



Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

**AUDIT REPORT ON THE MUNICIPALITY OF MITROVICA FOR  
THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

**Prishtina, May 2019**

The National Audit Office of the Republic of Kosovo is the highest institution of financial control, which for its work is accountable to the Assembly of Kosovo.

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

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.

This audit is carried out in line with the International Standards of Supreme Audit Institutions and good European practices.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Municipality of Mitrovica in consultation with the Assistant Auditor General, *Naser Arllati*, who supervised the audit.

The report issued is a result of the audit carried out by *Igballe Halili*, Team Leader, and *Arnisa Aliu* and *Abdurrahmon Bërbatovci*, Team Members, under the management of the Head of Audit Department, *Zukë Zuka*.

## TABLE OF CONTENTS

Executive Summary .....	4
1 Audit Scope and Methodology .....	6
2 Annual Financial Statements and other External Reporting Obligations .....	7
3 Financial Management and Control .....	11
4 Good Governance .....	26
5 Progress in implementing recommendations.....	29
Annex I: Explanation of the different types of opinion applied by NAO .....	38
Annex II: Letter of confirmation .....	41

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## Executive Summary

This report summarises the key issues arising from our audit of the Annual Financial Statements of the Municipality of Mitrovica for 2018, which includes the Opinion of the Auditor General on Annual Financial Statements. Examination of 2018 financial statements was undertaken in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). Our approach included tests and procedures that were necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in the External Audit Plan dated 01/11/2018.

Our audit focus has been on:



The level of work undertaken to carry out the audit was determined depending on the quality of internal controls implemented by the Management of the Municipality of Mitrovica.

### Opinion of the Auditor General

#### Unmodified Opinion with Emphasis of Matter

The Annual Financial Statements for 2018 *present a true and fair view* in all material aspects.

#### Emphasis of Matter

As Emphasis of Matter, we would like to mention the fact that:

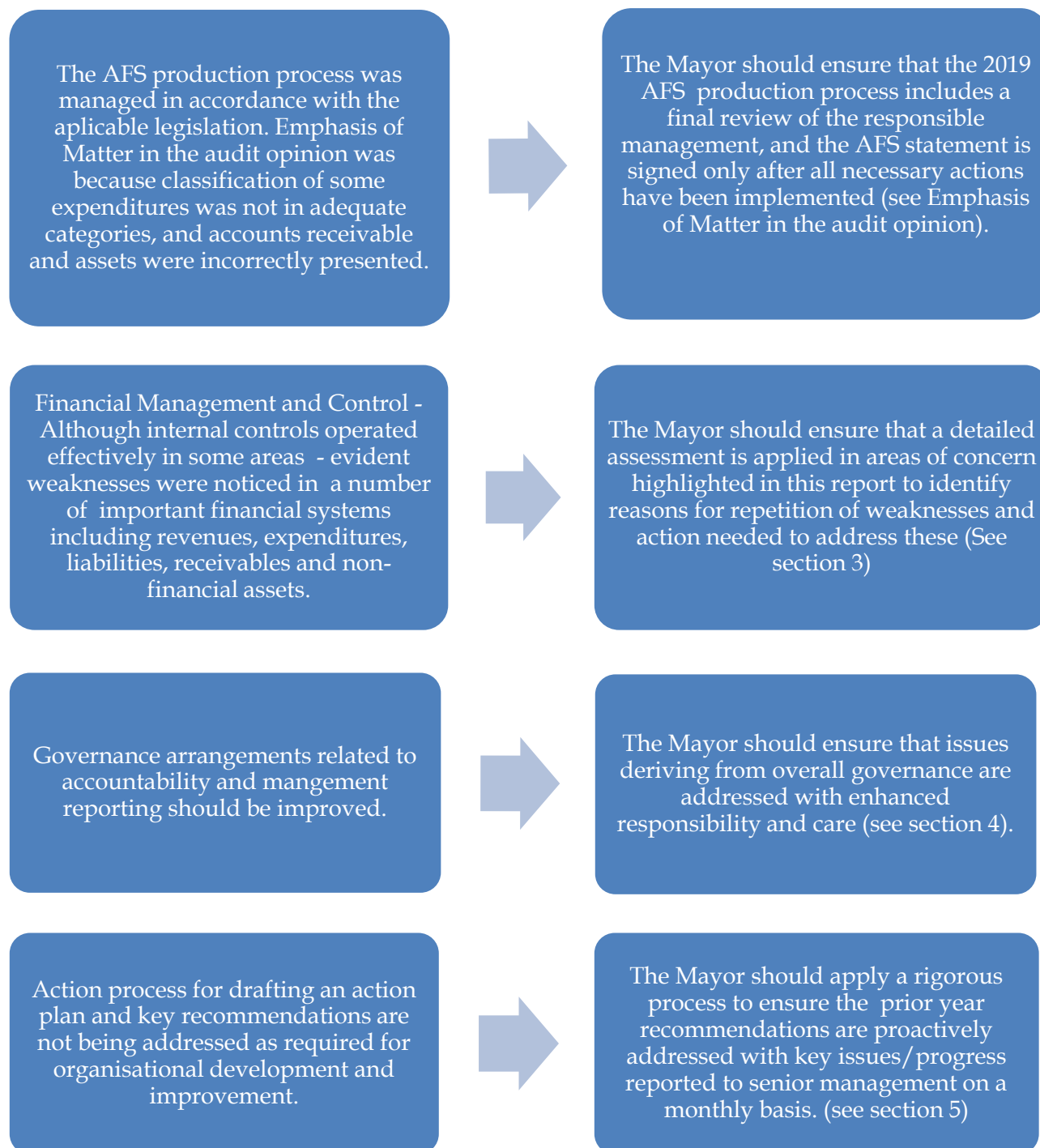
- Expenditures budgeted erroneously in the total value of €118,763, and expenditures which were not budgeted in the value of €189,390 (through court decisions €186,754) were spent on inadequate economic categories;
- The Municipality has made progress in property recording, but has not yet managed to evaluate and register all lands and buildings in the property register; and
- The value of accounts receivable of municipal departments with those disclosed in the AFS show a difference in the total value of €589,295.

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

Annex I explains different types of Opinions in line with ISSAIs.

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## Key Conclusions and Recommendations



The National Audit Office evaluates the cooperation of the management and the staff of the Municipality during the audit process.

### Response of the Mayor

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

# 1 Audit Scope and Methodology

The Audit involves examination and evaluation of Financial Statements and other financial records, as follows:

- 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;
- Whether the internal controls and internal audit functions are appropriate and efficient; and
- Whether appropriate actions have been taken for implementation of audit recommendations.

