



Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

**Document No: 22.6.1-2017-08**

**AUDIT REPORT**  
**ON THE ANNUAL FINANCIAL STATEMENTS OF MUNICIPALITY**  
**OF PEJA 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 Peja 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 Arian Haxha, Team Leader and Fanol Hodolli team member under the management of the Head of Audit Department Luljeta Morina.

## 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 .....	10
4 Progress in implementing recommendations.....	22
5 Good Governance .....	23
Annex I: Explanation of the different types of opinion applied by NAO .....	26
Annex II: Progress in implementing two Earlier Years Recommendations.....	29
Annex III: Letter of confirmation.....	37

---

## Executive Summary

### Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Statements of the Municipality of Peja, 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 (ISSAIs). 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 09/10/2017.

Our audit focus has been on:



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

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

### Opinion of the Auditor General

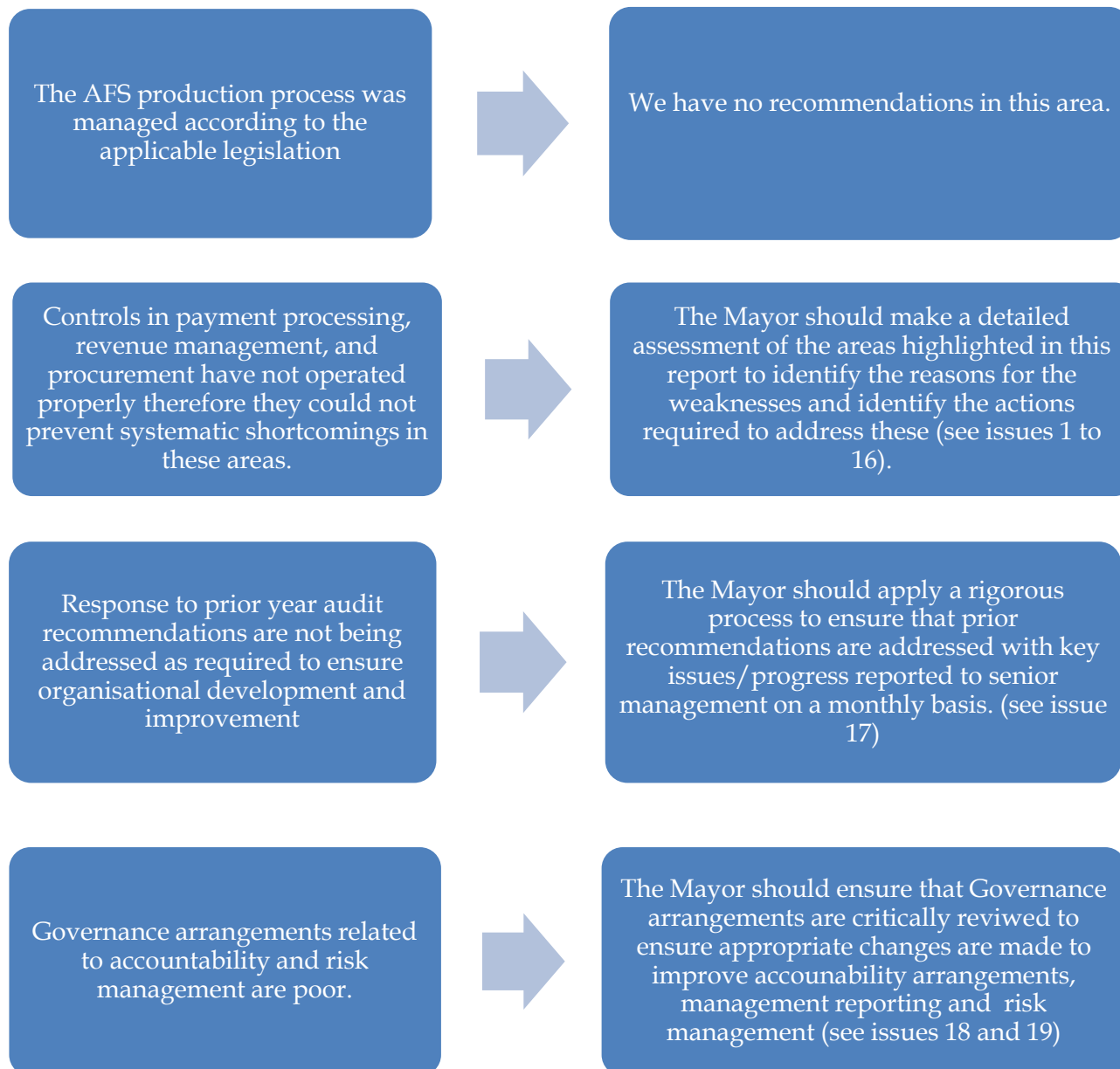
#### Unmodified Opinion

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

For more, please refer to Section 1.2 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 Municipality of Peja. 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 (AG'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**

We have audited the AFS of the Municipality of Peja for the year ended on 31<sup>st</sup> 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 31<sup>st</sup> 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 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.

