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Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

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

Prishtina, June 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 Mamusha 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 Kapllan Muhaxheri (team leader) Alban Beka and Arian Zenelaj under the management of the Head of Audit Department Luljeta Morina.

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Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Statements of the Municipality of Mamusha, 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 23/11/2017. 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 of Mamusha.

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

Opinion of the Auditor General

Qualified Opinion with Emphasis of Matter

The Annual Financial Statements for 2017 *present a true and fair view* in all material aspects, despite overstates budget on Wages and Salaries by €40,000, as well as own source revenues by €10,000.

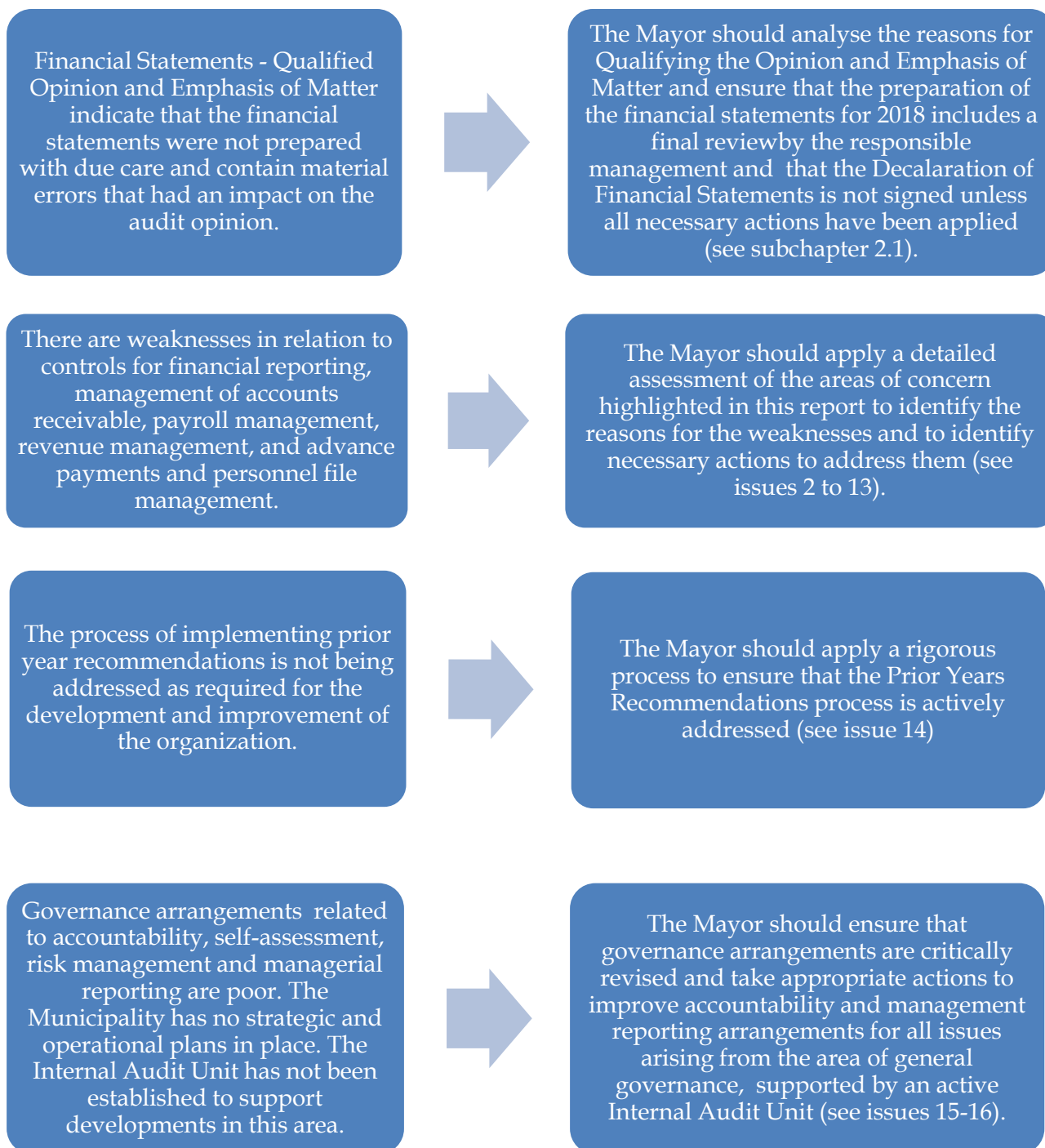
Emphasis of Matter

As an emphasis of the matter we would like to draw your attention to the fact that the Assets of the Municipality were not recorded in the Assets register and were not presented in the Annual 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



Management response to audit 2017

The Mayor has considered and agreed on the audit findings and conclusions and has committed to address all given recommendations.