Audit work undertaken is based on risk assessment. We have analysed Municipality's business, the level of reliance on management controls, in order to determine the level of detailed testing required to provide the necessary evidence and that support the opinion of the AG.

Our procedures have included a review of internal controls, accounting systems and related substantive tests, as well as 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 that may exist, or of all improvements that could be made to the systems and procedures operated.

The following sections provide a detailed summary of our audit findings and recommendations in each area of review.

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## 2 Annual Financial Statements and other External Reporting Obligations

Our audit of the Annual Financial Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information presented in the AFS, including the declaration made by the Chief Administrative Officer and Chief Financial Officer.

The declaration on presentation of AFS includes a number of assertions relating to the compliance with the reporting framework and the quality of information within the AFS. These assertions intend to provide assurance to the Government that all relevant information has been provided to ensure that an audit process can be undertaken.

### 2.1 Audit Opinion

#### **Unmodified Opinion with Emphasis of Matter**

We have audited the AFS of the Municipality of Mitrovica for the year ended on 31st of December 2018, which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement and the Explanatory Notes of the Financial Statements.

In our opinion, the Annual Financial Statements for the year ended on 31<sup>st</sup> of December 2018 present a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (cash based Accounting), Law no. 03/L-048 on Public Finance Management and Accountability (as amended and supplemented) and Regulation no. 01/2017 on Annual Financial Reporting by 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**

- Payments that are budgeted and spent erroneously on inadequate economic categories:
  - payments in the total amount of €113,956<sup>1</sup>, which belong to the category of Goods and Services were executed from the category of Capital Investments;
  - payments for "Emergency intervention for cleaning of roads in the village of Shupkovc" in the total amount of €2,933 were executed from the code of Subsidies and Transfers, while it belongs to the category of Goods and Services; and

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<sup>1</sup> Five payments "Removal of informal landfills" in total amount €73,750; two payments "Construction and maintenance of cemeteries" in the amount of €25,263; and one payment "Medical Equipment in the amount of €14,942".

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- the payment for “Subsidising beekeepers with beehives and bee equipment” in the amount of €1,874 was made from the category of Capital Investments, while it belongs to the category of Subsidies and Transfers.
  - Payments that are not budgeted and are spent erroneously on inadequate economic categories:
    - payments in the total amount of €16,035 (through court decisions) belonging to the five accompanying salaries of teachers on retirement were made from the categories of Goods and Services, and Capital Investments;
    - five payments in the total amount of €170,719 (through court decisions) belonging to the category of Goods and Services are made from the category of Capital Investments; and
    - payments in the amount of €2,636 for “Pipe supply” was made from the category of Goods and Services, while it belongs to the category of Capital Investments.
  - The Municipality has made progress in identifying municipal properties, but it has not been able yet to make the assessment and complete asset registration in KFMIS registers (lands and buildings) in absence of asset valuation experts; and
  - Data on accounts receivable from some directorates<sup>2</sup> are recorded manually and are carried forward from one year into another. In the absence of software and due to inadequate care for recording and reporting of accounts receivable by some departments, differences in the amount of €230,853 were noted between internal registers and annual financial statements. While accounts receivable for household waste and households were understated by €358,442.

Our opinion has not been modified for these issues;

### **Key Audit Matters**

In 2017 was done writing off of accounts receivable for business activity fees of businesses in the amount of €1,587,196 (from €3,270,000 to €1,682,804). This issue was not considered in the Municipal Assembly even in 2018 and was not disclosed in the AFS. According to the Municipality, writing off was done due to removal of businesses that relate to: leaving of businesses in the Municipality of Mitrovica North, removal of some businesses that have won the case under court decisions, and due to the use of an old software that has also calculated passive businesses, some of which do not exist at all. However, the Municipality did not conduct any procedure for writing off or review in the Municipal Assembly.

### **Responsibility of Management for AFS**

The Mayor of Mitrovica is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial

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<sup>2</sup> “Directorate of Planning and Urbanism”; “Directorate of Culture, Youth and Sports”; “Directorate for Survey, Cadastre and Property; and “Inspection Directorate”.



Reporting under the Modified Cash based Accounting and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law number 03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

The Mayor is responsible to ensure oversight of 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**

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 (Public expenditures) and 02/2013 (Asset management);
  - Action Plan on implementation of recommendations; and
  - Requirements of Financial Management and Control (FMC) procedures.
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- Other requirements for budget reporting, such as: quarterly reports, reports on unpaid invoices, procurement plan and report on public contracts signed.

In terms of quality, initial draft AFS needed adjustment because they contained some errors and shortcomings in information. They have been adjusted with the exception of assets issues, accounts receivable and misclassification, for which we have emphasised the opinion. For more, see subchapter 2.1 Audit Opinion. In addition to the highlighted issues in the audit opinion we have identified also errors in disclosure of liabilities, where in four cases<sup>3</sup> invoices were received in January 2019 that belonged to liabilities of 2018 in the amount of €11,722, were not disclosed in the 2018 AFS. While the disclosure of non-financial assets was done in their gross value by not applying the accumulated depreciation. Furthermore, an advance payment remains open as of 2015 for €3,215, which was not disclosed in the AFS.

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 to be correct because during audit no material errors were identified.

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

## 2.3 Recommendations related to Annual Financial Statements

**Recommendation B1** The Mayor should ensure when planning the budget for the organisation are assessed real needs of the Municipality, in order to make an adequate budget planning and eliminate errors in the classification of expenditures within the respective economic categories. The Mayor should also consider the issue of managing accounts receivable and assets management, namely their full disclosure and other issues, which will be reflected in fair presentation of AFS.

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<sup>3</sup> "Lunch at the end of the year with workers of MA "in the amount of €2,550; "Cleaning and washing of local roads" in the amount of €5,203; "Fuel for vehicles €960"; "Heating oil" in the amount of €3,009.

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### 3 Financial Management and Control

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Budget Organisations. Specifically, we have handled budget management, procurement, human resources as well as assets and liabilities.

#### Financial Management and Control Conclusion

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

In the context of the financial system, controls are in place, however, controls over a range of spending areas require further improvement. The main areas where more improvements are needed are budget planning and spending for economic categories, including adequate expenditure classification, revenue management, and human resource management. While additional mechanisms are needed for the management of receivables, to respond to their accuracy, and the collection of receivables to a greater extent. In addition, Municipality needs to concentrate more on preventing the execution of direct payments from the Treasury and payments through court decisions.