#### **Responsibility of Management and Persons Charged with Governance for AFS**

The Mayor of Peja 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 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 on Expenditure of Public Money;
  - Compliance with Financial Rule no. 02/2013; on Asset Management;
  - Action Plan on implementation of recommendations;
  - Requirements of Financial Management and Control (FMC) procedures;
  - Initial and Final Procurement Plan;
-



- Regular quarterly reports for the Municipal Assembly and discussion of NAO reports and internal audit in the Municipal Assembly; and
- Regular Quarterly Reports for Treasury, including the Nine-Month Financial Statements.

Given the above - the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance can be considered correct in all material aspects.

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

### **Recommendations**

We have no recommendations in this area.

## 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

In the context of financial systems, controls over a range of areas including revenues and expenditures require further improvement.

The main areas where more improvements are needed are procurement procedures for goods and services, where in some cases the legal requirements are not being met while procurement activities are carried through, planning and budget execution, as well as reporting and payment of 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 <sup>1</sup>	2017 Outturn	2016 Outturn	2015 Outturn
<b>Sources of Funds</b>	<b>22,464,703</b>	<b>24,225,407</b>	<b>23,082,882</b>	<b>22,047,434</b>	<b>21,146,160</b>
Government Grant -Budget	18,035,657	18,060,254	18,027,839	17,496,799	17,984,147
Carried forward from previous year <sup>2</sup> -	0	1,084,335	1,060,824	728,484	648,492
Own Source Revenues <sup>3</sup>	4,429,046	4,429,046	3,384,644	2,841,727	2,217,268
Domestic Donations	0	229,905	194,279	472,244	50,640
External Donations	0	421,867	415,296	508,180	245,613

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

<sup>2</sup> Own Source Revenues unspent in previous year carried forward into the current year.

<sup>3</sup> Receipts used by the entity for financing its own budget.

The final budget in relation to the initial budget increased by €1,760,704 or 8%. This increase is a result of domestic and external donations of €651,772, government decision of €24,597, as well as revenues carried forward from the previous year of €1,084,335.

In 2017, the Municipality spent 95% of the final budget or €23,082,882, with an improvement of 1% compared with 2016 (94%).

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

Description	Initial Budget	Final Budget	2017 Outturn	2016 Outturn	2015 Outturn
<b>Spending of funds by economic categories</b>	<b>22,464,703</b>	<b>24,225,407</b>	<b>23,082,882</b>	<b>22,047,434</b>	<b>21,146,160</b>
Wages and Salaries	13,194,668	13,252,684	13,219,353	13,213,466	13,002,566
Goods and Services	2,447,947	2,480,024	2,407,120	2,559,607	2,262,418
Utilities	701,924	709,111	683,863	664,499	606,154
Subsidies and Transfers	300,000	309,058	286,808	248,570	359,212
Capital Investments	5,820,164	7,474,530	6,485,738	5,361,292	4,915,810

Explanations for changes in budget categories are given below:

- The increase of the final budget for wages and salaries for € 58,016 compared to the initial budget is a result of the increase from the carried forward revenues of € 17,393, donations in the amount of € 16,026 and the government decision in the amount of € 24,597. Budget realization in this category is 99.7%;
- The increase of the final budget for goods and services by €32,077 compared with the initial budget is a result of the increase from the carried forward revenues of €29,563, as well as donations in the amount of €2,514. While the budget increase in utilities in the amount of €7,187 is the result of the carried forward revenues. budget execution for goods and services is 97%, while for utilities is 96%;
- Further on, the increase of the final budget for subsidies and transfers of €9,058 is the result of the carried forward revenues, while the budget execution in this category was 93%; and
- The final budget for capital investments compared with the initial budget increased by €1,654,366. The increase is as a result of the carried forward revenues of € 1,021,134, as well as the designated donor grants of €633,232. Budget execution in this category was 87%.

## Recommendations

We have no recommendations in this area.

## 3.2 Revenues

Revenues generated by the Municipality of Peja in 2017 are in the amount of €3,051,922. They relate to revenues from property tax, revenues from construction licenses, administrative fees, revenues from business activities, revenues from rent, etc.

**Table 3. Own Source Revenues (in €)**

Description	Initial Budget	Final Budget	2017 Receipts	2016 <sup>4</sup> Receipts	2015 Receipts
Own source revenues	4,429,046	4,429,046	3,051,922	3,016,853	2,915,694
<b>Total</b>	<b>4,429,046</b>	<b>4,429,046</b>	<b>3,051,922</b>	<b>3,016,853</b>	<b>2,915,694</b>

Property tax invoiced during 2017 was €2,009,033, out of which €777,183 or 39% were collected. Apart from the revenues presented in the table, Peja Municipality had indirect revenues from traffic punishments and fines in the amount of €534,275.