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 assessment for the Municipality of Mamusha. We have analysed the Municipality's business to the extent to which management controls can be relied upon when determining the overall testing required providing the necessary level of evidence to support the opinion of the Auditor General's (AG's).

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.

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

Qualified Opinion with Emphasis of Matter

We have audited the AFS of the Municipality of Mamusha 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, except for the effects of the issues described in paragraph of the Qualified 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 MoF no.01/2017 on Annual Financial Reporting by Budget Organisations.

Basis for the Qualified Opinion

The final budget for Wages and Salaries was incorrectly presented in the amount of €900,000, while the budget allocated according to treasury data was €860,000, overstated by €40,000. Further on, indirect revenues from fines and penalties in the amount of €10,000 have been incorrectly presented in the budget execution report, they are presented as revenue from the institutions that collect them (Kosovo Police, Kosovo Judicial Council and Kosovo Forestry Agency).

Our audit was carried out in accordance with International Standards on Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the section 'Auditor's Responsibilities for Audit of Financial Statements'. According to the ethical requirements that are relevant to our audit of the Annual Financial Statements of Budget Organizations in Kosovo,

the NAO is independent of the Municipality and other ethical responsibilities are fulfilled in accordance with these requirements. We believe that the audit evidence we have received is sufficient and appropriate to provide a basis for our qualified 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 did not respect the requirements of regulation 02/2013 on the Management of Non-financial Assets; respectively there was no evidence of its Assets for those with value over €1,000 or under €1,000. In absence of the accounting evidence, it has not disclosed any assets in its AFSs. In absence of the evidence, it is impossible to provide effective control over them, and there is a risk of misuse or loss.

Our opinion is not qualified in relation to this matter.

Responsibility of Management and Persons Charged with Governance for AFS

The Mayor of the Municipality of Mamusha 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

The 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; and
- Requirements of Financial Management and Control (FMC) procedures.
- Nine-month Statement's in time; and
- 2017 Procurement Plan.

Despite the issues presented in the Audit Opinion, we have presented another non-compliance with Article 21 "Report on Unspent Own Source Revenues"; the Municipality has presented the amount of €75,000 as carried forward in 2018, while it should have been presented the amount of €71,604, with a difference of €3,396.

Given the above - the Declaration made by the Mayor and the Chief Financial Officer when the draft Annual Financial are submitted to the Government, can be considered to be correct, apart from issues that are identified in the Audit Basis for the Opinion.

In the context of other external reporting requirements, we have observed that the Municipality has complied fairly with the external reporting requirements, despite delays in AFS reporting. The Municipality has failed to report Financial Statements within the legal deadline, up to 30 January 2018.

2.3 Recommendations related to Annual Financial Statements

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

Recommendation 1 The Mayor should ensure that an analysis is undertaken to determine the causes of the qualification of audit opinion, and the paragraph on Emphasis of Matter. Specific actions should be taken to address the underlying causes in a systematic manner to remove errors in presentation of budget and own source revenues, as well as in recording and reporting of the assets.

Further on, the Mayor should ensure that effective processes are in place to confirm that the 2018 AFS production plan formally addresses all compliance issues related to the AFS. Further on, to include Management review of the draft AFS with specific focus on high risk areas and/or areas where errors have been identified in previous years. 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.

3 Financial Management and Control

Introduction

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

Financial Management and Control Conclusion

The Municipality has designed a relatively good system of controls over Expenditures and Revenues, however, due to non-implementation of regulations and guidelines our audit has highlighted the presence of some weaknesses in terms of compliance that relate to Revenues, Procurement, and other expenditures. This reflects a lack of proper oversight by the Municipality in the mentioned areas. In the context of financial systems, asset registration and asset management controls are generally weak and are not implemented effectively. Other areas that require further improvement are the process of managing petty cash expenditures and settlement of advance payments, as well as managing and reporting of Accounts Receivable and Liabilities.

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 ¹	2017 Outturn	2016 Outturn	2015 Outturn
Sources of Funds	1,813,399	1,870,828	1,595,791	1,440,614	1,359,737
Government Grant -Budget	1,707,573	1,668,835	1,517,996	1,412,667	1,285,758
Carried forward from previous year ² -	-	96,059	71,902	26,742	59,900
Own Source Revenues ³	105,826	105,826	5,894	-	1,300
Domestic Donations	-	-	-	1,205	5,600
External Donations	-	108	-	-	7,179

¹ Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

² Own Source Revenues unspent in previous year carried forward into the current year.

³ Receipts used by the entity for financing its own budget.

The final budget is higher than the initial budget by €57,429. Changes in initial budget were as follows:

- Initial Budget, was initially increased by carried forward own source revenues from 2016 in the amount of €96,059, and by donations in the amount of €108;
- While, at the end of the year it was reduced by €38,738 under Government's decision.