#### 3.1 Budget Planning and Execution

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

**Table 1. Sources of budgetary Funds (in €)**

Description	Initial Budget	Final Budget <sup>4</sup>	2018 Outturn	2017 Outturn	2016 Outturn
<b>Sources of Funds</b>	<b>18,446,443</b>	<b>19,869,098</b>	<b>19,067,588</b>	<b>16,682,266</b>	<b>16,285,762</b>
Government Grant -Budget	15,973,330	16,800,927	16,627,843	14,471,605	13,980,967
Carried forward from previous year <sup>5</sup> -		323,793	317,997	328,678	291,289
Own Source Revenues <sup>6</sup>	2,445,366	2,445,366	1,927,625	1,759,351	1,755,799
Domestic Donations	-	112,532	79,767	78,665	175,152
External Donations	-	125,340	114,356	43,967	82,555

<sup>4</sup> Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

<sup>5</sup> Own Source Revenues unspent in previous year carried forward into the current year.

<sup>6</sup> Receipts used by the entity for financing its own budget.

Financing from Borrowing	27,747	61,140	-	-	-
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The final budget is higher than the initial budget by €1,422,655. This increase is a result of revenues carried forward from the previous year in the amount of €323,793, domestic and external donations in the amount of €237,872 and from borrowing for the education department in the amount of €33,392 and Government of Kosovo decisions €827,597. In 2018, the BO has spent 96% of the final budget or €19,067,588.

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

Description	Initial Budget	Final Budget	2018 Outturn	2017 Outturn	2016 Outturn
<b>Spending of funds by economic categories</b>	<b>18,446,443</b>	<b>19,869,098</b>	<b>19,067,588</b>	<b>16,682,266</b>	<b>16,285,762</b>
Wages and Salaries	11,836,170	11,965,136	11,906,445	11,338,652	11,485,848
Goods and Services	1,969,150	2,454,498	2,351,120	1,201,215	1,337,968
Utilities	465,000	480,000	460,597	474,854	354,108
Subsidies and Transfers	545,043	744,704	723,730	537,369	589,308
Capital Investments	3,631,080	4,224,760	3,625,696	3,130,176	2,518,530

Explanations for changes in budget categories including reasons and their implication are given below:

- In the category of Wages and Salaries, there was budget increase in the amount of €128,966 from the revenues carried forward in the amount of €14,000, external donations "Save the Children" in the amount of €7,811, and increase by Government decision in the amount of €107,155. Increase from Government grant was because at the end of the year some employees from the education department who were out of the payroll list were included in the payroll list;
- In the category of Goods and Services there was a total increase in the amount of €485,348, from Government grants<sup>7</sup> €205,324, from revenues carried forward €222,693, domestic and external donations in the amount of €37,271, from borrowings €36,684, and a decrease from budget cuts €16,624. While the budget for Utilities increased from the revenues carried forward in the amount of €15,000;
- In Subsidies and Transfers there was an increase by €199,660, from Government grant €145,000 (Government decision No. 04/74 at the end of the year for savings, allocation and transfers), from revenues carried forward in the amount of €30,000 and grants and domestic donations by €24,660; and

<sup>7</sup> Government Decision No. 10/75 from unforeseen expenditures in the amount of €100,000 and Government Decision No. 04/74 at the end of the year for savings, allocations and transfers in the amount of €105,324.

- In the category of Capital Investments, there was a total increase of €593,680. The budget increase was through the Government decision No. 13/56 for the project “Erection of the monument dedicated to the Nation’s Martyr Adem Jashari” in the amount of €88,500, Government Decision No. 10/75 for the project “Hematologic-Biochemical Auto analyser (Special Medical Equipment) in the amount of €100,000 and Government Decision No. 04/74 in the amount of €181,618. While, from the revenues carried forward in the amount of €42,100, from external and domestic donations in the amount of €168,089, from borrowings in the amount of €24,455 and there was a decrease from budget savings in the amount of €11,082.

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## Issue B2<sup>8</sup> - Budget planning and execution

### Finding

Although the budget as a whole was implemented at 96%, in terms of performance the situation shows that planning and spending were quite challenging. During the year, there was a need for some budget adjustments, using the remaining funds in departments, for the purpose of execution of payments, namely payment of obligations. Direct payments executed from the Treasury in the amount of €71,760 and payments through court decisions in the amount of €1,053,387 impacted on such adjustment.

The numerous needs for adjustment are indicative that the initial budget production was not done properly. Inadequate planning and such adjustments caused inadequate classification of economic categories (subchapter 2.1).

### Risk

Inadequate initial planning and non-performance of obligations in time increase the risk that defined municipal objectives will not be achieved. In addition, the inadequate classification of expenditures in economic codes affects their improper presentation in AFS.

**Recommendation B2** The Mayor should ensure that a thorough analysis precedes all factors with an impact on the budget execution during the preparation of the budget requests. While planning and budgeting of certain projects should be made based on the chart of accounts approved by the Treasury.

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<sup>8</sup> Issue A and Recommendation A - means issues and new recommendations,  
Issue B and Recommendation B - means issues and recommendations repeated,  
Issue C and Recommendation C - means issues and recommendations partially repeated.

### 3.1.1 Revenues

Revenues generated by Municipality in 2018 totalled €1,998.186. These relate to revenues from property tax, revenues from construction licenses, revenues from business activities, revenues from rent, revenues from administrative fees, etc. Municipality had also indirect revenues collected from police fines and Forest Agency in the amount of €278,306.

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

Description	Initial Budget	Final Budget	2018 Receipts	2017 Receipts	2016 Receipts
Own source revenues	2,445,366	2,445,366	1,998,186	1,951,350	1,995,219
Total	2,445,366	2,445,366	1,998,186	1,951,350	1,995,219

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For 2018, Municipality collected 82% of revenues planned. With an increase of 2% compared to previous year. However, if we include traffic punishments, court fines and revenues from the forest agency totaling € 278,306, there is a realization of 93%. The municipality had included these revenues in planning.

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## 1 - Challenges in revenue management

### Finding

The municipal waste management process that is regulated by the "Regulation No. 03/2016 on Waste Management" does not correspond to the agreement on primary waste management services between the Municipality of Mitrovica and the RWC "UNITETI" J.S.C., which is based on the framework contract of 2015-2018. According to the agreement between the Municipality and the RWC Uniteti, it was stated that the collection of the funds should be done by the RWC Uniteti collectors. Also, according to the regulation, taxes on waste are invoiced and collected by Municipality and the payment of waste tax in the amount of up to €10 will be made to the Municipality's cashier at the citizens' service centre, while over €10 in the bank.