### Issue 1 - Failure to verify the current status of the property

**Finding** The Municipality did not verify the 1/3 property, according to the requirements of the Administrative Instruction no. 03/2011 article 13. Of the 39,563 properties registered in the property tax database, the Municipality has only verified 203 current registered properties, or only 0.51%.

**Risk** poor property verifications may result in incomplete actual taxable property information, and impact on incorrect estimation of property tax revenues that have been recorded with errors in the tax base and have not been updated. All this affects the real rate of property tax collection.

**Recommendation 1** The Mayor should ensure that the verification of immovable property tax is done in accordance with the rules in order to integrate any eventual changes to the existing property database in order to determine the realistic tax burden for all facilities within the territory of the municipality.

<sup>4</sup> Pranimet për vitin 2016/2015 përfshijnë edhe të hyrat indirekte.

---

**Issue 2 – Failure to apply property quality for property valuation and tax**

**Finding** The Municipal Property Tax Office did not take into account the quality of the facilities when calculating the tax burden. According to AI No. 03/2011 on the collection and registration of property information and taxpayer, the status of objects according to the quality of construction quality expressed in coefficient, which depending on the condition of the facility (very poor, poor, average, good, and excellent) increases or decreases the tax burden. According to property tax officials, the application of the quality of facilities will begin in 2018.

**Risk** Failure to classify the status of facilities could affect the tax burden not be in accordance with the real estate status where as a result taxpayers who have poorer quality properties are overcharged by tax or property taxpayers with the best quality are charged less than needed. This can also have an impact on property tax revenues.

**Recommendation 2** The Mayor should ensure that the necessary actions are taken to correctly calculate the tax burden on the taxpayer by applying the quality criteria of the facilities in accordance with the multipliers set by the legislator.

**Issue 3 - Inadequate management of leased municipal properties**

**Finding** According to Law 04/L- 144, the granting of municipal immovable property for use is made through open public advertisement. In previous years, the Municipality rented 25 municipal buildings for temporary use. However, during our tests we identified that in four cases contracts and documentation for the use of facilities were missing, while in three other cases the contracts had expired. For these cases, the municipality did not develop procedures for granting municipal immovable property in short-term use executed through open public competition.

**Risk** Identified weaknesses may result in limited competition or less revenue from this category and unequal treatment of parties in the event of voluntary (lump-sum) price determination. Further on, operating with expired contracts deprives the Municipality of the right to collect revenues and prosecute proceedings in case of non-collection of receivables in time.

**Recommendation 3** The Mayor should analyse the reasons for inadequate management of municipal property and ensure that the use of municipal immovable property is made only when legal requirements are met in accordance with the rules.

---

### 3.3 Wages and Salaries

The Municipality managed to use 99.7% of the final budget for wages and salaries paid through a centralised payment system managed by the Ministry of Public Administration and MoF. Key controls applied by the Municipality relate to monitoring and signing of payroll lists by competent officials.

---

#### Issue 4 - Failure to adhere to the public advertisement criteria

**Finding** In the following two cases we have noticed that the criteria of public advertisement were not considered when hiring employees. In the advertisement no. 04/01 of 05/01/2017 for the position "Teacher/class" the selected candidate had not documented the working experience. Also for the position "Biology teacher" the candidate had not documented the educational training in line with the criteria required by the advertisement.

**Risk** Failure to adhere to the criteria of the public competition when selecting candidates for teachers increases the risk of employing incompetent teachers. Furthermore, this may cause discrimination of other candidates and damage the quality of education in schools.

**Recommendation 4** The Mayor should strengthen human resources controls and ensure that when recruiting education staff public competition criteria is adhered to and only candidates who fully meet the criteria set out are hired.

#### Issue 5 - Failure to update the files of the educational staff

**Finding** During the audit we have noticed that in seven cases within the Education Directorate the files of the educational staff were incomplete. In one case there was a diploma of the employee, in two cases the certificates of working experience, and in some cases personal documents and decisions on leave.

**Risk** Failure to update the files and not completing with the necessary documentation increases the risk that the management does not have full information regarding staff employed that affects inadequate staff management.

**Recommendation 5** The Mayor should ensure that all employee files are completed with the necessary documentation for staff management and performance appraisal, achievement of objectives, which should be tailored to a specific internal policy on this issue.

---

### 3.4 Goods and Services and Utilities

The final budget for Goods, Services and utilities in 2017 was €3,189,135. Out of them, €3,090,983 or 97% of the final budget were spent. Expenditures mainly relate to payments for Utilities, travel, telecommunications, services, purchase of furniture and equipment, fuel, registration and insurance services, maintenance and other services.

