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Zyra Kombëtare e Auditimit
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National Audit Office

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AUDIT REPORT
ON THE ANNUAL FINANCIAL STATEMENTS OF MUNICIPALITY
OF PRIZREN 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 Prizren 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) and Alban Beka and Arian Zenelaj (Team Members) 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	12
4 Progress in implementing recommendations.....	30
5 Good Governance	31
Annex I: Explanation of the different types of opinion applied by NAO	34
Annex II: Progress in implementing two earlier year recommendations	37
Annex III: Letter of confirmation.....	46

Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Statements of Municipality of Prizren, 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 29/09/2017. 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 Prizren Municipality.

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

Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

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

Emphasis of Matter

As an emphasis of matter, we would like to mention the fact that:

- Expenditures for goods and services as well as subsidies in the amount of €1,651,787 were budgeted, executed and reported incorrectly from the category of capital investments; and
- Disclosures in the financial statements have not been presented fairly. Receivables for waste management, as well as outstanding liabilities in the financial statements were understated by €184,921, or €334,518 respectively. Also non-financial assets above €1,000 were disclosed with errors.

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 Municipality of Prizren. 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 with Emphasis of Matter

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

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

Basis for the opinion

Our audit was conducted 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:

- Expenditures for Goods and Services and Subsidies in the amount of €1,651,787 were budgeted, executed and reported incorrectly from the category of capital investments. These funds were mainly spent on contracts: Collection and waste management; Cleaning and washing of roads; Supplying farmers with plastic foils; Physical security of the premises; transport for Teachers; Elimination and vaccination of stray dogs etc. According to the Municipality, misclassifications are a consequence of the limited budget for requires goods and services, and are therefore approved under the budget law. Despite the justifications presented, according to the public sector accounting standards, these expenditures do not meet the criteria to be handled as capitals;
- The Municipality did not reconcile the final balances of the receivable card for waste management with initial balances, thus in AFS, this account was understated by €184,921¹. The Municipality failed to provide us with evidence to justify the difference appeared;
- The liabilities of 2017 in the amount of €334,518² paid in February 2018 were not disclosed as unpaid liabilities to the AFS of Article 17 "Statement of Outstanding Liabilities" for 2017; and
- Non-financial assets above € 1,000 disclosed in the AFS did not include 15 payments for capital investments made in 2017 in the amount of €268,425³. On the other hand, in the accounting register and AFS were included penalties in the amount of €593,290 which did not meet the condition to be handled as capital investments.

Key Audit Matters

As Key Audit Matters we mention the fact that:

- The Municipality of Prizren presented the balance of receivables of €17,063,000. This amount includes overdue receivables from many years of business license fees amounting to €6.3

¹ The initial balance of receivables was € 1,859,000 when the 2017 bill was added in the amount of € 1,785,857 and the receipts of 2017 were added in the amount of € 1,118,936, their final balance should be €2,525,921, while the municipality had presented the value of € 2,341,000, underestimating the value of receivables for €184,921.

² Payments no. 62218010 article 39.2 in the amount of €137,974; no. 622180034 Intervention in natural disaster infrastructure in the amount of €77,113, as well as no. 622180034 Infrastructure interventions in natural disasters €129,431.

³ Construction of roads in the village of Krusha, in the amount of €11,625; Water supply increased water capacity in Prizren in the amount of €57,682; Construction of roads in the amount of €5,310; Sewerage in Mazrek village in the amount of €20,000; Construction of sewage system in Mazrek-phase II village in the amount of €13,044; Construction of local roads and sewage in Tusuz in Prizren in the amount of €22,477; Residential buildings in the amount of € 10,000; Residential building (Social Welfare) in the amount of €20,000; In the Castle of "Gralisht" in Korishë Prizren in the amount of €4,600; Construction of the internal road in the Tusus neighbourhood in the amount of €7,700; Construction of City Stadium Tribunes in Prizren in the amount of €61,740; Other equipment in the amount of €9,695; Special medical equipment in the amount of €11,800; Other equipment in the amount of €7,750; as well as other Emergency Sector Equipment in the amount of €5,000.

million where the possibility of collecting them is minimal. Further on, waste and property tax account for 48% of municipal revenues;

- During 2017, the Municipality has been indicted for significant amounts of liabilities, where over €2 mil. are paid directly from the Treasury and through court decisions; and
- Municipality has marked an increase of outstanding liabilities of €1.9 mil. in relation to the previous year. More than 3,000 cases are in court proceedings. If litigation is decided in favour of the operators, the Organisation is expected to suffer serious financial consequences.

Responsibility of Management and Persons Charged with Governance for AFS

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

The Mayor is responsible to ensure the oversight 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 any material misstatement that might exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

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

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

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 by Law no. 03/L-221, Law no. 04/L-116 and Law no. 04/L-194;
- Compliance with Financial Rule no.01/2013;
- Compliance with Financial Rule no. 02/2013
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures.
- Nine-Month Financial Statements in Time; and
- Procurement Plan for 2017.

In the AFS submitted in January 2018, some errors were presented, which management adjusted in the revised AFS dated 19/03/2018. Along with the adjustments made, the AFS still had some errors, mainly for the misstatements, as well as disclosures of assets and liabilities, which we have presented within the Emphasis of the Matter at Audit Opinion.

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

In the context of other external reporting requirements, we have noticed that the Municipality has satisfactorily met all reporting requirements except monthly reporting of liabilities to MoF, according to Financial Rule 02/2013:

2.3 Recommendations related to Annual Financial Statements

The following recommendations are given for the abovementioned issues:

Recommendation 1 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 and pragmatic manner to mitigate the weaknesses disclosed within the Emphasis of Matter at Audit Opinion.

Further on, the Mayor should ensure that effective processes are in place to confirm that the 2018 AFS production plan formally addresses all compliance related issues. This includes 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 submitted 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 good system of controls over expenditures and revenues. However, as a result of not implementing regulations and guidelines, our audit has highlighted the existence 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 being implemented effectively. Other areas where more improvements are needed are the process of managing and reporting receivables, liabilities and the classification of expenditures.

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 ⁴	2017 Outturn	2016 Outturn	2015 Outturn
Sources of Funds	38,656,659	40,187,836	36,765,293	36,983,514	36,316,641
Government Grant -Budget	32,554,553	31,945,647	30,869,927	30,767,839	30,671,904
Carried forward from previous year ⁵	-	1,792,451	1,573,645	1,345,624	1,537,404
Own Source Revenues ⁶	6,102,106	6,102,106	4,125,517	4,679,230	4,062,518
Domestic Donations	-	199,829	83,697	84,038	28,956
External Donations	-	49,446	14,150	106,783	15,859
Borrowing		98,357	98,357	-	-

⁴ Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

⁵ Own Source Revenues unspent in previous year carried forward into the current year.