Collection of revenues is done in the waste management sector, through employees having a contract with Uniteti (collectors and three accountants), while the accountants listed perform the cashiers' work. On the other hand, in this process, only one employee is from Municipality, whose current job is the main cashier, while according to the contract and the job description, the employee is an officer for waste.

As a result of inadequate management and system on management of revenues from households and businesses, and as a result of inadequate internal rules, there are differences in the data record. The data in the database provided are higher compared to Treasury notes in the amount of €50,951 (in the economic code of waste management 50423). Furthermore, out of six cases, in one case we verified that there was a misclassification in the amount of €1846, where the environmental permit revenues were recorded in the waste management code. Such a difference and the inadequate classification of economic codes does not provide assurance that proper evidence for taxpayers is being kept.

### Risk

Weaknesses in the revenue management, namely weaknesses in the waste regulation can lead to misinterpretations. The engagement of the majority of employees from the publicly owned enterprise Uniteti in the waste management sector may result in poor monitoring and lack of proper accountability for errors occurring.

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**Recommendation C1** The Mayor should ensure an adequate registration system to support revenue collection and management. The waste management process from municipal waste should be reconsidered in regulations in order to clearly recognise the rights and obligations of the parties as well as segregation of duties. The Mayor should also pay more attention to internal controls regarding the accurate collection of revenues from this sector.

### 3.1.2 Wages and Salaries

Wages and Salaries are paid through a centralised payment system managed by the Ministry of Public Administration and the Ministry of Finance. During 2018, €11,906,445 was spent on Wages and Salaries, with an execution of 99% of what was planned to be executed.

Controls operated at local level by Municipality relate to: a) checking payments every month by signing the payroll list, b) verification of possible changes that may arise through forms, and c) revising the budget for this category and reconciliations with the Treasury.

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#### **Issue B3 – Contractual agreements and engagement of staff for fixed-terms**

**Finding** The Municipality engaged 46 employees with special services agreements by not applying a simplified recruitment procedure as provided by Law No. 03/L-149 on Civil Service (LCS), Article 12, Paragraph 4. Furthermore, on the three occasions, contractors with special service agreements were for regular positions and did not have to do with specific jobs.

Failure to apply simplified recruitment procedures was due to the non-implementation of legal requirements by Municipality. According to the officials, this occurred because departments made a request for recruitment without simplified procedures.

**Risk** Lack of proper competition increases the risk of engaging incompetent persons for the respective positions. Covering important positions by temporary agreement results in poor staff performance and monitoring and increases uncertainty as to whether adequate staff is engaged for such positions.

**Recommendation B3** The Mayor should ensure a reasonable plan for works related to services with special service agreements. Furthermore, additional needs for regular staff should be handled with relevant bodies and find an accepted solution, which should be foreseen upon budget planning. In addition, in case of employees engaged under special service agreements should be applied a simplified recruitment procedure, as set forth by defined legal acts.



### 3.1.3 Goods and Services, and Utilities

The final budget of Goods and Services in 2018 was €2,926,011 (including Utilities), out of which €2,811,717 or 96% were spent. Those relate to supply with spending material, services, maintenance and utilities.

#### Issue B4 – Contracts outside the procurement plan

**Finding** Two contracts signed during 2018 in the amount of €108,477<sup>9</sup> in the absence of forecast in the procurement plan, the development of procurement procedures was done without obtaining approval from the CPA as foreseen by the Public Procurement Law (Articles 8 and 9). Inadequate planning was the cause of the contract award not according to the procurement plan.

**Risk** Entering into contracts not according to the procurement plan risks execution of contracts planned and the change in priorities, or the entry into obligations without budget support.

**Recommendation B4** The Mayor should ensure that the procurement plan is drafted after a detailed analysis of all requesting units and has included, according to priorities, all projects for which the appropriate budget funds are provided.

#### Issue A 1 – Inadequate segregation of duties

**Finding** The Operational Guidelines of Public Procurement, Article 62.3 Principles of segregation of duties stipulates that officials who have been members of the evaluation commission cannot be assigned project managers. In six (6) out of nine (9) cases, one of the three members of the Bid Evaluation Commission was also assigned as a contract manager.

This occurred due to non-implementation of the Operational Guidelines of Public Procurement for the segregation of duties. According to officials, the inadequate segregation of duties was done due to the lack of staff.

**Risk** Failure to comply with public procurement rules and guidelines increases the risk of violating the principles of proper segregation of duties to avoid any possible conflict.

**Recommendation A1** The Mayor should ensure that all public procurement procedures and rules are applied with respect to the fair segregation of duties during the procurement process, in order to avoid any possible conflict.

<sup>9</sup> Subsidising of the interests by Municipality for loans to farmers €98,892 and supply with beehives and other subsidiary equipment €9,585.

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**Issue B5 – Irregular receipt of supplies**

**Finding** Municipality has not applied according to Regulation No. 01/2013 (Article 23, paragraph 1), for the acceptance of supplies, which foresees the establishment of a certain commission. In three out of 41 tested payments, in the amount of €34,671<sup>10</sup>, the acceptance of supplies was made only by the warehouse keeper.

This occurred due to negligence on the part of Municipality for the establishment of a specific commission for the acceptance and supply of goods.

**Risk** Accepting supplies without an acceptance commission increases the risk of accepting supplies of bad quality and contrary to contracted terms.

**Recommendation B5** The Mayor should conduct an internal review to determine the decisions related to the establishment of the relevant commission to confirm that supplies have been accepted according to the quality and quantity set out by contract.

### 3.1.4 Subsidies and Transfers

The final budget of Subsidies and Transfers was €744,704, out of which €723,730 or 97% were spent in 2018. Those relate to funeral expenditures, students scholarships, support to farmers, and to natural persons as individual beneficiaries in difficult socio-economic conditions.

The Municipality subsidised farmers with interest, for the first year (2018), in the public announcement, there were no criteria. However, in the second year (2019), the recommendation given during the audit period was implemented.

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**Issue A – Failure to comply with criteria on subsidy award**

**Finding** For subsidising “Greenhouses with 200m<sup>2</sup> and 50m<sup>2</sup> area”, conditions and criteria were set out for benefiting greenhouses<sup>11</sup>. According to the notice, one of the criteria was that the beneficiaries own agricultural land (property, or contracted out for use for at least 10 years). From payment in the amount of €13,749, we tested four beneficiaries, two of them, did not meet the criterion, since the beneficiaries had not proved that the lands were on their name, although they were selected as responsive and were beneficiaries of subsidies.