The Municipality planned 15 procurement activities, but it had significantly exceeded this number in 22 completed activities. In all tested samples, contract managers were assigned and the completed works were confirmed before each payment. Although we identified irregularities in other activities, such as:

---

#### Issue 6 - Weaknesses in managing staff under special service agreements

**Finding** According to the Law No. 03/L-149 on Civil Service (Article 12, point 4), fixed-term appointments for a period of less than six months can be made on the basis of contracts called "Special Services Agreement" which are subject to the Law on Obligations and to which a simplified recruitment procedure applies. The Municipality engaged 49 officers through special service agreements where the following weaknesses were identified:

- In 24 cases, the period that officials were engaged is longer than the foreseen timeframe, over six months;
- In 28 cases, the Municipality did not implement any recruitment procedures in line with legal requirements;

**Risk** Identified weaknesses may result in lack of an adequate competition and poor quality of the services provided. In the absence of controls, the Municipality risks an unplanned increase of these expenditures that may affect the non-fulfilment of other defined objectives.

**Recommendation 6** The Mayor should ensure that measures are taken to terminate the practice of concluding contracts without recruitment procedures and the duration of these agreements is made in line with the relevant legislation. If there is a need for additional employees in the Municipality (regular positions) to ensure that the following years budget in the category of wages and salaries include the salaries of all requires employees, as well as all payments for their salaries go through the payroll system.

---

**Issue 7 – Shortcomings in preparing bill of quantity and the pre-calculation**

**Finding** In the procurement activity “Demolition of illegally constructed buildings in private and public properties” in the Municipality of Peja, we identified the following weaknesses:

Bill of Quantity and Pre-Calculations were not prepared by the requesting unit, but as a document it was only signed by an officer of this unit without having a proper analysis of the Bill of Quantity or pre-calculation of the bid for this service. Based on the rules and operating guidelines for public procurement prior to the initiation of the procurement procedure, Bill of Quantity and Pre-calculation for the given project should be prepared from the requesting unit.

Further on, the calculation of the contract value should be made based on market prices, prices published by the statistics office or pricing contracts signed by the same or other Contracting Authority. However, the Municipality did not take into account the prices of the preliminary contract when the contract value was foreseen, where in the two dominant items the prices had risen above 100% without any justification.

**Risk** Failure to prepare the Bill of Quantity and Pre-calculation by the requesting unit is in contradiction with the LPP and at the same time increases the risk that the type and the quantity of contracted works or supplies is not in line with the real needs of the institution and prices are not consistent with market prices.

**Recommendation 7** The Mayor should strengthen internal controls that ensure that bill of quantity and pre-calculations are prepared by the requesting unit in order for the supplies is in line with the real needs of the institution and that the calculation of the contract value is made in accordance with the LPP requirements.

**Issue 8 - Failure to adhere to principles for segregation of duties in line with procurement law**

**Finding** According to the Rule on Operational Guidelines for Public Procurement 2016, Article 62.3-Principles of Segregation of Duties, an official from a department that has prepared technical specifications or has defined quality standards cannot participate as a member of the evaluation committee. However, our audit identified the procurement activity “Destruction of illegally constructed buildings in private and public properties” in the Municipality of Peja, the same officer who prepared the technical specifications was appointed Head of the evaluation committee, bypassing the principle of segregation of duties.

**Risk** Failure to consider the principle of segregation of duties is contrary to the relevant procurement legislation and increases the risk of conflict of interest and/or non-objective evaluation of tenders.

**Recommendation 8** The Mayor should provide that when setting up different committees, the principles of segregation of duties are considered as foreseen by the applicable law.

---



**Issue 9 - Establishing unclear criteria in the procurement activity**

**Finding** In the procurement activity "Supply of wood for heating" in the contract amounted to €115,911 dated 23/11/2017, we noticed that the technical specifications concerning the type of wood for supply was not specified in the tender dossier. However, some type of wood (oak wood, oak, elm or beech) was placed in the description of the type of wood for which the Economic Operator (EO) had to offer a single price per m<sup>3</sup>. This was because technical specifications were taken from the preliminary contract.

**Risk** Since the prices differ depending on the particular type of wood, the unclear definition of the type of wood for which EOs should offer their bids causes ambiguity to the EO as to which type of wood prices should be offered. This may have an impact on the prices offered by the operators, since the EO may offer prices for the type of wood which is the most expensive while the supply is made of beech wood that has the lowest price.

**Recommendation 9** The Mayor should ensure that the type of wood to be supplied to the municipality is clearly specified in such cases in accordance with real needs.

**Issue 10 - Payment without sufficient evidence**

**Finding** In the payment file dated 27/04/2017 in the amount of €6,441 for transport services when it comes to participation of school principals and professors at the organized workshop in Vlora, we noticed that there was no approved request or list of staff who participated in this seminar.

**Risk** Payment without providing sufficient evidence such as the approved travel requests and the list of participants may result in improper spending and damage to the budget.

**Recommendation 10** The Mayor should ensure that during the travels, the list of participants is approved beforehand to ensure that expenditures rely on adequate and sufficient evidence.