⁶ Receipts used by the entity for financing its own budget.

The final budget compared with the initial budget was increased by €1,531,177. Changes from the initial budget were, such as:

- Increase of the budget as a result of carrying forward own source revenues from 2016 in the amount of €1,792,451, from donations received in the amount of €249,275, as well as from the loan fund under agreement with the Minister of Health for recording checked-up patients in the amount of €98,357; and
- On the other hand, there were savings/reductions made from Government Grants in the amount of €608,906, according to Government decision.

In 2017, the Municipality spent 91% of the final budget with an increase of 3% compared with 2016 (88%, although according to economic categories the low level of execution was within capital investments, goods and services. Funds received from external donations were not sufficiently utilised, or only 28% of them, because this source of funds was not taken into account by the Municipality when budgeting.

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	38,656,659	40,187,836	36,765,293	36,983,514	36,316,641
Wages and Salaries	18,874,056	18,923,789	18,777,598	18,919,546	18,258,306
Goods and Services	3,311,386	3,434,907	2,670,957	2,807,989	2,448,555
Utilities	1,081,200	1,081,200	869,094	762,688	751,705
Subsidies and Transfers	477,615	484,281	463,438	325,767	334,608
Capital Investments	14,912,402	16,263,659	13,984,206	14,167,524	14,523,467

Explanations for changes in budget categories are given below:

- Despite the increase in budget for capital expenditures in the amount of €1,351,257, the execution was low at 86%. Within the budget execution are included the payments made for the penalties due to delays in expropriation of land for "Construction of the plant in Vlashnje" in the amount of €593,290, as liabilities carried forward from 2016 in the amount of €1,454,856 ;
- The final budget for Wages and Salaries was 18,923,789, increased by €49,733, while the level of execution was at 99.5%.
- The final budget for Goods and Services was increased by €123,521, but despite this, the level of execution was 78%, and on the other side the liabilities in this category were increased by €90,000 (from €63,000 in 2016 to €153,000 in the end of 2017). This occurred due to the Municipality's inability to plan and manage well with the available budget;

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- The final budget for Utilities did not change in relation to the initial budget. The level of spending in the category was 80%. It is worth mentioning that the liabilities in this category have been reduced by €26,000 (from € 34,000 in 2016 to just €8,000 at the end of 2017); and
 - The final budget for Subsidies and Transfers was increased by €6,666, while the level of execution was 96%.
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Issue 2 – Low level of Budget Execution

Finding Inadequate budget planning and low performance resulted from the following shortcomings:

- The budget execution within Capital Investments is at a low level (86%), spending did not even reach the initial budget even though there was an increase in the final budget; and
- Budget Execution within Goods and Services is at a low level (78%) and the execution dynamics are not in line with the planning because 49% of the expenditures incurred in the last quarter of the year, whereas the spending did not even reach the initial budget.

Due to weaknesses in planning and execution of projects, own source revenues amounted to €3,229,708 were carried forward as unused. Furthermore, despite the surplus, outstanding liabilities have reached a significant level (see chapter 3.12).

Risk Insufficient use of available funds will result in failure to meet the organization's objectives and finance current year liabilities from coming year's budgets.

Recommendation 2 The Mayor should ensure that budget performance is systematically monitored on a monthly basis and that this review identifies and addresses barriers to budget execution 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 were €6,617,699, exceeding planning for over 8%. This increase was affected by the collection of property tax revenues as the dominant category in the structure of own source revenues, construction licenses, waste collection fees, revenues from rent, and so on.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2017 Receipts	2016 Receipts	2015 Receipts
Own source revenues	6,102,106	6,102,106	6,617,699	6,292,849	5,276,000

Planned budget revenues were €6,102,106. Revenues generated during the year exceeded the forecasts of €515,593 and the Municipal Assembly approved additional revenues. In this value are not included indirect revenues, such as traffic fines of €392,008, court fines of €114,715 and revenues from the forest economy of €11,999.

Exceeding revenues in relation to planning in particular was a result of the increase in revenues from construction licenses by €781,368, as well as the compensation of properties expropriated for the construction of the Vërmicë - Merdare highway in the amount of €259,890.

Own source revenues, including indirect revenues, were spent as follows: €4,276,513 or 75% were spent for capital investments, while the remaining amount of €1,422,650 was spent on other categories.

During 2017, revenues from property tax were collected for this year and previous years of €2,060,280 (the amount of €1,051,933 were collected from the billing of 2017), while the billing for this year was only €2,264,609. The Municipality has not applied any proactive approach to property tax collection.

Issue 3 - Inadequate property tax revenue management

Finding

The Municipality failed to verify 1/3 of property (re-surveying) as required by the Law on Immovable Property Tax no. 03/L-204 and the Administrative Instruction in force with aim to update the existing records. Out of a total of 48,645 properties, the Municipality managed to verify only 4,540 properties or 9.33% this year.

According to Article 9 of the Law on Property Tax, any natural person who, on 1st of March or before 1st of March of a tax period, decides that the property or housing unit serves as the principal place of residence, is allowed a deduction of € 10,000 from the value of taxable property. We have identified five cases where the municipality did not act in accordance with the law because there were taxpayers who possessed two properties registered as primary residence and for each property a deduction of €10,000 from the taxable value of the property was applied.

Risk Failure to verify 1/3 of the property may result in lack of complete information on the current taxable property, with the potential impact that the estimated property tax revenue decreases. Failure to apply charges according to the legal requirements of property tax increases the risk that revenues from this category are lower.

Recommendation 3 The Mayor should ensure that verification is carried out 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.

Issue 4 - Irregularities in renting municipal property

Finding In two cases, tenants use municipal property for markets without a valid contract because the contract had expired since 2013, while during 2017 they were not charged by the Municipality. According to municipal officials, all the procedures have been completed, waiting for the contracts to be signed. These tenants have obligations towards the Municipality in the amount of €182,476, compared with last year, they have deducted their liabilities for €103,358 (the liabilities towards the Municipality in 2016 were €285,834), after the agreements reached between the Municipality and tenants.