This occurred because the evaluation commission did not respect the same criteria for awarding subsidies, neglecting the process on the basic criteria.

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<sup>10</sup> "Office Supply" in the amount of €9,620; "Document Supply" in the amount of €5,380; "Medical supplies" in the amount of €19,671

<sup>11</sup> According to Municipality Regulation No. 11/2013 on Subsidies and Transfers

**Risk** Failure to respect the same criteria for all beneficiaries may lead to misuse of subsidies, and at the same time may harm other potential beneficiaries.

**Recommendation A2** The Mayor should ensure that the Evaluation Commission selects beneficiaries in accordance with the rules and criteria set out in the Subsidy Regulation so that the process is beneficial to those meeting the criteria.

### **Issue A 3 - Challenges in procedures for construction of the facility**

**Finding** The Municipality subsidised the "Municipal Organisation of Pensioners and Work Invalids" in the amount of €145,000, on the Municipal Assembly decision for the purpose of building a facility for the organisation. The Municipality did not conclude a MoU with the subsidised NGO to determine the rights and obligations of the parties.

Until the audit period (April 2019), the necessary construction procedures for the facility had not yet started due to the judicial dispute over property-plots where the facility is to be constructed. According to municipal officials and the possession list, the plot where the facility is to be built is a municipal property, while the organisation claims that the parcel is in its possession and therefore it renewed the lawsuit against Municipality in January 2019. As a result of the judicial dispute, the works have not started yet, while the financial funds were transferred from Municipality to the above-mentioned organisation.

**Risk** Failure to clarify ownership and conclude a prior Memorandum of Understanding increases the risk that Municipality does not have the guarantee mechanisms that the facility will be constructed and funds will be spent for intended purposes.

**Recommendation A3** The Mayor should monitor the issue being in dispute and during 2019 should sign a Memorandum of Understanding in advance with the NGO and determine the rights and obligations of the parties regarding the subsidy awarded so that the funds provided are used for the intended purpose.

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### 3.1.5 Capital Investments

The final budget of Capital Investments was €4,224,760, out of which €3,625,696 or 86% was spent in 2018, which relate to the investment to the construction in road infrastructure and different capital facilities.

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#### Issue A 4 - Exceeding the amount planned and change of the project

**Finding** According to the Budget Law 2018, "Amendments to the amounts allocated to existing projects, presented in Table 4.2, should be preliminarily approved by the Municipal Assembly (MA).

For the repair of roads in the villages of Melenica, Maksoko and Dedi, the budget of 2018 has foreseen to spend €50,000, while only for the Maxherë village for repair of roads, Voce Gimaj and Ilmi Cimili, €135,741 were paid, exceeding the planned value. These funds were granted under Mayor's decision without the approval of the Municipal Assembly (MA) from the project on road construction in village Kçiq €85,741, and from the project road construction in the village of Bajgorë €50,000, by interrupting works on these two projects under the justification that the three-year contract and works will continue in 2019, despite the budget allocation for 2018.

The reason behind this was that the executive did not initiate the request to the MA to change the amounts allocated to the existing projects, while the requesting unit did not make a proper planning for the project in question.

**Risk** Failure to approve new projects will reduce the effective implementation of foreseen capital expenditures plans and incorrect reflection of projects executed within the Capital Investments category. In addition, poor planning negatively affects the Municipality's budget aspect, damaging the execution of other planned projects.

**Recommendation A4** The Mayor should ensure that changes/re-destination in capital projects of Municipality, presented in Table 4.2 are preliminarily approved by the Municipal Assembly. The Mayor should also ensure that requesting units have a realistic planning of projects so that they do not enter into obligations without sufficient budget funds.

**Issue A 5 – Shortening of deadlines in procurement procedures**

**Finding** According to Law no. 04/L-042 on Public Procurement, Article 44, paragraph 2.1 when the relevant contract is a public contract with a higher value, the deadline for the receipt of tenders should not be less than 40 days. For “Construction of the road in the village Kovaqicë Lot I” in the amount of €948,393, procurement procedures for public contracts with high value were developed but the general rules for setting deadlines for receipt of tenders was not implemented. Deadline for receipt of tenders awarded by Municipality was 18 days.

This was due to poor control over the management of the procurement process, not complying with the procurement legal requirements.

**Risk** Shortening of the deadlines for the acceptance of tenders may be insufficient to prepare and bid, which may have impact on the discrimination of other operators to bid.

**Recommendation A5** The Mayor should ensure effective controls in implementing the procurement process so that the timelines foreseen for the submission of tenders are in accordance with Public Procurement Law in order to provide sufficient time to all economic operators to bid.

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## 3.2 Capital and non-capital assets

Asset management is an important part of financial management and control in the public sector. A good asset management requires that Municipality has a completeness view of assets, control and management procedures and should constantly update the changes in its records. The main guidelines in this area is Regulation no. 02/2013 on the Management of Non-financial Assets in budget organisations. The net value of capital assets in the AFS at the end of 2018 is €28,600,220.

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### Issue B6 – Challenges in non-financial asset management

**Finding** The Municipality failed to register all non-financial assets in the e-asset system as required by the MoF Regulation No. 2/2013 on the management of non-financial assets. Purchases under €1,000, during 2018 were €76,074, while only €34,706 were registered in the e-asset system. The rest of the assets (€41,368) are kept separately by the asset officer in Excel form, whereby they are registered on the date of purchase, and no depreciation is applied on them. This occurred as a result of not registering non-financial assets by the warehouse officer in the system. In addition, the annual inventory commission, in the absence of complete registers of assets under €1000, failed to make comparisons with asset registers.

Further, during the verification of the e-assets register we have identified that seven laptops were not registered in the system with serial numbers according to the MoF Regulation no. 02/2013 on the management of non-financial assets (Article 6).

According to municipal officials, the cause of these irregularities is the lack of training by the Ministry of Public Administration on the use of the system by the respective officials. However, this situation is also influenced by inadequate controls regarding the implementation of the regulation on asset registration.

**Risk** Lack of accurate records on assets makes unable an effective management and control over assets. Incorrect registration of assets with serial numbers makes unable the identification of assets.

**Recommendation B6** The Mayor should ensure that necessary actions are taken to apply the asset management system (E-assets) in order to have an asset management and reporting in accordance with the requirements of the Regulation on Management of Non-financial Assets. Appropriate training for the municipal staff responsible for the implementation of this system should be ensured.

### 3.3 Handling of cash and its equivalents

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

#### **Recommendations**

We have no recommendations in this area.