**Issue 11 - Extending the public framework contract in contradiction with LPP**

**Finding** Under Article 38 of the LPP, the public framework contract cannot be extended or renewed. However, the public framework contract for "Supply with Fuel and Fuel Products" which expired on 01/11/2017 was extended on 03/11/2017 for two additional months, because the procurement procedures for supply with fuel are expected to be developed by the CPA.

**Risk** Extending public framework contracts is not in line with the LPP and may result in value of service provided not in line to market prices.

**Recommendation 11** The Mayor should ensure that requirements arising from the law on procurement are being implemented entirely and in any case only the extension of public framework contracts is not practiced

**Issue 12 - Shortcomings in the establishment of commission for receiving woods for heating.**

**Finding** In framework contracts for "Supply of wood for heating of schools and health institutions" signed on 12/11/2014, with the decision of the Mayor, a committee was established for the supply comprised of three members. However, no officer was engaged in this committee from the schools or institutions for which the supply with wood was dedicated, therefore the institutions supplied do not have a delivery note or any evidence that certifies the amount of wood received during the 2016/2017 season in these institutions.

**Risk** Failure to participate within the committee for receiving supplies from institutions which are to be supplied, results in a lack of information on the actual amount of supplies and the costs for these supplies may be potentially improper.

**Recommendation 12** The Mayor should ensure that the received supplies includes the staff of the relevant institutions as well as provide evidence and information on the quantity of supplies delivered.

---

## 3.5 Subsidies and Transfers

The final budget for Subsidies and Transfers was €309,058. Out of them, €286,808 or 93% of the final budget was spent in 2017. Expenditures mainly relate to support of cultural activities, sports or ad-hoc assistance.

---

### Issue 13 – Non-reporting by beneficiaries of subsidies on the manner of use

**Finding** In two cases, beneficiaries of subsidies amounted to €25,000 had not prepared financial reports and narrative reports that would prove that the subsidy was used for the purpose given. Beneficiaries had provided only some receipts and bank transfer proofs in which it was noted that the funds were spent for other purposes in relation to the purpose for which they were provided. The Municipal Regulation (MR) no. 01/2017 on Subsidies stipulates that the subsidy beneficiary should submit the financial and narrative reports with the documented evidence as required in the project proposal.

**Risk** Failure to report subsidized beneficiaries regarding the implementation of subsidised projects and the use of funds for other purposes impacts on failure to meet the defined objectives and consequently results in the damage to the budget.

**Recommendation 13** The Mayor should ensure that subsidy beneficiaries report on the way how funds are used, and in cases where funds are not used for the purpose given, legal action against subsidy beneficiaries is taken.

## 3.6 Capital Investments

The final budget for Capital Investments was €7,474,530. Out of them, in 2017, the Municipality spent €6,485,738. They relate to infrastructure regulation, construction of facilities, road asphaltting, drainage equipment, irrigation, various capital improvements and so on.

The Municipality planned 21 procurement activities, but carried out 95 activities, or 74 more in relation to the planning. The difference arises because activities that were financed from other budget organizations have not been planned as well, the planned projects have been generalised. In all cases, the Municipality had confirmed the work performed before each payment, as well as the contract manager was assigned for each contract.

### Recommendations

We have no recommendations in this area.

---

## 3.7 Common Issues on Goods and Services and Capital Investments

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

---

### Issue 14 - Payments by court decisions

**Finding** During 2017 according to court decisions, from the Treasury were executed payment of €606,990 on behalf of the Municipality. In this case, the Municipality paid €60,576 as additional expenses for execution procedure, interest, taxes etc. The cause of these payments was mainly delays in the payment of liabilities, and inadequate consideration of various disputes.

**Risk** The large number of payments based on court decisions affects the budget damage due to the presentation of execution costs, interest, taxes, etc.

**Recommendation 14** The Mayor should ensure that a detailed analysis of the causes for execution of a large number of payments by court decisions has been made and required actions are taken to address them in order to eliminate additional payments for judicial decisions.

## 3.8 Capital and Non-Capital Assets

According to the KFMIS accounting register, the net value of capital assets (above €1,000) is €321,690,088, while the value of non-capital assets (under €1,000) is €222,037. The issues raised in the interim audit memorandum were addressed.

### Recommendations

We have no recommendations in this area.

## 3.9 Receivables

The Municipality of Peja presented accounts receivable totalling at €16,282,160 related to: property tax €9,415,514, business charges €6,393,359, temporary rented property in the amount of €32,540, kindergarten € 1,897, parking requests of €27,000, as well as requests for court actions €411,850.

---

### Issue 15 – Shortcomings in handling receivables

**Finding** Receivables of Peja Municipality compared to the previous year were increased by €696,000. However, the Municipality did not have any plans and did not take any action to collect them.

**Risk** The high level of receivables and the ineffectiveness of their collection remain a challenge for the coming period. Non-collection of receivables risks that they age and become uncollectible, creating a direct financial loss for the Municipality.