The Municipality has used 85% of the final budget in 2017 or €1,595,791, an improvement over 10% compared to 2016. However, the budget execution remains at an unsatisfactory level and explanations for the current position are detailed below.

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	1,813,399	1,870,828	1,595,791	1,440,614	1,359,737
Wages and Salaries	899,615	860,877	834,645	856,690	840,401
Goods and Services	198,891	198,908	178,130	227,852	100,327
Utilities	23,000	23,000	22,819	22,953	22,943
Subsidies and Transfers	6,466	6,466	6,350	2,400	3,000
Capital Investments	685,427	781,576	553,847	330,719	393,066

Explanations for changes in budget categories are given below:

- In the category of Wages and Salaries the budget was reduced by €38,738. The reason for the reduction was because six Directors of the Directorates were removed from payroll list, due to their political activities during the 2017 local elections (October-December 2017);
- Despite the increase by € 96,149 of the budget for Capital Expenditures, execution of the budget for this category was at 71%; and
- The Budget for Goods and Services, Utilities, Subsidies and Transfers did not change compared to the initial budget.

Issue 2 – Poor Budget Execution in Capital Investments

Finding Poor performance associated with capital investment is the main challenge faced by the Municipality. Only 71% of the budget of this category has been spent and the issue has not been addressed by management in recent years although it has been addressed in previous audit reports (in 2016 it was 76%). In addition, the dynamics of implementation was not in line with the planning, because 51% of the expenditures were executed in the last quarter of the year.

Risk Improper budget planning and low performance will result in failure to meet the organization’s objectives and to fund current year liabilities from next year’s budgets. On the other hand, the high level of Capital Expenditures at the end of the year risks for the payments will not undergo proper controls of the execution process.

Recommendation 2 The Mayor should ensure that budget performance is monitored systematically on a monthly basis and that this review identifies and addresses the barriers in execution of budget at a planned level. Where initial budget assumptions are incorrect, this should be fully reflected in the final budget position.

3.2 Revenues

Revenues generated by the Municipality in 2017 totalled €42,798. The Municipality does not yet have effective internal controls in place related to revenue collection and reporting, including their aggregation in the AFS.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2017 Receipts	2016 ⁴ Receipts	2015 Receipts
Own source revenues	105,826	105,826	42,798€	56,243	52,763

During 2017, the Municipality managed to execute only €42,798, or 40%. In this value are not included indirect revenues, such as: revenues from traffic fines in the amount of € 9,518 and fines from the court in the amount of € 1,025.

Own Source Revenues were mainly spent for Capital Projects 95%, the rest of 5% was spent in the category of Subsidies.

⁴ Receipts for 2016 and 2015 also include indirect revenues.

Issue 3 – Inadequate management of revenues from property tax

Finding During 2017, collected revenues from tax on property were in the amount of €19,184 (the amount of €7,893 were collected from the billing of 2017), while the billing for the year 2017 was €31,282. The Municipality has not applied a proactive approach to the collection of the tax on property.

Further on, the Municipal Property Tax Office is obliged every year to verify (re-survey) 1/3 of Registered Properties. This is done in order to update the current records. The Municipality failed to perform verification of 1/3 of the immovable property as required by the Law on Tax on Immovable Property no. 03/L-204 and applicable Administrative Instruction. Out of 3.981 properties, the municipality has managed to verify only 101 or 2.5% during the year. Failure to update the data system (property verification) was due to the lack of field survey officers.

Risk Failure to verify 1/3 of the property may result with incomplete information on the current taxable property.

Recommendation 3 The Mayor should ensure that the verification is done on a regular annual basis in line with the requirements of the applicable legislation, reflecting up-to-date records of the registry and accurate tax charges.

3.3 Wages and Salaries

Wages and Salaries are paid through a centralised system. The final budget for the category of Wages and Salaries was €860,877, while expenditures were €834,645 or 97%.

Wages and Salaries are paid through a centralized system by the Ministry of Finance. Key controls should confirm the accuracy and completeness of payments, such as enrolment off employees in payroll lists, verification of the allowed number of employees and other controls, and approval of budget for Wages and Salaries by the Municipal Assembly. Further on, we reviewed whether employees were paid according to the contract.

Recommendations

We have no recommendations in this area.

3.4 Personnel Management

The number of employees approved by the municipality is 136, while the current number of employees is 125. We have tested some recruitment procedures such as personnel files to verify their regularity.

Issue 4 – Personnel Records – Medium Priority

Finding Our review of Personnel files identified that in some cases required documentation was absent, such as:

- In one case the contract of the High School Director had expired on 02/05/2017 and based on payroll information, he was performing his duty and compensated with the same salary; and
- In another case in the employee’s file we found an uncertified diploma by the Ministry of Education.