### 3.4 Receivables

In 2018, the Municipality declared the value of €8,417,880 of accounts receivable, which compared to 2017 they were €7,499,874, therefore the debts to Municipality increased by €918,033. The biggest value of these are presented by property tax receivables, which at the end of the fiscal year amounted to €5,784,413, where only for 2018 invoicing was €1,167,066 while €625,435 or 53% were collected.

**Issue B7 – Inefficient management of accounts receivable****Finding**

The Municipality has not established internal procedures for reporting and recording of accounts receivable, neither has applied cash collection procedures. Increase of receivables from one year to another continues to be a challenge for the Municipality.

The Municipality made efforts to have a better collection from taxpayers on property tax through a Mayor's decision. All taxpayers were obliged to pay a certain percentage of unpaid debts, yet this was not reflected in the payment of debts by taxpayers.

During the audit of 12 contracts on the use of public property, we identified that due to monthly non-payment of lessees under the contract, the Municipality failed to collect revenues for the accumulated debt in the total amount of €89,782. The Municipality has been distributing notices to lessees that if they fail paying debts, measures will be taken against them

**Risk**

Lack of sufficient actions or deficiencies in the process of collecting receivables may discourage other taxpayers from paying their obligations in time. Furthermore, failure to execute planned revenues increases the risk of failure of planned projects from own sources. The aging of receivables makes their collection difficult.

**Recommendation B7** The Mayor should ensure that controls in the management of receivables are strengthened, increased efficiency and strengthening of controls in their management and collection. In this regard, causes of the increase of receivables should be analysed in order to undertake legal actions for their collection.



### 3.5 Outstanding liabilities

The statement of liabilities not paid to suppliers at the end of 2018 was €2,109,086. These liabilities are carried forward to be paid in 2019. Compared with the previous year (€1,425,216), liabilities have increased by €683,870.

#### Issue B8 – Challenges in liabilities management

**Finding** According to Financial Rule no. 01/2013/MF- Public funds expenditure (Article 37- paragraph 1) all invoices should be paid by budget organisations within 30 days. Out of 104 samples, in 14 cases<sup>12</sup>, invoices in the total amount of €383,681 were not paid within the legal deadline of 30 days. The delays were more than three months.

The cause for failure to pay in time was the lack of funds. Ascertainment was obtained from municipal officials and was based on audit, and as there were many payments through court decisions, this was reflected in the payment of other invoices as well as the change of projects.

While at the end of 2018 the contingent liabilities were €3,380,800, compared with last year, liabilities decreased to the amount of €71,968. However, 13 cases of contingent liabilities were not disclosed in the AFS of 2018 although they were without financial value. According to the (current) Municipality's lawyer, this is due to the lack of archiving preliminary cases.

**Risk** Failure to make payments to suppliers within the legal deadline during 2018 increase the risk that current expenditure plans are not executed because the Municipality has to pay its prior year liabilities. This may also result in court lawsuit or direct payment from the Treasury, which at the same time is reflected in additional costs. Furthermore, failure to properly archive cases for contingent liabilities causes difficulties in their disclosure and in accurate balance.

**Recommendation B8** The Mayor should consider when planning budget that obligations and remaining contingent liabilities are handled with the Ministry of Finance and should set budget priorities in their performance. The Mayor should also make all confirmed invoices or other expenditure decisions in time, in accordance with the legal deadline of 30 days. While, the filing of cases for contingent liabilities should be accurate even in the electronic form for their quicker verification.

<sup>12</sup> "Fixing and repair of roads" in the amount of €67,394; two payments "Removal of informal landfills" in the total amount of €65,009; "Construction of local roads" in the amount of €48,643; "Construction, supply and de-blocking" in the amount of €14,015; "Construction and maintenance of the cemetery" in the amount of €20,000; three payments "Expansion of

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## 4 Good Governance

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 Organisations 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 (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

This year Municipality made a progress by compiling the risk list which identified important areas of risks which are faced by the relevant departments, and it completed and timely submitted the self-assessment questionnaire to the MoF. There are still areas remaining where important actions are needed in governance in relation to operational and financial activities in the Municipality. Enhanced management attention is needed in the processes to address audit recommendations, as well as the establishment of the audit committee.

The comprehensive strategy of local socio-economic development was valid until 2017, for 2018 a working group was formed but it still has not managed to draft the strategy.

The Municipal Assembly approved a number of plans in different sectors, such as Education Development Plan 2018-2022, Strategy for Culture and Tourism 2018-2022, Integrity Plan for 2017-2019 and Municipal Energy Efficiency Plan 2014-2020.

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public light network" in the total amount of €114,829; "Maintenance and development of greenery areas" in the amount of €18,434; "Training expenses" in the amount of €4,000; "Medical supplies" in the amount of €19,671; "New Year presents" in the amount of €2,576; "Funeral services" in the amount of €9110.

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## 4.1 Internal Audit System

The Municipality has established the Internal Audit Unit (IAU), which operates with three members of staff - the Head of IAU and two auditors. In addition to the strategic plan, IAU has also drafted the annual work plan where seven (7) audits were planned to be carried out. It has also prepared the six-month and annual report, which it submitted it to the Central Harmonisation Unit.

IAU had planned six audits and it carried them out, while reports mainly had to do with 2017 activities.

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### Issue C2 - Non-establishment of Audit Committee

**Finding** The Audit Committee (AC) during 2018 was not established. According to the officials, the non-establishment of the audit committee was because the Municipality was unable to ensure external staff to participate in the AC as provided for by the Law on Public Internal Financial Control No. 06/L-021, Article 20.

**Risk** Failure to establish the committee in accordance with the legislation in force may result in insufficient oversight of the work of the internal auditor, and the process of implementation of recommendations to be at a low level.

**Recommendation C2** The Mayor should review the appointment of members of the Audit Committee and ensure that their selection is adequate according to the requirements of the relevant law and regulation, averting officers who may be subject to internal audit in order to improve Finance Management and Control.

## 4.2 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 Organisation.

Although, a range of internal controls are applied by Management to ensure that systems operate as intended, and has drafted the risk list, we have noticed that the measures applied still need improvement.

### **Issue C3 – Weaknesses in management controls and risk management**

**Finding** Our review of management controls implemented in the principal financial system of the Municipality has revealed that the overall engagement of controls requires improvement in spending management by classifying them in adequate codes, handling unpaid obligations and their timely payment, as well as concrete actions for the collection of accounts receivable.