**Recommendation 15** The Mayor should ensure that all possible options are actively reviewed by putting in place policies aimed at increasing the efficiency of collecting receivables. Further on, all measures in line with the law should be considered, against operators who do not meet contractual obligations.

## 3.10 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2017 was presented at €1,585,892. Compared with the previous year, the liabilities have increased by €928,420 or 141%, where the value of liabilities at end of 2016 was €657,472. These were carried over to be paid in 2018. Failure to pay liabilities was mainly due to the lack of budget.

---

### Issue 16 - Delay in paying invoices and non-reporting of liabilities

**Finding** in 19 cases The Municipality had paid invoices/liabilities to suppliers in the total amount of €266,948 after the legal deadline of 30 days, the requirement of the Law on Public Financial Management, Article 39, which obliges the Municipality to pay any valid invoice within 30 days from the date of receipt.

Also in five cases, invoices /liabilities to suppliers in the amount of €23,801 were not included in the monthly reports of liabilities, requirement arising from Regulation no. 02/2013, which obliges the Municipality to report on monthly invoices received and unpaid invoices.

**Risk** Inadequate controls in managing and reporting of liabilities increase the risk of entering into liabilities without budget coverage or facing justice by generating additional costs and budget difficulties for subsequent years.

**Recommendation 16** The Mayor should ensure that all payments are made within 30 days of receiving the invoice. Further on, an effective system should be established where all unpaid invoices are accurately and thoroughly reported on a monthly basis in the MoF, and at the end of each year are explicitly disclosed in the AFS.

---

---

## 4 Progress in implementing recommendations

Our audit report for 2016 AFS of Peja Municipality resulted in 19 key recommendations. Peja Municipality prepared an Action Plan stating the way how all recommendations will be implemented. However, sufficient action has not been taken since the Action Plan has not been fully implemented and the same shortcomings continue to be repeated for several areas.

By the end of our 2017 audit, nine recommendations were fully implemented, four were in process of implementation, and six have not yet been implemented. Further on, 14 recommendations carried forward since 2015, and in 2017, out of which five were implemented, six others were being implemented and three have not yet been implemented. For a more thorough description of the recommendations and how they are addressed, see Annex II.

---

### Issue 17 - Low level of implementation of recommendations from previous years

**Finding** Although the Municipality has drafted an Action Plan in time, only a part of prior year's recommendations have been implemented because the Municipality has not followed any formal process to manage and monitor the way the Auditor General's recommendations are implemented. The Municipality's management does not apply any liability measures for non-implementation of recommendations.

**Risk** Failure to implement recommendations increases the risk of continued presence of the same shortcomings and may affect weaknesses in management and reporting of expenditures.

**Recommendation 17** The Mayor should ensure that the implementation of the Action Plan is monitored on a continuous basis and is reported on a regular monthly or quarterly basis with respect to the progress achieved in this regard. Recommendations that are not implemented by deadlines should be revised in the short term by the Mayor, as well as pro-active actions are taken against the barriers appearing during the implementation.

## 5 Good Governance

### Introduction

Good Governance implies basic principles of accountability, effectiveness of controls, risk management, independence of internal audit, 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

The Municipality of Peja in 2017 made a number of improvements in governance such as drafting of the risk register, but there are still a number of areas where important developments are still needed. Our audit has highlighted the existence of some weaknesses such as poor management reporting, inadequate monitoring if NAO recommendations are fully implemented, and Non-functioning of the Audit Committee.

The Municipality of Peja drafted a strategy for local economic development, urban plans, emergency operational plan and anti-corruption strategic plan.

#### 5.1 Internal Audit System

The Internal Audit Unit (IAU) operates with two staff members, one person appointed as a Director. The impact of Internal Audit products should be judged by the importance given to management by addressing the recommendations as well as by the support provided by an effective Audit Committee. In addition to the Strategic Plan, IAU drafted the Annual Work Plan for 2017 where it planned to carry out ten audits that were fully carried out during the year. The management had prepared plans for implementing the IAU recommendations and implemented most of them.

**Issue 18 – Limited Functioning of the Audit Committee**

**Finding** Although the Municipality of Peja has established the Audit Committee, the latter did not hold any meetings during 2017 and as such was not operational. However, by the end of 2017, the Municipality had established a new Audit Committee.

**Risk** Non-functioning of the Audit Committee reduces the ability to oversee IAU activities and further strengthen the role of Internal Audit.

**Recommendation 18** The Mayor should ensure the effective and full functioning of the Audit Committee to achieve maximum benefit from the IAU's services

## 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 and 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.



**Issue 19 – Weaknesses in Management Controls**

**Finding** Our Review of Management Controls implemented in the Municipality’s Key Financial System highlighted poor financial reporting on expenditures and revenues as well as incomplete analysis of service delivery. The current format of management reporting does not provide a basis for effective internal controls since written reporting to senior management is made only on demand and not on a regular basis. As a result of poor controls, weaknesses in the area of revenues, procurement, subsidies, payment of expenses, and reporting of liabilities were noticed.