The Municipality signed contracts for use of municipal properties with a price of €1 per month for nine premises for political parties representing the Municipal Assembly. There was no public auction for these premises as required by the Law on Giving on Use and Exchange of Municipal Property. According to municipal officials, the premises were given for use on the basis of the 2005 municipal assembly decision.

Risk Giving in use of public properties without public auction eliminates the possibility of participation of other interested persons and undermines the principle of transparency and competition. This fact reveals serious weaknesses in applying municipal control over rented properties. The weaknesses identified in the management of rent contracts result in significant financial losses for the Municipality and reduce the ability of the Municipality to finance projects from own sources.

Recommendation 4 The Mayor should review the reasons for the existing situation and decide on appropriate measures to collect all arrears in a reasonable time, or otherwise prohibit the use of public property to owners who have not settled obligations towards the Municipality, to ensure that public tenders are organised for all public properties and contracts are signed under the legislation.

Issue 5 - Irregularities in calculating of revenues for property tax and other revenues

Finding In one case, the invoicing of property tax for business (wedding hall) was incorrectly calculated as €728 for 2017, according to the tax rate of 0.15%, applying €10,000 deduction for housing. Property tax revenues for this case are understated at around €164 because the Municipality did not apply the tax rate of 0.18% and in these cases according to the regulation, a deduction of €10,000 is not allowed.

In another case, the municipality invoiced and received €100 revenues for the "Delayed Recording of Death", while according to the fees and charges regulation, a fee of €60 should have been applied. According to the civil status officer, the invoicing was made according to the Law on Civil Status.

Risk Identified shortcomings result in irregular charges for citizens and this may undermine the credibility of the Municipality towards citizens. Further on, the wrongly allocated fees result in irregular revenue for the Municipality itself.

Recommendation 5 The Mayor should ensure that charges for payment of citizens' obligations are applied under the regulation on taxes, fees, charges and penalties from municipal services and activities. On the contrary, the regulation should be amended and supplemented according to new fees.

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 €18,923,789, while expenditures were €18,777,598 or 99%.

Wages and salaries are paid through a centralised system by the Ministry of Public Administration and MoF. Key controls should confirm the accuracy and completeness of payments such as approval and introducing employees in to payroll list, allowed number verification and other controls, and approval of budget for wages and salaries by the Municipal Assembly. Further on, we reviewed whether employees were paid under the contract.

Recommendations

We have no recommendations in this area.

3.4 Personnel Management

The number of approved staff was 3,101 employees, while the actual number of employees was 3,161. We have tested some recruitment procedures as well as staff files to verify their regularity.

Issue 6 – Lack of Personnel Records

Finding For 29 officials who are engaged in the Directorate of Emergency and Security, the responsible officials were unable to provide us with the completed files and contracts for these officials, on the basis of which compensation payments are made. According to the Personnel Manager there is no relevant documentation for these officials, and this phenomenon emerged as a result of a Memorandum signed years ago given that officials are part of the Ministry of Internal Affairs, while compensation of Wages and other remunerations is made by the Municipality. This reflects a lack of clear Human Resources related to the implementation of AI requirements as part of their job descriptions. Furthermore, we identified that part of the payroll list was not signed by the municipal employees.

Risk Payments to officials in absence of relevant documentation results in inability to justify salary/allowances or to enable performance appraisals. Failure to sign a payroll increases the risk that potential errors cannot be identified and incurred expenditures on wages are not justified.

Recommendation 6 The Mayor should ensure the review of the possibility for these officials to be transferred to the Institutions where they work or to complete their files in the Municipality to establish legal basis for executing their salaries. The Mayor should also ensure that the payroll list is signed by all the employees of the Municipality.

Issue 7 - Lack of evidence on overtime

Finding The amount of compensation for overtime during 2017 is €20,200. Approval for overtime is mainly based on the reason for increased volume of work. In three cases, officials were paid for additional hours spent on weekends (according to the form by the overtime authorizing officer, Section B, participation in recruitment committees, working group meetings for the preparing tests), but in the electronic system there was no evidence/trace to justify the presence of staff and their compensation for this period. Based on the information provided by the supervisor, the meetings were held outside the facility where the electronic identification system for officials was established.

Finding Lack of adequate controls and proper documentation of overtime work may result in payments of works not done or double payments for jobs that actually had to be completed within working hours. This affects the reduction of the efficiency of work and damages the municipal budget.

Recommendation 7 The Mayor should ensure that overtime work is planned effectively, compensation for additional working hours should only be considered during periods of greater volume of work and additional work should be documented and justified.

3.5 Goods and Services and Utilities

The final budget for goods, services and utilities in 2017 was €4,516,107. Out of these, 3,540,051 or 78% were spent.

Issue 8 - Irregularities in engaging staff for specific services

During 2017, the Municipality engaged 78 employees under special services contracts. The payment for these services was made from the category of Goods and Services. Out of eight cases tested, all contracts were signed for regular job positions (archive, property tax, civil servant, forest guard etc.), and not for experts in relevant fields.

Finding Covering ordinary positions under special services contracts leads to increased contract service costs and improper spending of the budget for this category.

Recommendation 8 The Mayor should ensure that employees through special service agreements are engaged only in cases where there are specific requests in place. Engagement should be made in accordance with legal requirements through a competitive and transparent process and the engagement period should be within the terms foreseen by law. While for all regular job positions it should be secured that they are budgeted out of the category of Wages and Salaries and paid through the payroll system.

Issue 9 - Payments for Goods and services without procurement procedures

Finding Payment for vehicle insurance of €4,000 was done without procurement procedures, since the Municipality does not have a contract with any of Economic Operators (EOs) for vehicle insurance. The public procurement law does not exclude this type of expenditure from the procedures.

Finding In payment of €10,578 for the maintenance of vehicles, the Municipality paid the amount of €5,504 for items not foreseen in the contract. According to the contract signed between the Municipality and the EO, due to the inability to include all parts that are subject to supply and replacement, a Committee is established by the Municipality for their supply at market prices which is contradiction with article 1 and 4 of the contract. While testing of the payment we did not find evidence of establishing the Committee but only invoicing by the EO.

Risk Avoiding procurement procedures risks free market competition and transparency when selecting EOs. Out-of-contract payments may affect the financial loss of the Municipality and risk the proper achievement of the value for money spent.

Recommendation 9 The Mayor should ensure that procurement procedures are not neglected where applicable, and when the requirements for vehicle maintenance are prepared, it is possible to include all necessary vehicle spare parts.