**Risk** Weak accountability requirements and financial reporting reduce the effectiveness of financial management within the Municipality, resulting in weaknesses in the budget process as well as in reducing the ability of the Management to respond to financial challenges over time.

**Recommendation C3** The Mayor should ensure that a review is carried out to determine the form of financial and operational reporting to senior management, which is required to support the activity's effective management and ensure that an appropriate solution is established within a reasonable period of time.

## 5 Progress in implementing recommendations

Our Audit Report on the 2017 AFS resulted in 17 key recommendations. Management prepared an Action Plan stating details of measures and activities how all recommendations will be implemented. Currently, the Municipality through a USAID project is working on the possibility of implementing recommendations. The Mayor put the audit report for 2017 in the agenda of the Municipal Assembly.

At the end of our audit period, out of 17 recommendations given, five (5) have been implemented; three (3) were partly implemented, one (1) recommendation was closed unimplemented and eight (8) have not been addressed yet.

For a more thorough description of the recommendations and how they are addressed, see Table 4.

**Table 4 Summary of prior year recommendations and of 2018**

No	Audit area	Recommendations of 2017	Actions taken	Status
1	AFS	The Mayor should ensure that an analysis is undertaken to determine the causes for emphasize of the audit opinion and key matters. (Misclassification of expenditures, incorrect disclosure of the value of assets and contingent liabilities in the AFS). Specific actions should be taken to address the underlying causes in a systematic manner to eliminate presented weaknesses.	Regarding the proper classification of economic codes, they were evident this year too, as there were many adjustments in budget execution, influencing court decisions and payments. The Municipality has made progress in identifying all municipal property but has failed to evaluate in the absence of experts on asset valuation.	Recommendation implemented,

		Further on, the Mayor should ensure that effective processes are in place to confirm that the 2018 AFS production plan formally addresses all issues related to compliance. The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be signed unless all necessary checks have been applied to the draft AFS.	While, contingent liabilities were fairly disclosed, except for 13 lawsuits that were of no financial value.	
2	Budget process	The Mayor should ensure that a thorough analysis of all factors that have an impact on the budget execution is carried out prior to preparing budget requests. Whereas, planning and budgeting of certain projects should be done based on the accounting plan approved by Treasury.	Failure to redirect funds and direct payments from court decisions remain a challenge for budget management in the Municipality.	Recommendation unimplemented
3	Revenues	The Mayor should provide an appropriate registration system in order to support revenue collection and management. The municipal waste management process should be reviewed in order to comply with applicable laws/regulations.	In the process, the funds collected from these revenues, namely depositing funds from collectors were made on daily basis according to the rules of income. Regarding the municipal waste revenues management, the Municipality has not reviewed the legislation in order to comply with applicable laws / regulations.	Recommendation partly implemented
4		The Mayor should undertake measures to provide the lessees	The Municipality has undertaken actions to	Recommendation implemented

		with contracts as soon as possible in order to have the legal basis for using the revenues from municipal property.	renew the contracts of property users, while the lessees who do not meet the criteria should be removed from the property used; after this action, issues were in the court process.	
5		The Mayor should ensure that the verification of municipal properties is carried out according to the law, so that the database incorporates all eventual changes to the taxable properties.	This year, Municipality managed to verify out of 20,589 properties, 13,027 properties, according to the new property tax law, the Municipality has managed to verify the properties.	Recommendation implemented
6	Wages and salaries	The Mayor should ensure a reasonable plan for works related to services with special service agreements. Furthermore, additional needs for regular staff should be handled with relevant bodies and find an accepted solution, which should be foreseen upon budget planning. In addition, in case of employees engaged under special service agreements should be applied a simplified recruitment procedure, as set forth by defined legal acts.	During the audit execution, we found that in 46 cases of special services, contracts were conducted without simplified recruitment procedures where three of them were non-specific jobs.	Recommendation unimplemented
7	Personnel management	The Mayor should ensure that procedures for career development of employees are adhered to and grant equal opportunity for competition to	During the audit, we have not encountered such cases.	Recommendation implemented

		all potential candidates. Such procedures allow selection based on merits.		
8		The Mayor should ensure that the procurement plan is drafted upon a thorough analysis of all requesting units and has included priorities based on projects, securing proper funds for them.	Even this year, two contracts signed were not foreseen in the procurement plan.	Recommendation unimplemented
9	Goods and Services, and Utilities	The Mayor should perform an internal review to decide about establishment of relevant committees, to confirm that the supplies are received according to the quality and quantity foreseen by contract.	During the audit, we found that in three cases, supplies were accepted without a commission.	Recommendation unimplemented
10		The Mayor should ensure that the opening and evaluation of the tender is accompanied with proper monitoring by the committee and procurement officer, through formal confirmation of the entire process in compliance with the requirements of the Law on Public Procurement.	During the audit, we have not encountered such cases.	Recommendation implemented
11	Common Issues on Goods and Services and Capital Investments	The Mayor should ensure assignment of contract managers for all contracts, who should prepare and sign contract management plan in compliance with the requirements of the Law on Public Procurement.	During the audit, we have not encountered such cases.	Recommendation implemented
12	Capital and Non-capital Assets	The Mayor should ensure undertaking of necessary actions to apply asset management system (e-Asset), in order to get asset management and reporting in compliance with the	We have the same situation this year, not all non-financial assets. are registered in the e-asset programme.	Recommendation unimplemented



		requirements of the Regulation on management of non-capital assets. Further on, to provide proper training to the Municipality staff who will be responsible for implementation of this system.		
13	Receivables	The Mayor should ensure that controls are strengthened in managing receivables, increasing efficiency and strengthening controls in their management and collection. In this regard, to analyse the causes for increase of receivables in order to undertake legal actions for their collection.	This recommendation has been repeated from the previous year, with accounts receivable increasing year after year.	Recommendation unimplemented
14	Outstanding Liabilities	The Mayor should consider that, when planning the budget, to discuss the outstanding liabilities with the Ministry of Finance and to set budget priorities for their execution, and to set specific policies for preventing entry into new obligations. Further on, to execute liabilities in time according to the legal deadline.	During the testing of the obligations, we found that invoices are not paid according to the legal deadline, as well as there was considerable increase of the obligations for 2018 compared to 2017.	Recommendation unimplemented
15	Progress in implementing recommendations	The Mayor should ensure that the action plan for implementation of the recommendations is drafted on time, monitored on regular basis and reported on regular quarterly basis in relation to the achieved progress in this regard. The Mayor should in the shortest time possible review recommendations that are not implemented within deadlines and to undertake pro-active actions towards obstacles that		Recommendation closed