The Municipality of Peja drafted a risk register where the expected risks to the objectives, determining how they are managed and the units responsible for undertaking the necessary actions were identified. However, their management was not formally monitored.

**Risk** Poor accountability requirements and poor quality financial reporting reduce the effectiveness of financial management. This results in weaknesses within the budget process and reduces Management’s ability to respond to financial challenges in time. It also reduces the effect of budget controls and increases the risk of improper spending. Consequently, this may also result in providing poor quality services.

**Recommendation 19** The Mayor should ensure that a review has been carried through to determine the form of financial and operational reporting to senior 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 1705<sup>19</sup> provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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

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

158. An Emphasis of Matter paragraph should:

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

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

## Annex II: Progress in implementing two Earlier Years Recommendations

Audit Component	Recommendation carried forward from 2016	Implemented during 2017	Under implementation during 2017	Not implemented
1.5 Recommendations for AFS	The Mayor should ensure that an analysis is undertaken to determine the causes which led to Emphasis of Matter. Adequate actions to address the issues systematically and pragmatically need to be undertaken in order to correct errors in the classification of non-capital expenditures and to ensure that capital assets are correctly recorded and evaluated.	Yes		
1.5 Recommendations	The Mayor should ensure that the CFO systematically reports on the physical and financial progress of capital investments in order to have budget requests made based on real needs for investments.	Yes		
2.3 Prior Year Recommendations	The Mayor should systematically monitor the implementation of the Action Plan and identify why it has not been implemented. A revised action plan should clearly set out a timetable for the implementation of AG's recommendations with accountable staff members identified and with initial focus on those of greatest significance.			No measures taken

2.4. FMC Self-assessment checklist	The Mayor should ensure that a review has been implemented to complete the self-assessment checklist and that the areas of vulnerability have been proactively addressed. An assisting role in enhancing the quality and confirming the allegations in the self-assessment questionnaire can provide internal audit through the final revision.		No action has been taken to address the weakness areas identified in the self-assessment questionnaire.	
2.5.1 Risk assessment	The Mayor should ensure that, after having drafted the list of risks with respective levels, immediate responsibility for risk management is delegated to a named director who, in cooperation with the heads of units, will manage and regularly report on the progress of the process.		A risk register has been compiled, but the risk management process has not been monitored.	
2.5.2 Management Reporting	The Mayor should ensure that the existing accountability and reporting requirements placed on the municipal directorate are reviewed and that better arrangements for achieving specific objectives and for improving overall governance in the municipality are implemented.			No measures taken
2.6 Internal Audit System	To gain maximum benefit from Internal Audit activity, the Mayor should consider the need to adapt internal audit plans to the requirements for internal audit activities focusing on current year activities and propose immediate improvement measures. In addition, the Audit Committee should be more active in monitoring, building and strengthening the role of internal audit.		IAU has managed to complete the plan as a whole, but the Audit Committee was not operational during 2017.	

3.3 Budget Planning and Execution	The Mayor should ensure that budget performance is systematically monitored and that barriers to planned levels of budget execution are identified and addressed. Where adjustments to reduce overheads can be made, this should be reviewed in order to focus on capital projects.	Yes		
3.4 Procurement	The Mayor should ensure that certification controls will be strengthened and that after confirmation that all deliveries are made through clear acceptance reports and in accordance with the terms of the contracts, payment may be made. Otherwise, payments should not be certified.	Yes		
3.5.2 Subsidies and Transfers	The Mayor should establish clear criteria regarding approval/refusal of applications for subsidies. He should ensure that, for allocated subsidies, narrative reports are drafted and attached to the invoices and evidences on the reasonability of spending and that activities the subsidies have been allocated for are followed up.		The municipality did not monitor the way subsidies were used.	
3.6 Revenues	The Mayor should ensure that enhanced internal controls over collection, reconciliation and reporting of own source revenues are put in place. While reviewing the budget, he should ensure that revenues planning is based on the earlier periods' collection trends and the complexity of existing operations. In addition, the Property Tax Office should all the property verification resources.		The Mayor has put controls on the management of own source revenues, but further challenge remains the verification of properties.	

3.7.1 Capital and non-capital assets	The Mayor should establish the commissions for the fair and complete evaluation of all non-financial assets and monitor the evaluation outcomes. The Assets Management Officer as well as officials engaged in receiving municipal assets should effectively communicate in order to prevent regulations requirements from not being implemented and assets value from not being consolidated.	Yes		
3.7.2 Handling of Receivables	The Mayor should review the balance of these accounts, analyse the reasons behind the accumulation of such large amounts and undertake effective actions to maximise the collection rate. The process of systematic monitoring of measures and policies for increased collection should also be part of regular management review.			No measures taken
3.7.3 Handling of Payables	The Mayor should review the balance of outstanding liabilities to determine the measures needed to address the identified issues, and ensure that payments are made within the deadlines set forth in the financial rules. In order to handle contingent liabilities, he should undertake a review of the balance of liabilities in coordination with the municipal Legal Representative in order to avoiding direct payments from MoF and courts.		Contingent liabilities were handled, but the challenge remains the full reporting of liabilities and payment delays in payment of obligations.	