3.6 Subsidies and Transfers

The final budget for Subsidies and Transfers was €484,281. Out of these, in 2017, €463,348 or 96% were spent. They relate to subsidies for public entities, sports clubs, various non-governmental organizations, cultural arts associations etc.

Recommendations

We have no recommendations in this area.

3.7 Capital Investments

The final budget for Capital Investments was €16,263,660. Out of them, in 2017, €13,984,206 were spent, or at the rate of 86%. They relate to the construction of roads, sewages, school buildings, etc. Compared with the previous year, there is a poorer budget execution in this category by €183,318, or around 1.5%.

Issue 10 - Systematic Weaknesses in Managing Contracts for Capital Investments

Finding

The systematic weaknesses related to the management of capital investment contracts have been presented below, such as:

- The Public Investment Program includes several ongoing projects from previous years. The contract signed in the previous years in the amount of €100,000 for extending the project for the construction of the “Old Transit” road has not been implemented since there are property disputes with the owner of a house. This case is under court proceedings, and in this budget position, financial means have been reduced by €50,000;
- The project “Fixing the river bed of Lumbardhi” in the amount of €100,000, the Municipality developed tendering procedures, and the contract has been signed, but in parallel the Directorate for Public Services made a request in Urbanism for permitting the construction conditions (construction license). Consequently, the contractor was required not to commence work until the construction license was obtained;
- The “Efficiency in public lighting” project in the amount of €60,000 have started procedures in the last three months of 2017 and there was a complaint in the PRB. Despite the decision of the PRB in favour of the EO, this contract has not yet been signed. The budgeted resources in this project have been taken from the Treasury Department based on (Article 39.2) for settling obligations for other EOs;
- The “Faradin Hoti Road Construction” project was originally valued at €40,000, but during the detailed project design, the cost of this project amounted to approximately €500,000. the Management within the Directorate by analysing this disproportion between budget planning and the real cost of this project the decided not to start the procedures for this project as well as the Municipality has not developed procurement procedures for the projects “Construction of FMC in Gjonaj village” in the amount of €120,000 and “Supply with GPS for cadastral surveys” of €10,000 even though they were planned under the procurement plan;

- In four cases⁷, the Municipality has entered into public contracts outside of the annual procurement plan in contradiction with the Law on Public Procurement (LPP), and no regular procedures for obtaining confirmation from the Central Procurement Authority have been followed for initiating procedures for projects which are not included in the public procurement plan. For the contract “Construction of water supply system in the village of Legjenda-Malësi e Re” within the invoice and payment in the amount of €98,725 were also two submersible pumps of €4,000 which were not operational yet. This stage foreseen in the contracts was received by the Contract Manager, supervisory body and certified/paid according to the level no. 4 for supply, transport and installation of two submersible pumps = 80m, Q = 6.8 l/sec. During the examination by the Auditor in presence of the supervisory body contracted by the Municipality, the pumps were not assembled and did not operate yet. The reasoning of the supervisory body was that because of the unfinished works, their assembly in the physical aspect was not safe; and
- In the contract “Supply with Construction Material for Emergency Situations” the Municipality received the invoice and paid the amount of €4,000 although according to the stages of the invoiced material from the EO, the total value of the goods was only €2,198 (according to the receiving document). The level of works was signed (from the contract manager and the supervisory body in charge) and the payment was certified for €1,802 more than the goods received. During the field examination with the presence of the supervisory body, we confirmed that the goods received were in the amount of €2,198.

Risk

Identified shortcomings have resulted in:

- Inadequate planning of projects that may incur additional costs and create budgetary challenges for the Municipality;
- Implementation of out-of-plan projects could risk executing planned projects and achievement of defined objectives; and
- Payments of unfinished work stages or unaccepted items based on level and billing increase the risk that the Municipality will pay more than the amount received.

⁷ Ndërtimi i rrugës lokale në Vlashnje të Prizrenit: 183,837€; Renovimi i sallës së edukatës fizike në gjimnazin Gjon Buzuku: 249,441€; Rregullimi i ambientit turistik në Cvilen: 16,988€; dhe Ndërtimi i ambientit rreth lapidarit Besim Ndrecaj: 9,497€.

Recommendation 10 The Mayor should ensure that projects are implemented in line with plans and budgets. In cases where there is a need for re-allocation or change of projects, new administrative procedures on fund allocation should be followed. The supplies and the execution of the works should be continuously monitored and the payments are made only after the full assurance that the invoiced stages are carried out according to the bill of quantity and the pre-estimates, as well as to strengthen control measures that such failures are not repeated.

Issue 11 - Payment of penalties as a consequence of delays in settling obligations

Finding Out of the €600,000 allocated by the 2017 budget law for the project “Construction of the sewage plant in Vlashnje”, the Municipality transferred €593,290 to the RWC Hidroregjioni Jugor according to the Agreement, out of which €387,078 were paid for a fine imposed by the EO due to delays in settling the obligation in time, while the remaining €206,212 have remained in the bank account of the RWC Hidroregjioni Jugor as the necessary additional measure for the project execution security. The cost of this project under the core assessment was around €20.5 million, out of which €12 million will be funded by the German Development Bank (KfW). During 2016, the German financier notified the Municipality of delays in project implementation and additional spending (more than four years after the signing of the agreement, September 2011). According to municipal officials, delays in expropriation were due to the lack of the PAK board in place. In addition to 28 payments in the amount of €467,496 committed directly from the Treasury based on court decisions and private bailiffs, €41,937 are paid only for administrative and other execution expenses. One of the reasons for such a phenomenon was the conclusion of contracts with EOs without securing the required funds.

Risk Delays in the implementation of agreements and the execution of payments for fines from the category of capital investments increases the risk that the planned budget funds do not go to the benefit of the citizens.

Recommendation 11 The Mayor should increase controls in managing capital projects. Initially, the required funds and all other prerequisites for starting the projects should be provided, and then other procedures for contracting with the EO should be developed. Further on, controls on the monitoring of the works up to the payment execution process should be provided.

3.8 Common Issues on Goods and Services and Capital Investments

For the fiscal year of 2017, 229 procurement activities are planned, out of which 175 contracts have been signed or 80% of the plan is implemented. In seven cases, procurement procedures were carried through in 2017, while contracts were signed in 2018.

