



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

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

Prishtina, June 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 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 Peja 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 Edon Kabashi (Team Leader), Ylber Sadiku and Hysen Restelica (team members), under the management of the Head of Audit Department Faruk Rrahmani.

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Executive Summary

This report summarises the key issues arising from our audit of the Municipality of Peja 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 21/11/2018.

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.

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.

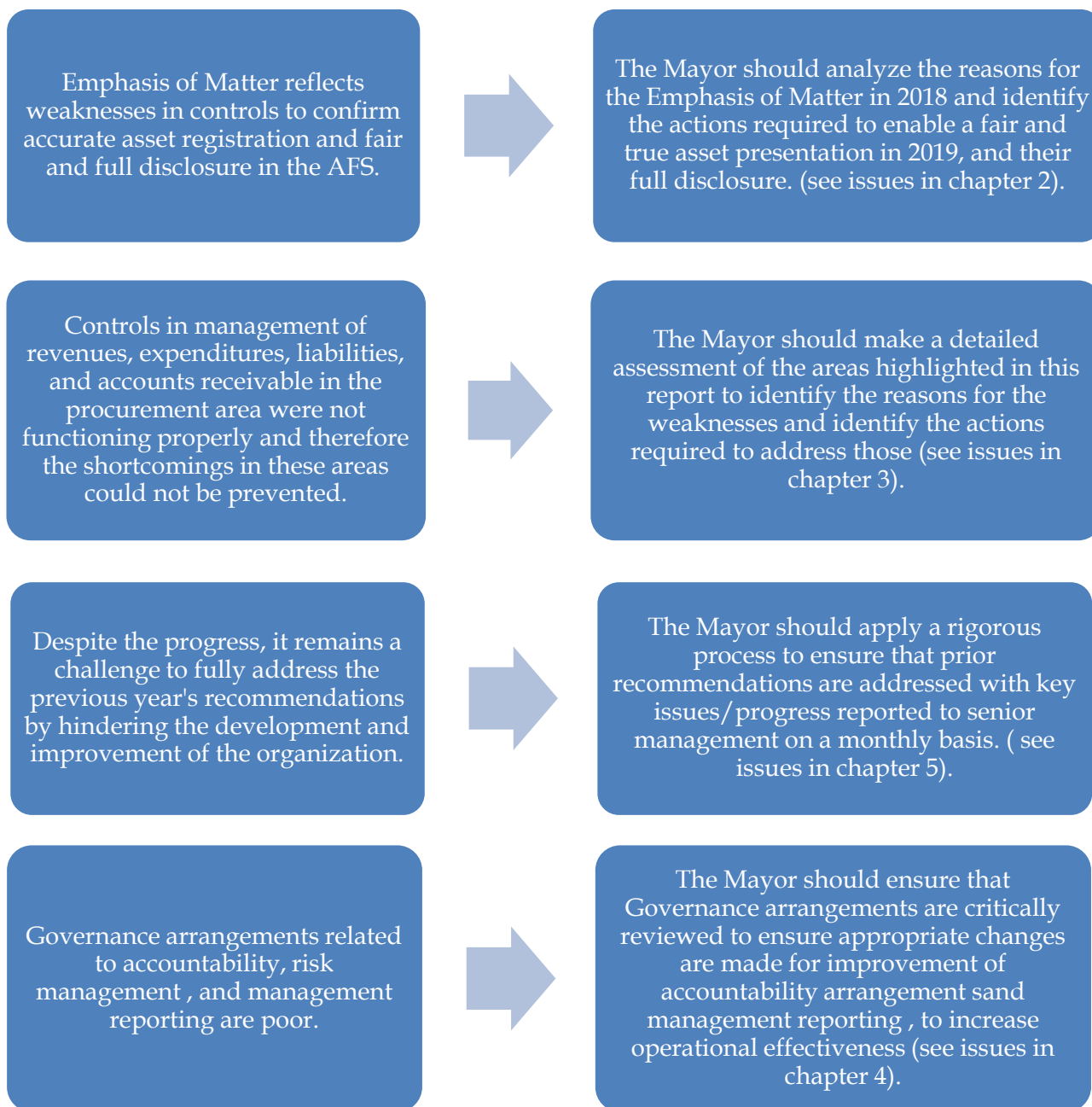
Emphasis of Matter

As an emphasis of matter, we would like to mention the fact that non-financial assets in the Annual Financial Statements were not presented fairly as they were understated by €278,654 on one hand, and on the other hand overstated by €685,000.