Risk In the absence of controls on personnel management, including incomplete personnel files (expired contracts and lack of evidence on employee qualification) will result in improper compensation and endanger the quality of the education process in general.

Recommendation 4 The Mayor should ensure that the recruitment procedures are initiated before the employees’ contracts expire or if there is a need to proceed with extension of the contracts, the extension procedures should be in line with the applicable Rules and Instructions. Further on, in cooperation with school directors, he should ensure that the recruited staffs have the appropriate qualifications as well as valid evidence to certify their qualification level.

3.5 Goods and Services and Utilities

The current budget of Goods and Services, including Utilities were €221,908, while the expenditures in 2017 were €200,949, or expressed in percentage 91% of the budget.

Issue 5 – Irregularities in Recruitment of Staff for Special Services and Specific Duties

Finding During 2017, the Municipality had recruited 18 employees through Special Service Agreements and Specific Duties. The payment for these services was made from the category of Goods and Services.

In six cases we noticed that contracts were signed for regular job positions (both teacher and doctor) and not for experts in relevant fields.

Risk Signing of contracts on Special Services for regular positions results in increase of expenditures in contracting services and this indicates that the services do not match to the real needs of the municipality.

Recommendation 5 The Mayor should ensure that employees with special service agreements are recruited only in cases where there are specific requests. While for all regular job positions, should ensure that they are executed by the budget of the category of Wages and Salaries, and paid by the payroll system.

Issue 6 – Failure to justify Advance Payments and wrong Classification of Expenditures

Finding According to the Treasury data, the expenses from the credit card for the Mayor for 2017 were €3,652. The Mayor has justified expenditures in the amount of €2,614, but the remaining €1,038 has not been justified.

In three tested cases worth €2,418 were paid advance payments for official travel, while in the payment record file there were no invitations and agendas for these trips.

Payment in the amount of €5,095 for “Supply of food for the memorial day of the Turks” as well as payment in the amount of €3,560 for “Supply with electric material for the maintenance of the public lighting network” were recorded wrongly by the economic code 13460 “Other Contracted Services others”.

Risk Lack of required documentation in justifying the expenditures for accomplishment of official travel and failure to justify credit cards may result in unjustified and improper spending. Registrations of expenditures by inadequate codes increase the risk for incorrect presentation of expenditures according to the accounting plan on expenditures.

Recommendation 6 The Mayor should review the existing controls over advance payments and establish controls to support their validity. Further on, should ensure that the expenditures are recorded according to the plan and by respective codes.

3.6 Subsidies and Transfers

The final budget of Subsidies and Transfers was €6,466, out of which €6,350 or 98% were spent in 2017. Expenditures from this economic category are related to the subsidy of puerperal.

Issue 7- Lack of a Regulation for Subsidies

Finding Despite the recommendations given in the previous year's reports and the commitment of the municipality to draft an Internal Regulation on allocation of Subsidies and Transfers, the same has not yet been issued by the Municipality. In the absence of the Regulation, Subsidies were allocated on the basis of Municipal Assembly decisions and all expenditures were made for subsidies for puerperal⁵.

Risk The lack of an Internal Regulation on allocation of Subsidies creates uncertainty in defining criteria for Subsidy beneficiaries. This increases the risk that subsidies will not achieve its objective.

Recommendation 7 The Mayor should draft a Regulation which specifies clearly the criteria and procedures for subsidies, and be approved by the Municipal Assembly.

⁵ For each puerperal the Municipality of Mamusha have shared subsidy in the amount of €100.

3.7 Capital Investments

The final budget of Capital Investments was €781,576, out of which €553,847 or 71% were spent in 2017. Those relate to road construction, sewerage, and school facilities. Compared to the previous year, a better execution by €223,128 is observed.

Issue 8 – Systematic weaknesses in Contract Management

Finding The Public Investment Program includes several on-going projects from the past years. Some of the projects could not be finalized due to the non-elimination of property issues or other difficulties such as:

- In “Construction and asphaltting of the road, Access to the Highway” in the amount of €183,500, the project has completed over 99%, but due to property issues it was not possible to finalize or connect to the “Nation’s Road” Highway;
- In “Construction of the Garage for the fire fighting vehicles”, although the project was accomplished by over 90%, due to the issues with the electrical network it could not be finalized; and
- The project “Fixing of the Centre in Mamusha” in the amount of €20,000 was not realized because of the obstacles of the electric traffic and the high electric tension network.

Risk Delays in project implementation have a negative impact on budget expenditure, resulting with transfer of obligations from year to year, and not getting the planned benefit from citizens for the services provided to them.