Issue 12 - Poor planning and poor management of contracts

Finding The Municipality failed to establish proper controls on the management of contracts such as:

- In two procurement processes “Regulating the tourist environment in Cvilen” in the amount of €16,987 and “Repair of the road from the Restaurant Natyra to the Castle” in the amount of €6,900, the Municipality had entered into public contracts in absence of the Executive Project. Pursuant to Article 28, point 10 of the LPP, the Contracting Authority is not allowed to issue tender documentation without enclosing the detailed description of the project;
- Under the financial rule for spending public money, no public contract should be signed without commitment of funds. In 10⁸ cases the contracts were signed without sufficient commitment of funds. The total value of signed contracts was €3,641,742, while the commitment of funds was only €287,000 or approximately 8%. According to municipal officials, timely allocation of own source revenues resulted in signing of contracts without full commitment of funds;
- In two⁹ cases, project managers did not sign a contract management plan form;

⁸ “Construction of the Smaq-Zojëz Road” in the amount of €159,365, the commitment of funds only €10,000; “Supply of construction materials for the poor families” €199,344, commitment €30,000; “Supply of pellets for schools of Prizren” €91,154, commitment € 10,000; “Fuel Supply for Municipal Administration” €303,991, commitment €2,000, “Supply of Hygienic Material for QKMF” €40,600, commitment € 3,000; “Physical Insurance for MFMC” €45,000, commitment €1,000, “Planting of ornamental trees in Prizren” €1,223,210 commitment: €120,000.00; “Intervention in infrastructure where there is landslide” € 1,145,800, commitment, € 100,000; “Construction of street locality in Vlashnje of Prizren “€ 183,837, commitment: € 1,000; and “Renovation of Physical Education Hall in Gymnasium Gj. Buzuku “€249,441, commitment: €10,000.

⁹ “Physical Security and Maintenance of Municipal Administration Facilities in Prizren “and” Intervention in Infrastructure for Natural Disasters, landslide, flood and elimination of illegal landfills in the Municipality of Prizren”.

- The contract for “Supply with Fuel” under special conditions is stated that the price should be taken from the stock exchange issued by the licensed body, and the EO is obliged to provide the monthly invoices (the amount of all daily invoices divided by the number of days of the previous month). In one case, the Municipality made the payment in the amount of €1,246 without an evidence that the stock exchange was issued by the licensed body; and
- The Municipality on two occasions for the projects “Construction of local roads in the village of Krusha e Vogel, in the amount of € 46,307 and” Construction with concrete elements of the local roads in the village of Korisha “in the amount of €33,386, paid the final stages without providing guarantee of works for three years as required by the special terms of the contract. This was due to the negligence of the responsible contract management officers.

Risk

Identified shortcomings may result in:

- The practice of developing procedures in absence of drafting the executive project in advance may have the effect that the works carried out in the concerned projects may deviate from the standard construction requirements and fail to achieve the appropriate quality;
- Entry into liabilities without funds committed increases the risk that projects are not funded entirely and results in failure to perform them;
- Poor contract management may lead to non-execution of contracts under contracted terms, reduce effectiveness in achieving the objectives and may result in poor value for money and potentially improper payments; and
- Lack of work guarantee may result in financial losses for the Municipality for potential damages during the first year of asset use.

Recommendation 12 The Mayor should ensure that the Procurement Office does not start the procurement procedures before the legal criteria are complied with, respectively without drafting the executive project, as well as providing additional controls that funds are committed before the contracts are signed. Further on, all payments are made fully in compliance with the terms set out in the contract.

Issue 13 - Avoidance from Regular Procurement Procedures**Finding**

In the procurement process "Supply of construction materials for the poor families" the Municipality eliminated from the competition the EO who had offered the lowest price for the reasons that it did not meet two criteria: "Similar projects executed in the last three years with minimum of €370,000" and "Company's financial statements accompanied by financial turnover from the bank for the last three years". Following the complaint of the EO, PRB decided to return the case for re-evaluation because the Municipality could have requested additional explanation according to article 59.2 of the LPP. Following the decision of the PRB, the Tender Evaluation Committee had again declared the lowest EO as ineligible (although it possessed all the evidence) and signed a contract with the second EO in the amount of €199,344 or €6,096 more than the lowest price EO.

Out of 350 procurement procedures conducted, in 220 cases or 63% of them, price and price quotation procedures were used. A contract (26.04.2017) was signed in MFMC for "Disinfection, Deratization" in the amount of €3,971, then the other contract with open procedures was signed (04.05.2017) in the amount of €34,016 and two contracts with minimum values. Similarly, it has occurred with the supply of office material; inventory supply; curtain supply, where for the same supplies were signed by three or more contracts with minimum values.

Risk

Such practices increase the risk of not achieving value for money, impairing the reputation of the Municipality, impairing transparency, eliminating competition and questioning the quality of services/products received and meeting objectives.

Recommendation 13 The Mayor should ensure that controls in place are functional when evaluating and selecting operators, where there is a possibility to review cases in detail and request additional clarifications. Further on, to require detailed planning and units should evaluate fairly the procurement requirements, and fully comply with the LPP and AI, so that the above cases are not repeated.

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. In our audit planning memo, the risk associated with asset registration was identified.

The total value of the assets above €1,000 was € 477,093,646, whereas those under €1,000 were presented in the amount of € 946,658. All significant matters about assets are handled in section 2.1 Emphasis of Matter of the audit opinion on the Annual Financial Statements.

Issue 14 - Weakness in asset registration under €1,000 - E-assets

Article 4.1 of Regulation 02/2013 on Management of Financial Assets foresees that “The Chief Administrative Officer is responsible for the approval of internal rules and procedures for recording, storage and disposal of non-financial assets”. The Municipality does not have internal procedures for asset management in place despite we recommended such a thing in last year’s report.

The E-Asset Register is incorrect because purchases from the Health, Social Welfare and MFMC sectors are not recorded in this software, as provided for in Article 6 of Regulation 02/2013 on the management of financial assets.

Risk

Lack of internal procedures for safeguarding and disposing of assets may lead to assets of the Municipality not properly managed and not properly presented in the financial statements. While deficiencies in full asset registration, excluding all purchases, make it difficult to identify assets to confirm their existence, origin, and ownership.

Recommendation 14 The Mayor should ensure that internal rules and procedures for the recording, storage and disposal of non-financial assets is drafted as required by Regulation no. 02/2013, as well as to ensure that the all-inclusive property registration process will continue within a term optimal and a final register on the assets of the Municipality is produced. Further on, all movable property inflows/outflows of under €1,000 are made through e-assets system in all municipal departments.