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

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

Key Conclusions and Recommendations:



Response of the Mayor

The Mayor has taken into account and is reconciled with the detailed audit findings and conclusions, and is committed to address all recommendations given. The National Audit Office acknowledges the Municipality Senior Management and Staff for cooperation during the audit process.

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 have been taken appropriate actions for implementation of audit recommendations.

Audit work undertaken is based on risk assessment. We have analysed the Municipality of Peja 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.

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 Peja 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 31st 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

We draw your attention to the fact that:

- The Municipality has not registered 11 payments in the amount of €278,654 for capital investments in the register of capital assets. Payments include: paving roads in Jablanica of Leshan, Kliqinë and Leshan €90,000; construction of music school in the amount of €73,183; construction of a daytime stay home for older people in the amount of €30,059; construction of art high school €26,345; expansion of capacities for cultivation and preservation of raspberry in the amount of €17,161; replacement of parquet in Karagaq sports hall €15,000; construction of Vitomirica sports hall €11,630; Paving, landscaping and installation of public lighting in Puhovc district €10,000, and several payments in the amount of €5,276; and
- The Municipality has recorded incorrectly two payments in the amount of €685,000 for ongoing investments and consequently asset register is overstated by the same amount. Payments were made by the Municipality for RWC "Hidrodrini" from the code of capital transfers to finance the project related to the construction of the Wastewater¹ Landfill. The reason why the Municipality should have not registered as ongoing investments is related to the fact that the payment was made from code of capital transfers and the funds were transferred to the bank account of RWC "Hidrodrini" as a beneficiary of the project, and the municipality does not make direct payments to the economic operators. Furthermore, the construction of the landfill has not started yet and the registration of this property after the construction has to be done by the beneficiary.

This situation has resulted from the fact that part of the payments were made at the end of the year, but also as a result of the negligence and lack of knowledge of the assert officer regarding the requirements of the asset regulation.

Our opinion is not modified for these issues.

¹ Participation with KFW in the construction of the landfill for wastewater treatment €595,000 and €90,000. The aim of the project is to improve collection and treatment of wastewater in the city of Peja. The project beneficiary and implementer is RWC "Hidrodrini". The cost of the Project is €25million. Expenditures will be carried out by KFW Development Bank in the amount of €9 million, €7.6 million from SECO, and €3 million from the Municipality of Peja, with a local contribution (land/land-use-rights) from the municipality an estimated value of 1.6million euros and 3.8million euros from future EU funds or local contributions from MESP.

Responsibility of Management for AFS

The Mayor 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 Finance Management and Accountability (as amended and supplemented).

The Mayor of the Municipality is responsible to ensure the oversight of the Municipality's financial reporting process.

Auditor General's Responsibility for the Audit of the AFS

Our responsibility is to express an opinion on the AFS based on our audit. We conducted our audit in accordance with ISSAIs. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will detect 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 and supplemented);
- Compliance with Financial Rule no.01/2013 on Public Funds Expenditure and 02/2013 on Management of non-financial Assets;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures.
- Initial and Final procurement plan; and
- Regular quarterly reports for Municipal Assembly.

The Municipality of Peja have not performed reconciliations with the treasury at the Ministry of Finance, due to open advance payments. AFS were not subject of a proper level of review by the management. The data in the AFS of the Municipality were understated compared to KFMIS data, which we present below:

In Article 14 - Note 3, Goods and Services - it is noted that in the final budget column there is a difference between KFMIS and AFS data by €46,000;

In Article 14 - Note 6, Capital Investments - it is noted that in the final budget column there is a difference between the data of KFMIS and AFS by €66,973. Also, in the column of execution we have a difference between the data of KFMIS and AFS by €35,387; and

In Article 18 - disclosure of contingent liabilities - it is noted that they were overstated by €82,081. During the testing of payments it was confirmed that this amount of liabilities was paid, while it was still shown as a contingent liability in the AFS.