Recommendation 8 The Mayor should take the necessary measures to complete the projects that are being followed continuously. Also, in the future, it should be ensured that before the initiation of the projects, the issues of expropriations and other identified problems are initially resolved so that there is no interruption of the works.

3.8 Common Issues on Goods and Services and Capital Investments

For fiscal year 2017, the municipality had planned to develop 57 procurement procedures, out of which 44 were completed. Apart from them, five procedures were not implemented which were not included in the procurement plan but which were notified to the CPA according to the Law on Procurement in power.

Issue 9 - Inadequate segregation of duties, and failure to provide description of the standard receiving report

Finding The payment of €1,120 for the contract "Supply and installation of air conditioners for the needs of MFMC", the whole process of execution, from the order up to the receipt of goods was done by the contract manager. According to the municipal officials, the inadequate segregation of duties was due to the lack of staff.

Further on, in the contract "Supply with Tractors" in the amount of €13,500 and "Climate Supply for QKMF" in the amount of €1,120, the standard receipt report had no description on the supply or delivery of services but was only signed by the receiving officer without any comment. The lack of detailed information was due to insufficient training or even negligence of officials.

Risk The lack of a Committee for receipt of goods and the lack of information on the standard receipt reports institutes the risk for the goods/services received do not comply with the terms of the contract.

Recommendation 9 The Mayor should ensure proper segregation of duties, adequate controls on receipt of goods/services before execution of payments, and ensure that the receiving officer makes the description of the goods/work received, in order to confirm that the supplies/works are received by the competent officials according to the contract.

3.9 Capital and Non-Capital Assets

Asset management is an important part of financial management and control in the public sector. Good asset management requires that the municipality has a full view of assets, control and management procedures and constantly update the changes in its records.

Asset management in the Municipality continues to be a challenge. The Municipality did not register the assets over €1,000 in the accounting register in KFMIS and registration of asset under €1,000 in the e-Asset system.

Issue 10 – Failure to register properties

Finding Despite the recommendation given in the previous year’s report and the commitment of the Municipality to implement it, no action has yet been undertaken to register the Municipality’s assets. This is very worrying because the Asset officer has been recruited since 2015, but no action has yet been taken to register the Assets of the Municipality. As a result, the Municipality does not have any record of assets over €1,000, under €1,000 or stocks.

Risk Failure to register Assets in the accounting registry makes it difficult to manage and use assets properly, and to identify assets to confirm their physical presence. In absence of the evidence there is a potential risk for asset misuse, loss or alienation, without being noticed by management.

Recommendation 10 The Mayor should take immediate action to record all of his assets. Assets over €1,000 should be recorded in the accounting register in KFMIS, while assets under €1,000 and stocks should be registered in the e-Asset system. At the end of the year, the inventory process should be carried out prior to the drafting financial statements, which should be harmonised with the asset registers and if there are differences they should be eliminated. In relation to this process, to initially analyse if there is a need to train the Asset Officer.

3.10 Handling of Cash and Cash Equivalents

Petty cash is a small fund of money that is kept in the care and control of the budget organization, department or smaller budget units depending on budget allocations, and is used to cover small value expenditures (up to €100).

Issue 11 – Deposit of Cash

Finding The Financial Regulation on Revenues 03/2010 stipulates that budget organizations have the right to collect revenues in the form of cash up to the amount of € 10. At the end of the day, money collected in cash registers must be deposited in the respective authorized accounts. We estimate that the amount of € 695 pertaining to the cadastral revenues collected from 08/03/2017 to 21/03/2017 was deposited on 22/03/2017, delayed 1 to 13 days.

Risk Delayed deposit of cash accumulated in cash registers increases the risk of misuse of public money. This also leads to unjust reporting of the timeframe of their collection. In addition, such practice is not in compliance with the requirements of the legislation in force.

Recommendation 11 We recommend the Mayor to ensure that daily cash deposits and controls are carried out according to the applicable legislation requirements.

3.11 Receivables

The Municipality of Mamusha has disclosed Accounts Receivable in the AFS in the amount of €133,000. Out of them, property tax revenues € 93,000, as well as firm taxes €40,000. Compared to last year this account was increased by €15,000. We have made a comparison between initial balances at the beginning of the year and the amount presented in the AFS by adding the charge and deducting the payments for this year to ensure that the values presented in the AFS are accurate.

Issue 12 – Understatement of accounts receivable disclosed in the AFS

Finding The Municipality was not in possession of an accurate register of Accounts Receivable from business' taxes, in fact, the final balance of 2016 was not taken as a benchmark. The initial balance of receivables was €33,241, when the billing of 2017 is added to the amount of €11,533 and deduction of receipts from 2017 in the amount of €1,020, their final balance should be in the amount of €43,754, while the Municipality has presented the amount of €40,000, understating the value of receivables by €3,754.