3.10 Handling of Cash and Cash Equivalents

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

Issue 15 - Delayed Deposit of Money Collected

Finding Based on Financial Rule 03/2010, Article 11, the Municipality is obliged to deposit cash receipts (up to €10) at the end of each day at the bank in the total amount accompanied by a summary document that contains "UNIREF" and the verification number. The sum of €365, collected on 20.02.2017 (for birth certificates and other revenues) was not deposited until 04.04.2017 with 42 days delay. Further on, the amount of €1,178 which belong to health care revenues was deposited on 07.02.2017. These revenues were money collected at MFMC since December 2016 meaning that there are delays in depositing for close to 45 days.

Risk The delayed deposit of money collected in cash registers increases the risk of misuse of public money. This also leads to unjust reporting of the period of collection of the respective revenue, and in addition, such practice is not in compliance with the requirements of the legislation in force.

Recommendation 15 The Mayor should strengthen controls to ensure that daily cash deposits are made at the end of each day in accordance with the applicable legislation.

3.11 Receivables

The list of debtors to the Municipality, according to the data in AFS is €17,063,000. Most of them are related to property tax, amounting to €7,238,000, business fee €6,330,000, waste collection €2,341,000, etc. In general, the value of receivables increased compared with last year by €1,495,000.

Issue 16 - Increase in receivables

Finding The Municipality did not produce and apply any adequate policy on collecting receivables from previous years, in particular on waste management revenues, which increased by around €667,000 and business fees of €576,000.

Risk Lack of mechanisms resulted in high value of receivables, which may affect the timing of their collection due to aging and failure to meet the expense plan.

Recommendation 16 The Mayor should ensure that all possible options are actively reviewed by putting in place policies, regulations and other mechanisms in order to increase the efficiency of collecting receivables. Further on, all measures in accordance with the law should be considered, against operators who do not fulfil contractual obligations.

3.12 Outstanding Liabilities

The statement of liabilities not paid to suppliers from €1,383,866 at the end of 2016 has increased to €3,294,000. These liabilities were carried forward to be paid in 2018. This amount of outstanding liabilities is the result of insufficient internal controls and entry into liabilities without sufficient funds. However, this reflects only a part of the budget difficulty faced by the Municipality.

Issue 17 - High level of liabilities and increase of contingent liabilities

Finding The Municipality did not manage to establish a system of records and management of invoices received by economic operators - from their receipt and until their payment. According to the Financial Rule 01-2013, MoF - Expenditure of Public Money. The Budget Organization must pay every valid invoice for goods and services received within 30 calendar days from the receipt of the invoice. Four¹⁰ payments from the category of goods and services were paid with delay from 13 to 151 days. Furthermore, we have identified three¹¹ receipts (2017 liabilities) paid in 2018 in total amount of €334,518 were not disclosed in AFS. According to the Chief Financial Officer this occurred because the invoices were not reported by the respective directorate. In addition to the regular liabilities, the Municipality also faces contingent liabilities which at the end of 2017 amount to €1,225,000.

Risk As a result of payment delays and lack of complete information, the ability of the Municipality to foresee and manage liquidity needs can be weakened. Also, the municipality may face additional interest costs and fines for delays in payments.

Recommendation 17 The Mayor should strengthen controls in process of managing payments to ensure that all invoices are paid within the legal deadline of 30 days after the invoice is received. Further on, to ensure that the liabilities are reported on monthly basis for compliance with legal requirements, which should include their exact balance. Additional plan for the obligations of the previous years for their payment should be set which should be completed before the end of 2018.

¹⁰ The payment "Wood" in the amount €47,732 three invoices in the amount €15,428 was paid with 16, 30 and 57 days of delay; The payment "Wood" in the amount €19,040, two invoices in the amount of €8,046 were paid with 13 and 57 days of delay; The payment "Postal Services" in the amount €9,442 was paid with 151 days of delay; and the payment "Office Supply" in the amount €5,563 was paid with 30 days of delay.

¹¹ Payments no. 62218010 article 39.2 in the amount of €137,974; no. 622180034 Intervention in infrastructure in case of natural disaster in the amount of €77,113, as well as no. 622180034 Infrastructure interventions in infrastructure in case of natural disasters €129,431

4 Progress in implementing recommendations

Our audit report on AFS in 2016 resulted in 16 recommendations. The Municipality prepared an Action Plan stating how the recommendations given are implemented.

By the end of our 2017 audit, six were in process and 10 have not been addressed yet. Further on, since 2015, 15 recommendations were carried forward (10 not implemented and five in process of implementation). For a more thorough description of the recommendations and how they are addressed, see Annex II.

Issue 18 - Low level of implementation of previous and previous year's recommendations

Finding The Municipality developed an Action Plan for implementing the recommendations, but this is not supported by a confirmatory process where their implementation is formally monitored. This reflects a lack of focus from management to ensure that recommendations are implemented timely and action barriers are expected to be identified and addressed.

- Consequently, the weaknesses presented in the previous year's reports are still evident, such as:
- Misstatement of expenditures and weaknesses in asset management and reporting;
- Ineffective organizational efficiency and poor value for money in procurement
- Ineffective organizational efficiency to review increase of revenues; and
- Delays in performing obligations to economic operators and entering into liabilities without sufficient means, in particular increasing the rate of contingent liabilities within a year.

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

Recommendation 18 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 achieved in this regard. Recommendations that are not implemented according to deadlines should be revised in the short term by the Mayor, as well as taking pro-active actions against the barriers presented 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 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

Governance over operational and financial activities in the Municipality still has areas where important actions are needed. Effective responses to the implementation of external audit recommendations, development of risk management processes, management of capital projects and municipal assets, and implementation of internal audit recommendations are some of the areas that the Municipality should give priority to one more effective governance.

For most municipal activities there is good communication and reporting between unit holders and Mayor, followed by minutes, but no strategic monitoring, and there is no formal and systematic reporting (monitoring) that links municipal objectives to results.

Even though the Municipality established the team for drafting the strategic plan, it had not yet drawn up a strategic plan and did not draft a list of risks it could face.

5.1 Internal Audit System

The Internal Audit Unit (IAU) operates with two members - the Director of IAU and one auditor. In addition to the Strategic Plan, it has also drafted its Annual Work Plan according to which it has planned nine audits, out of which eight were finalised in 2017.

IAU did a good job auditing high risk areas such as: procurement procedures, recruitment, revenue and expenditures.

Issue 19 - Low level of implementation of IAU recommendations

In the eight completed reports, IAUs have given 23 recommendations to improve the functioning of internal control in the Municipality. Most of the recommendations were partially implemented. Furthermore, the implementation of the recommendations given for 2016 was not at the right level. Out of 43 recommendations, only 13 were implemented and 12 were in process of implementation. In addition, a number of audited departments have not prepared action plans.

