematic manner to ensure establishment of adequate controls in areas where weaknesses are identified.		In Process, measures are taken for some areas like: asset identification committee; compared with the past year procurement procedures were managed better; some initiatives were taken to present the accurate value on account receivable but, it still requires strengthening of controls.	

2.6 Internal Audit System	The Mayor should undertake on-going and concrete actions and to timely respond to IA findings and recommendations, whilst the Audit Committee should produce a work plan specifying agendas and topics to be addressed during the year. In the meetings minutes, it should also draw clear conclusions to the management on internal audit issues.			No measures taken.
3. Financial Management and Control	The Mayor should ensure that prior to planning budgets is conducted a comprehensive assessment of potential sources of revenues, and take up practical options for improvement of performance for 2016. A systematic monitoring of budget trends would increase the chances for an effective performance.		In process, planning on taxes from business activity was done but, there is still room for better planning.	
3.4 Procurement	The Mayor should look into reasons why the abovementioned cases in the procurement process have taken place, and strengthen procurement controls over all stages of the process. An improved approach is needed particularly in the initial planning of needs, and to avoid maximum procedures for contracts with small and minimum value, unless it is considered necessary. In addition, should ensure that prior the initiation of procurement procedures is signed the Statement of Needs and Determination of Availability of Funds, are appointed contract managers and approve evaluation committees, as foreseen under the procurement regulations.		In Process, additional controls are required in procurement procedures although some of the cases are administrative issues.	

	The Mayor should ensure that are adhered contract prices, and are strengthen significantly controls over the certification of payments so that they prevent such payments. He should ensure detailed supervision over the functioning of controls, so that these irregularities are avoided, and find the reason why these irregularities have occurred.		In process, there were payments, respectively considerable amounts from court decisions and from direct payment from Treasury, due to failure to execute payments and commit funds on time for obligations towards economic operators.	
3.5 Expenditure not related to Procurement	The Mayor should ensure that procurement procedures are foreseen for all activities and that they are implemented strictly in accordance with the Law on Public Procurement.	Yes		
	The Mayor should ensure that no payments will be carried out before confirming that works or services are delivered. Payments have to be documented with invoices and confirmed reports on works/services received. The aspect of supervision and reporting of liabilities that derive from these agreements should be subject to regular reviews by the management of the municipality. In order to eliminate the risk that threatens failure of these agreements, we suggest that such practices of payments are stopped.	Yes		
3.5.2 Remunerations (Wages and Salaries)	The Mayor should ensure that the reasons behind errors in execution of salaries have to be reviewed and enhance controls over the personnel management so that such cases are not repeated. Payments carried out unfairly should be returned to the municipal budget.	Yes		

	The Mayor has before the start of the school year to analyse the numbers of staff needed in the education sector, and if legal barriers are encountered to discuss the issue with line Ministries and the Government, so that the staff engaged is not left outside the payroll.			No measures taken.
	A systematic review of personnel files should be undertaken in order to ensure that all necessary documentation is included within a specified period, and that all payments are supported. Staff appraisals should be performed at least once at the end of each school year.	Yes		
	The Mayor should enhance controls over health so that payments for travel expenses are carried out from the category of Goods and Services, by documenting them in line with Treasury regulations.	Yes		
3.5.3 Subsidies and Transfers	The Mayor should ensure that are established controls over payments, so that all items are paid in line with prices of contract.	Yes		
	The Mayor should ensure that the criteria set out in the Regulation on Subsidies are fully implemented; otherwise subsidies should not be granted.	Yes		
3.6 Revenues	The Mayor has to review contracts and lease agreements, as well as the existing procedures on tax collection, and take measures to collect all debts owed by leaseholders. If this is not possible, then property leased should be taken back, and through public auction are offered to other potential users who meet monthly rent payments in time.			No measures taken.

	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.			No measures taken.
	The Mayor should ensure that the Department of Finance builds a database (program) and to systemise relevant information on businesses that actively operate within its territory. In addition, effective measures should be applied so that business fees are collected based on periods of the year, without ignoring the previous debts.		In process, this year the Municipality has initiated removal of passive and non-existing businesses.	
	The Mayor should review the case of these payments, and return funds to all candidates who have paid more than the amounts specified under the AI, and regulations.	Yes		
3.7 Assets and Liabilities	The Mayor should ensure that the Committee does its fair and complete evaluation of all assets owned by the municipality as soon as possible, and monitor all results of the evaluation. In addition, in order to have accurate records of stocks, all entry/exits of movable property with value under €1,000 are done through the e-assets system.			No measures taken.
3.7.2 Handling of Receivables	The Mayor should initiate a reassessment process (review), where all accounts will be analysed in terms of maturity, validity of individual debts with significant amounts, real possibility for their collection and exercising of administrative measures (if necessary).			No measures taken.

3.7.3 Handling of Debts	In order to avoid legal disputes and execution of direct payments by the Treasury, the mayor should handle the situation carefully, and take appropriate measures to plan the budget for meeting debts owed to suppliers and teachers, and to prevent entry into new obligations without prior commitment of funds.			No measures taken.
Audit Component	Recommendation given in 2016	Implemented	Under implementation	Not implemented
1.2 Annual Financial Statements	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.		The Municipality had established a property identification committee. The Committee has still failed to identify all the properties. Identification of properties was done only in rural areas, while in the urban area it was unable to identify.	
2.1 Progress in the Implementation of Prior Year Recommendations	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.			No measures taken.
2.2 Self-Assessment Checklist	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.			No measures taken.

2.3.2 Management Reporting and Accountability	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.		In the process, although measures have been taken, internal controls need to be improved further, there are weaknesses in managing expenditures that are classified with inadequate codes; Handling of outstanding liabilities and its timely payment, and specific actions for collection of accounts receivable.	
2.4 Internal Audit System	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.			No measures taken.
3.1.1 Revenues	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.		Revenues are planned. Municipality tried to have an accurate list of business taxes; however it was not prepared by official procedures.	
	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.	Yes		

	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.	Yes		
	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.			No measures taken.
3.1.2 Wages and Salaries	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.			No measures taken.
	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.	Yes		

Goods and Services	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.		In process, there were improvements from past year, in general payments were certified, except for the failure to implement recommendation from the previous year, this due to the framework contract.	
	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.			No measures taken.
	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.		In process, it still requires additional controls for procurement procedures, although some of the cases are administrative issues.	
3.1.4 Subsidies and Transfers	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.	Yes		
3.1.5 Capital Investments	The Mayor should ensure that expenditure planning is made in accordance with appropriate economic codes divided by categories.			No measures taken.

	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.	Yes		
	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.	Yes		
3.2 Assets	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.			No measures taken.

	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.	Yes		
3.2.2 Receivables	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.			No measures taken.
3.3 Outstanding Liabilities	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.			No measures taken.

Annex II: Letter of confirmation

LETTER OF CONFIRMATION

To: National Audit Office

Venue and date: 23.05.2018

Honoured,

We hereby confirm that:

- We have received the draft audit report of the National Audit Office on the 2017 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 Kosoves

Komuna e Mitrovicës Jugore

Opština Juzna Mitrovica – Municipality of Mitrovica South



ZYRA E KRYETARIT

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2017 dhe për zbatimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit/Pasqyrave Financiare të Komunës së Mitrovicës, për vitin e përfunduar më 31 dhjetor 2017 .
- 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 zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

z. Agim Bahtiri

Kryetar i Komunës së Mitrovicës,

Data: 22.05.02018, Mitrovicë,