Audit Component	Recommendation carried forward from 2016	Implemented during 2017	Under implementation during 2017	Not implemented
1.3 Recommendations for the first part of the report	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 underlying causes in a systematic manner to record all capital assets and to ensure the correct presentation of accounts receivables. The declaration made by CAO and CFO should not be submitted unless all necessary checks are applied to the draft AFS.	Yes		
2.1 Progress in implementing the prior year's recommendations	The Mayor should ensure that a strengthened process of accountability is applied towards the staff in charge with the implementation of recommendations within timeline and priorities set in the action plan. Implementation progress should be monitored systematically and where setbacks are identified adequate measures should be taken.		Implementation of recommendations is not formally monitored. Some of the recommendations have remained unimplemented.	
2.2 Self-Assessment Questionnaire of FMC Components	The Mayor should ensure that a review of the quality and completeness of the self-assessment checklist is implemented and that areas of weaknesses are proactively addressed. A mechanism to confirm the accuracy of the return and to ensure supporting documentation should be applied.		No action has been taken to address the weaknesses identified in the self-assessment questionnaire.	
2.3.1 Defining strategic objectives	The Mayor should initiate drafting strategic plans with clear strategic objectives set and propose them to the Municipal Assembly for approval. He should also ensure the oversight and measurement of implementation of such objectives.	Yes		

2.3.2 Management Reporting and Accountability	The Mayor should ensure that a review is implemented to determine the format of financial and operational reporting to senior management which is required to provide effective business management. Budget developments should be continuously monitored in order to prevent any underspending at the yearend and increase the collection level.			No measures are taken
2.4 Internal Audit System	The Mayor should ensure that the IAU and Audit Committee operate in full capacities in order to gain maximum benefits of internal audit services.		IAU has managed to complete the plan as a whole, but the Audit Committee was not operational during 2017.	
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, and also ensure that liabilities carried forward to the following year are reduced as much as possible.			No measures are taken.
3.1.1 Revenues	The Mayor should ensure that initial budget planning includes all revenues by type and approximate amount expected to be collected, he should also ensure that 1/3 of properties are checked.			No measures are taken
3.1.1 Revenues	The Mayor should strengthen accountability measures towards the officers applying such fees to the citizens and ensure that the enforced regulation is applied with correct municipal fees and fines.	Yes		

3.1.1 Revenues	The Mayor should ensure that citizens are not re-burdened with taxes already paid and should try together with officials of the Ministry of Finance to find the reasons behind such differences and eliminate them.	Yes		
3.1.1 Revenues	The Mayor should ensure effective management of rental contracts and put in place mechanisms to collect revenues according to the contracted terms, i.e. meeting of deadlines for collection of rent.			No measures are taken
3.1.3 Goods and Services and Utilities	The Mayor should ensure that the procurement plan is drafted following a thorough analysis of all units' requests and that it includes all prioritised projects for which budget funds have been provided.	Yes		
3.1.3 Goods and Services and Utilities	The Mayor should ensure that no contracts are awarded to EO unless they meet all the criteria required in the Tender Dossier. He should also ensure that segregation of duties on certain activities is made according to the applicable legislation in order to prevent conflict of interest.			No measures are taken
3.1.4 Subsidies and Transfers	The Mayor should ensure that legal requirements regarding subsidies are adhered to and that relevant evidence is provided to justify the purpose of the subsidy.		The municipality did not monitor the way subsidies were used.	
3.1.5 Capital Investments	The Mayor should ensure that the project manager implements all regularity and validity checks of the documentation and does not accept reports with no dates and required information from the supervisory body.	Yes		

3.1.5 Capital Investments	The Mayor should ensure that expenditures are classified under the adequate economic categories as set forth in the accounting plan in order to enable a true presentation of expenditures in the AFS.	Yes		
3.2.1 Capital and Non-Capital assets	The Mayor should ensure that assets registers are complete and accurate and that concrete actions are taken for the weaknesses identified during the stocktaking in order to improve them according to the Regulation on Assets Management.	Yes		
3.2.2 Receivables	The Mayor should ensure that existing differences are clarified, that data presented in the financial reports are complete and accurate and include all values that represent the real situation.	Yes		
3.3 Outstanding Liabilities	The Mayor should strengthen controls and ensure that the finance department will record, check, report and pay all liabilities within the set statutory deadlines.			No measures are taken.

## Annex III: Letter of confirmation

Komuna e Pejës



### 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 Pejë, 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. Gazmend Muhaxheri

Kryetar i Komunës,

Data: 08.Qershor.2018, Pejë,