The Audit Committee (AC) during 2017 held only two working meetings. Based on the minutes it is noticed that the weaknesses and risks reported by the IAU have been addressed. However, AC's contribution in terms of following-up implementation of recommendations to management and improving internal processes and controls was rather symbolic.

Risk Failure to address audit recommendations increases the risk that weaknesses identified from audit remain unimproved and potentially could result in financial loss for the Municipality and poor value for money. Non-engagement of the Audit Committee to postpone addressing the recommendations increases the risk of repeated shortcomings.

Recommendation 19 The Mayor should take all actions against the administrative units to whom the recommendations are addressed, to have a maximum commitment in taking remedial measures in areas where weaknesses have been identified. The Audit Committee should review the results of the internal audit and the actions taken by management in relation to internal audit recommendations.

5.2 Management Reporting, Accountability and Risk Management

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

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.

All Budget Organisations are expected to apply risk assessment requirements. The guidelines set out in FMC procedures require that the risk register is complete to support effective operational and strategic management.

Issue 20 – Weaknesses in Management Controls and Risk Management

Finding Our Review of Management Controls implemented in the Municipality’s key financial system highlighted ineffective financial reporting on expenditures and revenues to senior management as well as incomplete analyses. This is because the format of management reports does not provide explanations about variances in the budget and that budget projections have not been updated on a monthly basis. As such overall government arrangements require improvement. We have identified that revenue controls are still not very effective, and there are deficiencies in controls in some spending areas.

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

Risk Failure to update financial reporting and activities to senior management reduces management’s ability to manage municipal activities proactively and lower the effect of budget controls. This, may affect revenues not to be collected as expected. Similarly, it may result in provision of poor services.

Recommendation 20 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 all relevant information influencing the quality and timely decision-making of management could be extracted. 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/actions 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 two earlier year recommendations

Audit Component	Recommendation carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
2. Financial statements	The Mayor should ensure that an analysis is undertaken to determine the causes that led to emphasis of matter, to eliminate errors in the classification of expenditures and incomplete recording of assets. It is necessary to undertake actions required to address causes that may impact on audit opinion, namely to record correctly all capital assets.			No measures have been taken
2.3 Prior Year Recommendations	The Mayor should ensure that an action plan is produced and will be rigorously implemented with specific activities and persons accountable for implementation of recommendations, which clearly sets out a timetable for addressing the recommendations. Recommendations affecting the greatest areas of significance of financial management and controls should be treated with primary focus.		The Municipality has drafted an Action Plan for implementing the recommendations, but despite this a considerable number of recommendations have remained unimplemented.	
2.4 Self-Assessment Checklist	The Mayor should ensure that a review of the processes for completing the self-assessment checklist and proactively addressing areas of weaknesses is implemented. A revised mechanism to confirm the accuracy of the checklist and to ensure supporting documentation should be applied.			No measures have been taken

2.5.2 Risk Assessment	The Mayor should produce an overall risks management strategy as soon as possible, which would clearly set forth the management approach to respond to risks. Management should also produce, besides identification of risks at operational and strategic level, an action plan which would define action measures to prevent and manage potential risks.			No measures have been taken
2.5.2 Management Reporting	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 support effective business management and ensure that an appropriate solution is in place by the end of 2016.			No measures have been taken
2.5.3 Strategic Plan of the Municipality	The Mayor should adopt an overall strategic plan for Municipality, which would define long-term objectives and serve as an orientation platform for the production of annual plans, for the conduct of comparative analysis between years and measuring results against objectives.			No measures have been taken
2.6 Internal Audit System	To gain maximum benefit from Internal Audit activity, the Mayor should review reasons for limited actions taken by Management related to internal audit recommendations and should coordinate cooperation with Audit Committee for increasing and improving internal control quality.		The level of implementing IAU recommendations was still poor. Further on, AC was not fully functional.	
3 Financial Management and Control	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. Where initial budget assumptions are found to be incorrect this should be fully reflected in the final budget position.			No measures have been taken

3.3 Procurement	The Mayor should initiate a detailed review of all cases mentioned above to conduct an analysis why legal requirements and procurement rules are not implemented and take adequate measures after reviewing the cases. It should also be assessed why certification controls have failed to prevent irregular payments; such is the case with fuel payments.		We have noticed that there are no cases of overcoming the value of the contract, ensuring the guarantee of works in line with the law.	
3.4 Non-Procurement Expenditures	The Mayor should conduct a review of compensations/ payments for commission and of the agreements with other institutions in order to confirm their reasonability and should be in accordance with applicable laws to avoid irrational payments.	Yes		
3.4 Payments without procurement procedures	The Mayor should ensure a review of cases identified to find out causes of occurrence and should take necessary measures for their elimination in the future. The Mayor should consider the possibility to contract one single package of mobile telephony services. This would ensure more convenient prices and would decrease the cost of telephony services	Yes		
3.4.1 Remunerations (wages and salaries)	The Mayor should ensure that contracts are signed based on clear criteria in order that the process is transparent and competitive and employment contracts are preliminary secured. Contracts should specify the monthly amount and payment of salaries should be in compliance with contracts. Personnel officers should complete evidence on work experience to create the legal grounds for additional execution based on experience. Remuneration for holding informal classes should be done in accordance with regulation.	Yes		

3.4.2 Subsidies and Transfers	The Mayor should review cases identified to ensure that controls in this area are applied according to requests, to ensure that funds are used for the purpose planned and in accordance with regulations.	Yes		
3.5 Revenues (including own source revenues)	The Mayor should ensure a process of monthly regular harmonisations between municipal departments and finance administration and should put in place sustainable controls which ensure a sound planning and effective collection of Municipality own source revenues.			No measures have been taken
3.5.1 Revenues from the waste sector	The Mayor should ensure that sound analysis of the failure to collect revenues from waste management is carried out in order to achieve Municipality's objectives in the creation of sustainable financial system. Reconciliation with EO should be considered preliminary and payments should not be done to those owing to the Municipality.			No measures have been taken
3.5.2 Weakness in concession and lease contracts	The Mayor should review reasons of the existing situation and establish measures required to collect all outstanding obligations within the reasonable period, or otherwise, should stop the use of public properties to owners, not paying their obligations to Municipality.			No measures have been taken
3.5.3 The bid winner for the use of low priced business premises	The Mayor should ensure that when announcing public auctions, participants are preliminary conditioned with sanctions if they withdraw after the opening of public auction and should respect regulation for the allocation on the use of public areas through public auction.	Yes		