		may arise during their implementation.		
16	Internal Audit system	The Mayor should review the appointment of the Audit Committee Members and should also ensure that their selection is done in compliance with the requirements of the relevant regulation, excluding the officers that may be subject of the Internal Audit. Further on, should review actions undertaken by the Management in relation to the drafting of the action plan and implementation of IAU audit recommendations.	Management has taken actions, and has drafted the action plan and has implemented internal audit recommendations. While it failed to establish the Audit Committee.	Recommendation partly implemented
17	Management Reporting, Accountability and Risk Management	The Mayor should ensure that a review has been carried through to determine the form of financial and operational reporting to senior management, which is required to support effective management of the activity, and to ensure that an appropriate solution is established within a reasonable period of time. Further on, in order to reduce the impact of risks to acceptable levels, the Organization should draft a risk register with all appropriate measures/actions to put the exposed threats under control.	In the process, the management of controls still needs to be strengthened on expenditures and revenues, in the field of procurement and performance of obligations in time, while in terms of risk management, the Municipality has compiled a list of risks.	Recommendation partly implemented
No	Audit area	Recommendations of 2018		

1	AFS	The Mayor should ensure when planning the budget for the organisation that real needs of the Municipality are assessed in order to make an adequate budget planning and eliminate errors in the classification of expenditures within the respective economic categories. The Mayor should also consider the issue of managing accounts receivable and asset management, namely their full disclosure and other issues, which will be reflected fairly in the presentation of AFS.
2	Budget execution	The Mayor should ensure that a thorough analysis precedes all factors with an impact on the budget execution during the preparation of the budget requests. While planning and budgeting of certain projects should be made based on the chart of accounts approved by the Treasury.
3	Revenues	The Mayor should ensure an adequate registration system to support revenue collection and management. The waste management process from municipal waste should be reconsidered in regulations in order to clearly recognise the rights and obligations of the parties as well as segregation of duties. The Mayor should also pay more attention to internal controls regarding the accurate collection of revenues from this sector.
4	Wages and Salaries	The Mayor should ensure a reasonable plan for work related to services with special agreements. The Mayor should treat the additional needs for regular staff with the relevant bodies and find an accepted solution, which should be foreseen when budget is planned. The Mayor should also, in the case of employees with special agreements and services, apply a simplified recruitment procedure, as set forth by defined legal acts.
5	Goods and Services, and Utilities	The Mayor should ensure that the procurement plan is drafted after a detailed analysis of all requesting units and has included, according to priorities, all projects for which the appropriate budget funds are provided.
6		The Mayor should ensure that all public procurement procedures and rules are applied with respect to the fair segregation of duties during the procurement process, in order to avoid any possible conflict.
7		The Mayor should conduct an internal review to determine the decisions related to the establishment of the relevant commission to confirm that

		supplies have been accepted according to the quality and quantity set out by contract.
8	Subsidies and Transfers	The Mayor should ensure that the Evaluation Commission selects beneficiaries in accordance with the rules and criteria set out in the Subsidy Regulation so that the process is beneficial to those meeting the criteria.
9		The Mayor should monitor the issue being in dispute and during 2019 should sign a Memorandum of Understanding in advance with the NGO and determine the rights and obligations of the parties regarding the subsidy awarded so that the funds provided are used for the intended purpose.
10	Capital Investments	The Mayor should ensure that changes/re-destination in capital projects of Municipality, presented in Table 4.2 are preliminarily approved by the Municipal Assembly. The Mayor should also ensure that requesting units have a realistic planning of projects so that they do not enter into obligations without sufficient budget funds.
11		The Mayor should ensure effective controls in implementing the procurement process so that the timelines foreseen for the submission of tenders are in accordance with Public Procurement Law in order to provide sufficient time to all economic operators to bid.
12	Capital and Non-capital Assets	The Mayor should ensure that necessary actions are taken to apply the asset management system (E-assets) in order to have an asset management and reporting in accordance with the requirements of the Regulation on Management of Non-financial Assets. Appropriate training for the municipal staff responsible for the implementation of this system should be ensured.
13	Receivables	The Mayor should ensure that controls in the management of receivables are strengthened, increased efficiency and strengthening of controls in their management and collection. In this regard, causes of the increase of receivables should be analysed in order to undertake legal actions for their collection.

14	Outstanding Liabilities	The Mayor should consider when planning budget that obligations and remaining contingent liabilities are handled with the Ministry of Finance and should set budget priorities in their performance. The Mayor should also make all confirmed invoices or other expenditure decisions in time, in accordance with the legal deadline of 30 days. While, the filing of cases for contingent liabilities should be accurate even in the electronic form for their quicker verification.
15	Internal Audit System	The Mayor should review the appointment of members of the Audit Committee and ensure that their selection is adequate according to the requirements of the relevant law and regulation, averting officers who may be subject to internal audit in order to improve Finance Management and Control.
16	Management Reporting, Accountability and Risk management	The Mayor should ensure that a review is carried out to determine the form of financial and operational reporting to senior management which is required to support the activity's effective management and ensure that an appropriate solution is established within a reasonable period of time.

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

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## 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: Letter of confirmation



**REPUBLIKA E KOSOVËS**  
Republika Kosova – Republic of Kosoves



**Komuna e Mitrovicës Jugore**

Opština Juzna Mitrovica – Municipality of Mitrovica South

**ZYRA E KRYETARIT**

**LETËR E KONFIRMIMIT**



Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Draft-Raportin e auditimit për vitin 2018 dhe për zbatimin e rekomandimeve

**Për: Zyrën Kombëtare të Auditimit**

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar Draft-Raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit/Pasqyrave Financiare të Komunës së Mitrovicës, për vitin e përfunduar më 31 dhjetor 2018 . ( 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. Agim Bahtiri** .....

Kryetar i Komunës së Mitrovicës,

**Data: 22. Maj 2019, Mitrovicë**



## LETTER OF CONFIRMATION

For compliance with Auditor General's findings in the Audit Report for 2018 and on the

Implementation of Recommendations

To: National Audit Office

Honoured,

We hereby confirm that:

- We have received the draft audit report of the National Audit Office on the 2018 Annual Financial Statements of the Municipality of Mitrovica, hereinafter referred to as the Report;
- Agree on the findings and recommendations and I have no comment on the content of the Report; and
- Within 30 days from receiving the final report, I will submit the action plan on implementation of recommendations including the deadlines and responsible staff for their implementation.

Mayor:

Agim Bahtiri

Date: 22.05.2019, Mitrovica