Risk In absence of accurate evidence there is a risk of repayment of Accounts Receivable by favouring certain taxpayers. Thus, despite resulting in Municipal budget loss, it may also impose the risk for unequal treatment for taxpayers.

Recommendation 12 The Mayor should strengthen controls in management and reporting of the Accounts Receivable. Initially, an appropriate registration and reporting system should be in place, and ensure that all necessary actions are undertaken to increase collection of receivables.

3.12 Outstanding Liabilities

The Statement of Liabilities not paid to suppliers in the amount of €55,000 at the end of 2016 has been reduced to €12,000. These liabilities were carried forward to be paid in 2018. The Municipality reported regularly to the Ministry of Finance according to requirements of the MoF Financial Rule 02/2013 on reporting liabilities, but the quality of reporting should be further improved.

Issue 13 - Understatement of Liabilities

Finding In four⁶ tested payments that were executed in 2018, totalling €2,903 was not reported in the report of December 2011 of outstanding liabilities. According to Chief Financial Officer, this happened because they were not reported by the respective directorate.

In addition, according to the December report, the total of liabilities was €16,748, while the amount were presented in the AFS was €12,000 understating them by €4,748.

Risk Incorrect presentation of data in the financial statements may have a negative impact on the accuracy of future budget requirements.

Recommendation 13 The Mayor should strengthen controls over the management and reporting of Outstanding Liabilities. He should initially ensure that a protocol book is maintained, where all receipts are recorded and all the received bills will be filed. Further on, should establish an effective system in which all outstanding invoices are accurately and thoroughly reported on a monthly basis in the MoF, and correctly disclose them in the AFS at the end of the each year.

⁶ Payment "Electricity use expenditures" in the amount of €1,500, Payment "Electricity use expenditures" €253, Payment "Medical supplies" €765, and payment "Medical supplies" €385.

4 Progress in implementing recommendations

Our Audit Report on the 2016 AFS resulted in 13 recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented. At the end of our 2017 audit, only one has been implemented; three were in process; and nine have not been addressed yet. Also, from the year 2015, 11 recommendations were carried forward (eight unimplemented and three others were being implemented).

Issue 14 - Poor Implementation of Prior and Earlier Year Recommendations

Finding The Municipality has drafted an Action Plan for implementing the recommendations, but this was not supported by a confirmatory process for their implementation is formally monitored. This shows that there is a lack Management's attention to ensure that recommendations are implemented timely and obstacles are expected to be identified and addressed.

Constant weaknesses in management controls and other controls in key financial systems have resulted in weaknesses in managing operational processes, including Revenues, Expenditures, Assets and Liabilities.

Risk Failure to fully implement the recommendations increases the risk of continued presence of the same weaknesses and may result in continued ineffectiveness of the controls, difficulties in managing challenges to meet the objectives, or may even result in financial loss.

Recommendation 14 The Mayor should ensure that the implementation of the Action Plan is monitored on a regular basis and reported on a regular monthly or quarterly basis in relation to the progress made. Recommendations that are not implemented by deadlines should be reviewed by the Mayor as soon as possible, and ensure that pro-active actions are undertaken against the obstacles presented during the 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 Ministry of Finance.

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

There is a number of governance weaknesses within the Municipality particularly related to accountability, risk management and the quality of management reporting. The self-assessment questionnaire, filled in by the Municipality, only partially reflects this situation, with some positive comments about the presence of non-proved existing arrangements. A key tool to support effective governance is the implementation of audit recommendations. The municipality had failed to implement the recommendations of the previous year.

The Municipality had not drafted a strategic development plan and had not compiled a list of risks that may be faced by the Municipality.

In terms of compliance with the legislation, our audit has found some weaknesses as a result of non-implementation of regulations which mainly include Asset management, Advances payments, Revenues, and Receivables.

5.1 Internal Audit System

According to the Administrative Instruction no. 23/2009 on Establishment and Functioning of the Internal Audit Units in the Public Sector, each public entity with a budget of 1 up to 3 million should have an internal auditor in place.

Issue 15 – Failure to establish the IAU

Finding The Municipality has made no efforts to ensure establishment of the IAU or to ensure internal audit services in co-operation with another budget organization. Article 3 point 2.1 of the AI 23/2009 on the Establishment and Functioning of IAU in the Public Sector, states that a public entity with a budget of 1 up to 3 million should have an internal auditor in place.

Risk Lack of an internal audit may result in reoccurrence of weaknesses in key internal control systems. Furthermore, management may not identify and react in time to the irregularities and weaknesses in control.

Recommendation 15 The Mayor should ensure that legal requirement is met, respectively to recruit an internal auditor. If this requirement cannot met, then the internal audit service should be performed by the Ministry of Finance or any other public entity. The audit service would support management in decision making and in elimination of weaknesses.