3.6 Assets and liabilities	The Mayor should review why assets identified are not recorded in the E-asset system, and address weaknesses related to constant update of the assets register. Requirements related to recording and maintenance should be fully applied.			No measures have been taken
3.6.2 Handling of receivables	The Mayor should consider establishing a special working group to review the execution of collection of debts, in particular, the enormous increase within a year of the accounts receivable from the waste collection services. The Mayor should also conduct an analysis in order to identify causes of failure of businesses in the payment of debts, and all means available should be used, including legal remedies.			No measures have been taken
3.6.3 Handling of debts	The Mayor should conduct a critical review of the situation of arrears , to define necessary measures for addressing the issues identified, while payments should be made within the time limits set out in financial regulation. To handle these contingent liabilities, in coordination with the legal Municipality representative, a review of the status of liabilities should be undertaken, to determine the priority of payments, to eliminate the circumstances which may cause their direct payment from MoF or according to court decisions.			No measures have been taken

Audit Component	Recommendation carried forward from 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 and establish effective processes to confirm that the draft AFS plan for 2017 addresses all weaknesses related to AFS.		This recommendation has been partially implemented, and still have problems with mismanagement of expenditures and disclosures, including assets and liabilities.	
2.1 Progress in implementing the prior year's recommendations	The Mayor should consider the reasons why audit recommendations are not being implemented and apply responsibility measures towards all persons that are charged with the action plan for implementation of recommendations. After the finalisation of this report, the Mayor should prepare the Action Plan with clear deadlines and activities, and determine persons responsible for implementation of this entire plan.		The municipality has drafted an action plan for implementing the recommendations, but despite this a considerable number of recommendations have remained unimplemented.	
2.2 Self-Assessment Questionnaire of FMC Components	The Mayor should ensure that the list of risks and the strategic development plan will be drafted. Monitoring of strategy should be done on a continuous basis to ensure that strategic objectives are being achieved. The internal audit unit should be engaged to confirm the accuracy of the checklist.			No measures have been taken
2.3 Specific governance reviews	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. To draft an action plan on monitoring achievement of objectives, by establishing effective oversight functions.			No measures have been 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. In addition, to take measures so that reporting by the CFO is done in line with legal requirements on physical progress of capital investments.			No measures have been taken
2.4 Internal Audit System	The Mayor should take all actions against administrative units to which recommendations are addressed so that they demonstrate maximum commitment in taking corrective measures in areas where weaknesses have been identified.		No measures have been taken to find the form and method for implementing the recommendations. The Audit Committee has been established but also during this year was ineffective in finding a way to implement the recommendations.	
3.1 Planning and budget 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. Where initial budget assumptions are found to be incorrect this should be fully reflected in the final budget position.			No measures have been taken
3.1.1 Revenues (property tax)	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 have been taken

Revenues from the lease of municipal property	The Mayor should ensure that are organised public auctions when renting municipal property in order to have an open and transparent process, and to exercise continuous monitoring over the use of public spaces so that municipal properties are not being used without meeting in advance the obligations stipulated under entered into contracts. In addition, should be established mechanisms so that properties are not being used without a valid contract signed with the Municipality.			No measures have been taken
3.1.3 Goods and Services and Utilities	The Mayor should ensure the organization of public auctions in case of leasing of municipal property in order to have an open and transparent process as well as to carry out continuous monitoring of using public spaces in order not to use municipal property without performing in advance the obligations under contracts signed. Mechanisms should be set for property not to be used without prior valid contract signed with the Municipality.		It was partially implemented, as this year we have noticed payments made without procurement procedures. Regarding billing protocols, the recommendation was implemented.	
3.1.5 Capital Investments	The Mayor should ensure that the Procurement Office prepares the tender dossiers in line with the LPP requirements and specify clearly approximate indicative quantities of works or the estimated contract value. In addition, not to initiate procurement activities without initially drafting the executive projects.		It was partially implemented, since we have found that in some cases procurement activities are initiated without drafting of executive projects.	
3.2.1 Capital and Non-Capital Assets	The Mayor should ensure that the committee for inventory and assessment of non-financial assets shall carry out the work in accordance with the Regulation, by including and assessing Municipality's entire assets.			No measures have been taken

The failure of the E-Asset System -	The Mayor should recruit the Receiving/Logistics Officer at the shortest possible time so that the e-assets system is fully functional and assets records are updated.		The Asset Officer was recruited but still was not in function to the Office.	
Lack of internal procedures for asset management	The Mayor should draft internal rules and procedures on recording, preservation and alienation of non-financial assets as required under the Regulation 02/2013.			No measures have been taken
3.2.2 Receivables	The Mayor should consider establishing a special working group to review the execution of collection of debts, in particular, the enormous increase within a year of the accounts receivable from the waste collection services. The Mayor should also conduct an analysis in order to identify causes of failure of businesses in the payment of debts, and all means available should be used, including legal remedies.			No measures have been taken
3.3 Outstanding Liabilities	The Mayor should ensure that all invoices are properly reported to the Ministry of Finance in accordance with Treasury Rule 04/2011-For reporting of Outstanding Liabilities so that this is reflected even with a fair presentation of the liabilities to the AFS.			No measures have been taken

Annex III: Letter of confirmation



Republika e Kosovës
Republika Kosova
Kosova Cumhuriyeti



REPUBLIKA E KOSOVËS • REPUBLIKA KOSOVA
KOSOVA CUMHURIYETI
Komuna e Prizrenit • Opština Prizren
Prizren Belediyesi
Kryetari i Komunës / Predsednik Opštine
Belediye Başkanı

01 Nr. 47/18 Dt. 06.06.2018



Komuna e Prizrenit
Opština Prizren
Prizren Belediyesi

DATË:	06.06.2018
REFERENCE:	
PËR:	Valbon Bytyqi, Ndihmës Auditor i Përgjithshëm
CC:	Luljeta Morina, Udhëheqëse e departamentit të auditimit Kapllan Muhaxheri, Udhëheqës i ekipit
NGA:	Prof.dr. Mytahir Haskuka Kryetar i Komunës së Prizrenit
LËNDA/TEMA	LETËR E KONFIRMIMIT - Për pajtueshmëri me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2017 dhe për zbatimin e rekomandimeve

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 **Prizrenit**, 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

Me respekt!