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

2.3 Recommendations related to Annual Financial Statements

For the above-mentioned issues we recommend:

Recommendation A1 The Mayor should ensure that actions are taken to address the Causes of Emphasis of Matter in the Audit Opinion. All non-financial assets should be recorded in the assets register, while assets that are not owned by the Municipality should be removed from the records to avoid their overstating. Further on, the Mayor should ensure that effective processes are established to confirm that 2019 AFSs address all issues pertaining to identified financial errors.

The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be signed unless all the necessary checks have been applied to the AFSs.

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

The Municipality of Peja spent 97% of the final budget for 2018, which implies a very good performance. In the context of financial systems, revenue controls are generally appropriate and effectively implemented, however, additional mechanisms are needed to respond to revenue collection at a higher level and collection of receivables to a greater extent.

In addition, controls over a range of spending areas require further improvement to prevent misclassification of spending, recruitment of employees with short-term contracts, disregarding procurement rules, increased payments through court decisions, and delays in finishing capital projects.

Further on, the Municipality should take action to improve the management and full reporting of assets and liabilities, issues that are raised also in the previous year's report.

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 ²	2018 Outturn	2017 Outturn	2016 Outturn
Sources of Funds	24,554,896	25,473,230	24,804,412	23,082,882	22,047,434
Government Grant -Budget	20,455,234	20,799,254	20,777,770	18,027,839	17,496,799
Carried forward from previous year ³ -	-	225,064	224,264	1,060,824	728,484
Own Source Revenues ⁴	4,066,262	4,066,262	3,546,914	3,384,644	2,841,727
Domestic Donations	-	43,063	17,591	194,279	472,244
External Donations	-	261,489	237,873	415,296	508,180
External Borrowings	33,400	78,098	-	-	-

The final budget in relation to the initial budget have been increased by €918,334. This increase is a result of domestic and external donations by €304,552, revenues carried forward in the amount of €225,064, external borrowings in the amount of €44,698, and government grant in the amount of €344,020.

In 2018, the Municipality spent about 97% of the final budget or €24,804,412, with an improvement of 2% compared to 2017 (95%).

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

Description	Initial Budget	Final Budget	2018 Outturn	2017 Outturn	2016 Outturn
Spending of funds by economic categories	24,554,896	25,473,230	24,804,412	23,082,882	22,047,434
Wages and Salaries	13,924,067	13,775,408	13,644,056	13,219,353	13,213,466
Goods and Services	2,853,380	2,888,888	2,834,090	2,407,120	2,559,607
Utilities	701,924	707,711	706,618	683,863	664,499
Subsidies and Transfers	300,000	302,250	300,260	286,808	248,570
Capital Investments	6,775,525	7,798,973	7,319,388	6,485,738	5,361,292

Explanations for changes in budget categories are given below:

² Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

³ Own Source Revenues unspent in previous year carried forward into the current year.

⁴ Receipts used by the entity for financing its own budget.

- The final budget for wages and salaries compared to the initial budget was reduced by €148,659. This reduction resulted from Government's budget savings. Budget execution in this category was about 99%;
- The final budget for goods and services was increased by €35,508, for utilities by €5,787 and for subsidies and transfers by €2,250. The budget for goods and services was executed at the rate of 98%, utilities 100%, while in the category subsidies and transfers about 99%; and
- The final budget for capital investments compared to the initial budget was increased by €1,023,448. The increase of €500,000 for financing of the expropriations has resulted from Government's decision, while another increase resulted from own source revenues and designated donor grants. Despite the increase in the budget for capital expenditures during 2018, approximately 94% of the budget was spent.

Recommendations

We have no recommendations in this area.

3.1.1 Revenues

Revenues generated by the Municipality were in the amount of €3,589,495. Revenues are collected from property tax, construction permits, rent revenues, etc.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2018 Receipts	2017 Receipts	2016 ⁵ Receipts
Own source revenues	4,066,262	4,066,262	3,589,495	3,051,922	3,016,853

Of the total planned own source revenues, the municipality had managed to collect 88%, and there is a positive trend observed in collecting revenues over the years.

In addition to the revenues presented in the table, the Municipality also had collected indirect revenues from traffic fines in the amount of €659,472. These revenues were collected from the traffic fines in the amount of €556,258, court fines in the amount of €103,207 and from the forests revenues in the amount of €7.