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.

Although, a range of internal controls are applied by Management to ensure that systems operate as intended, we have noticed that the measures applied are weak and ineffective and therefore do not provide an effective and timely response to the identified operational problems.

All budget organizations are required to implement risk assessment requirements. The instructions set out in the FMC procedures require that the risk register is completed to support effective operational and strategic management.

Issue 16 - Weaknesses in High Level Management Controls - High Priority

Finding Our review of managerial controls implemented in the Municipal's main financial system has highlighted ineffective financial reporting on expenditures and revenues to senior management as well as incomplete analyses. This is because the format of managerial reports does not provide explanations about variances in the budget and that budget projections have not been updated on a monthly basis. As such general government arrangements require improvement. Consequently, AFSs have resulted in inaccuracies and errors. We have identified that revenue controls are still not very effective, and there are weaknesses in controls in some areas of expenditure.

The Municipality also has no written policies and procedures for managing risks in place, in particular the risk of fraud and irregularities.

Risk Failure to update financial reporting and activities to senior management reduce the management's ability to manage municipal activities in proactive manner and it also reduces the effect of budget controls. This may also result in collection of revenues not as planned. Consequently, this may also result in providing poor quality services.

Recommendation 16 The Mayor should ensure that a review has been carried through to determine the form of financial and operational reporting to senior management from, which will provide all relevant information that affects in quality and timely decision-making of the management. Budgetary performance, including revenues and expenditures, and procurement plan should be subject to regular reporting and review by the Management. Further on, in order to reduce the impact of risks to acceptable levels, the Organization should draft a risk register with all appropriate measures to put the exposed threats under control.

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
1.4 Compliance with AFS and other reporting requirements	The Mayor should ensure that an analysis is undertaken to determine the causes behind incorrect recording of expenditures in adequate categories. It is necessary to undertake appropriate actions in order to address the causes that led to Emphasis of Matter, and to ensure recording of assets in the KFMIS.		Management has taken actions to record expenditures in the appropriate categories, but not for the asset registration.	
2.3 Prior Year Recommendations	The Mayor should ensure implementation of the Action Plan, which clearly sets out a timetable for the implementation of AG's recommendations, with accountable staff members identified, and with initial focus on those of greatest significance.		Management has drafted an action plan for implementing the recommendations, but the level of their implementation is very low.	
2.4 FMC Self-Assessment Checklist	The Mayor should ensure that the requirement for completing the self-assessment questionnaire is fulfilled, and that areas with weaknesses are addressed proactively and systematically.		Partially implemented, weaknesses were identified; in fact no risk management list has been prepared.	
2.5.1 Risk assessment	The Mayor should adopt a general risk management strategy as soon as possible, wherein will be clearly defined management's approach to risks. Besides identifying risk at operational and strategic level, the management should develop an action plan wherein are defined action measures to prevent and manage potential risks.			No measures taken.

2.5.2 Management Reporting	The Mayor should ensure that is carried out a review to determine the form of financial and operational reporting to senior management, which is required to support effective business management and to ensure that an appropriate solution is adopted by the end of 2016.			No measures taken.
2.6 Internal Audit System	The Mayor should ensure fulfilment of requirements in the AI no.23/2009, namely to recruit an internal auditor. If this requirement cannot be fulfilled then the internal audit service is provided by the Ministry of Finance, or from another municipality. The Audit Service will support management's decision-making and elimination of weaknesses.			No measures taken.
3 Financial Management and Control	The Mayor should ensure that budget performance is systematically monitored and that barriers to planned levels of budget execution are identified and addressed. Where estimations of the initial budget are inaccurate, this should be reflected in the position of the final budget.			No measures taken.
3.3 Procurement	The Mayor should ensure that identified cases are reviewed in order to find the causes of occurrence and take appropriate measures to avoid them in the future. He should particularly enhance accountability of responsible persons, requesting units, procurement officers and contract managers. Consequently, additional controls are needed to ensure that are maintained accurate records are held on the services delivered by the Operators.	Yes		
3.3.1 Remunerations (Wages and Salaries)	The Mayor should ensure that contracts are signed based on clear criteria and based on Labour Law. Personnel officials should complete evidence on work experience to create a legal basis to give the allowance based on work experience.	Yes		

3.3.2 Subsidies and Transfers	The Mayor should draft a regulation to be approved in Assembly, which clearly specifies the criteria and subsidising procedures.			No measures taken.
3.4 Revenues (including own source revenues)	The Mayor should ensure that in the planning phase of the annual budget data from previous years and the current situation is used so that planning is as realistic as possible. In addition, current controls applied over the collection of revenues should be monitored and the possibility of fraud be avoided. The cash collected should be deposited to the bank within the deadlines as foreseen in the Instruction.			No measures taken.
3.5 Assets and Liabilities	The Mayor should undertake actions and start immediately with assets recording, management of non-financial assets and apply in full the requirements that relate to their recording and maintenance.			No measures taken.
3.5.2 Handling of Receivables	The Mayor should review the situation of these accounts, analyse the reasons behind accumulation of these amounts and take effective actions to maximize the collection level. The process of systematic monitoring of policies on increase of collections should also be part of the regular management reviews			No measures taken.

Audit Component	Recommendations given in 2016	Implemented	Under Implementation	Not Implemented
2. Financial Statements	The Mayor should ensure that an analysis is undertaken to determine the causes of the emphasis of matter. Actions should be taken to address the causes in a systematic and pragmatic matter in order to eliminate errors in classification of expenditures and to ensure that all assets owned by the Municipality are recorded and presented in the AFS.		Management has undertaken actions to record expenditures in the appropriate categories, but not for the asset registration.	
2.1 Progress in the Implementation of Prior Year Recommendations	The Mayor should establish and implement specific accountability mechanisms over all persons that are in charge of implementation of recommendations. After receiving this report, we suggest preparation of an updated action plan on implementation of this year's, and prior year's recommendations, wherein are clearly defined timeframes, actions and persons responsible for implementation of this plan. A monitoring process should also be implemented.		Management has drafted an action plan for implementing the recommendations, but the level of their implementation is very low.	
2.2 Self-Assessment Checklist of FMC components	The Mayor should ensure that completion of self-assessment checklist is reviewed, and address areas of weaknesses in a proactive manner, and should be applied a mechanism that confirms accuracy of the checklist and ensures supporting documentation. Internal audit should be included as part of quality review.		Partially implemented, weaknesses were identified, respectively; no risk management list has been prepared.	
2.3.1 Setting of Strategic Objectives	The Mayor should approve an overall strategic plan for the Municipality including the cost of the strategy, establish long-term objectives, and serves as an orientation platform for drafting annual plans. Afterwards, should draft an action plan to monitor achievement of objectives, by establishing effective oversight functions.			No measures taken.

2.3.2 Management Reporting and Accountability	The Mayor should ensure that is carried out a review in order to determine the format of financial reporting to senior management, which is required to support effective business management - and to ensure that an appropriate solution is in place for this.			No measures taken.
2.4 Internal Audit System	The Mayor should ensure fulfilment of legal requirement, namely recruitment of an internal auditor. If this requirement cannot be met, then the internal audit service should be provided by the Ministry of Finance or by cooperating with another municipality.			No measures taken.
3.1 Budget Planning and Execution	The Mayor should ensure that budget performance is systematically monitored on a monthly basis and that this review identifies and addresses barriers to planned levels of budget execution in the category of capital investment. Where initial budget assumptions are found to be incorrect this should be fully reflected in the final budget position.			No measures taken.
3.1.1 Revenues	The Mayor should ensure that verification of municipal property should be done as foreseen under the Law, so that the database integrates all potential changes to the property that are valid for the taxable base. In addition, more actions should be taken to ensure that deductions by €10,000 are applied in accordance with Article 9 of the Law on Taxes on Immovable Property.			No measures taken.
3.1.1 Revenues	The Mayor should ensure that measures are taken through effective mechanisms to collect arrears in order to increase revenue collection and the basis for financing the foreseen projects.			No measures taken.

3.1.3 Goods and Services and Utilities	The Mayor should particularly strengthen controls over certification in order to prevent all payments related to items supplied outside the contract, and to establish controls to ensure that petty cash is spent in line with requirements of Rule 01/2013.	Yes		
3.1.4 Subsidies and Transfers	The Mayor should draft a regulation, which clearly specifies the criteria and procedures for subsidies, and approved by the Municipal Assembly.			No measures taken.
3.2.1 Capital and Non Capital Assets	The Mayor should undertake immediate action and begin the process of recording all assets and stocks, and to establish a complete and reliable assets register.			No measures taken.
3.3 Outstanding Liabilities	The Mayor should critically review outstanding liabilities in order to determine necessary measures to address issues identified, and to make payments within the timeframes established under financial rules.			No measures taken.

Annex III: Letter of confirmation



Republika e Kosovës – Kosova Cumhuriyeti

Republika Kosova – Republic of Kosovo

Mamuša Belediyesi – Komuna e Mamushës

Opština Mamuša – Municipality Of Mamusa



LETËR E KONFIRMIMIT

Për pajtuarshmërishtë me të gjeturat e Auditimit të Përgjithshëm në Raportin e auditimit për vitin 2017 dhe për zbatimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësajshkrese, konfirmoj se:

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

z. Abdüladi Krasniç

Kryetar i Komunës,

Data: 13.Maj.2018, Mamushë,