⁵ Receptions of 2016 include indirect revenues.

Issue B1 – Inadequate management of leased municipal properties

Finding According to Law 041/144, allocation for use and exchange of immovable property of the municipality is made through open public announcement. The Municipality did not have an accurate and complete database of leased properties. We were provided with various lists where one had 42 leased properties, and the other list had 29 leased properties. These properties were leased without auction, except for a property that was given on auction in 2018.

In three cases there was no information about the time of lease and the expiration of the contracts.

Risk Lack of control, and lack of a database on leased properties, and operation without contracts deprives the municipality of the right to collect revenues and initiate court proceedings in case of non-collection of receivables in time.

Recommendation B1 The Mayor should analyse the reasons for inadequate management of municipal property and ensure that the use of municipal immovable property is made only when legal requirements are met in accordance with the rules.

Issue A 2 – Irregularities in management of property tax

Finding Law on Property Tax no. 03/L-204, in Article 9, stipulates that each owner (person) is allowed a deduction of €10,000 from the taxable value of the primary (principal) property. We have identified nine (9) cases where this legal requirement was not respected, applying a deduction of €10,000 for two or more registered properties as the primary residence for the same taxpayer. With entering into force of the new law on property tax from January 2019 there is a progress in this area since the owner identification number has been established, which prevents benefiting from more than one property. In future times we will confirm if all properties are registered according to the identification number.

Such shortcomings have occurred from the fact that the identification of the owners was made on the basis of the name and surname, whereas, there were many owners with the same name and surname. This also resulted from the negligence of officials to accurately verify the property.

Risk Failure to apply taxes according to the legal requirements of property tax increases the risk that collection of revenues from this category will be lower, and unfair treatment of owners in relation to legal rules.

Recommendation A2 The Mayor should ensure through the property tax director that all owners on the database system are registered under the identification number, and take additional actions to do this at shortest time possible, eliminating errors in data processing.

3.1.2 Wages and Salaries

Wages and Salaries are paid through a centralized system. Controls operating at local level by the municipality relate to: controlling payments by signing payroll lists; verification of possible changes that may emerge between the forms; budget review for this category and reconciliation with the treasury.

The final budget for wages and salaries was €13,775,408. Out of them, €13,644,056 or about 99% of the planned budget was spent.

Issue B2 – Inadequate management of personnel files

Finding The Municipality had not yet completed the personnel files in accordance with Regulation no. 03/2011 on files and registers for civil servants and files in the education sector. We have observed that:

- Civil servant files, in four cases lacked documents such as: citizenship and residence certificates, certificates if pending or not pending investigations, certificate of work experience, performance evaluation form, and other evidence required to be part of the personnel files; and
- In the files of the education staff, in four cases there was no performance evaluation, a requirement of AI No.14 / 2013 of the Ministry of Education.

Shortcomings mainly resulted by negligence and inattention in filing files.

Risk Failure to update and complete files with the necessary documentation increases the risk of inadequate staff management and reflects irregularities and lack of information on the staff employed.

Recommendation B2 The Mayor should ensure that specific steps have been taken to improve controls on personnel files so that all files are completed with the necessary documentation by the end of the year for the purpose of staff management.

3.1.3 Goods and Services and Utilities

The final budget for goods and services/utilities was €3,596,599. Out of them, €3,540,708 or around 98% of the planned budget was spent. They mainly relate to utilities, travel, telecommunications, purchase of equipment, fuel, registration and insurance services, maintenance, and official lunch.

Issue C1 - Shortcomings in managing recruitment through short term contracts

Finding During 2018, the Municipality had 51 employees. Of these, 6 were engaged with the Law on Labour and 45 of them were recruited through special service agreements (SSA), based on the Law on Civil Service.

In 45⁶ cases, SSA recruitments were made without any simplified recruitment procedures, in spite of the fact that Article 12 of Law No. 03 / L-149 on Civil Service stipulates that appointments for a period of less than six months should be made with simplified recruitment procedures. It is also noted that the staff was mainly recruited for regular⁷ job positions.

According to municipal officials, the identified shortcomings have resulted from the lack of budget for new staff for permanent programs, and limited job approval by the Ministry of Finance (MoF), compared to the need.

Risk Covering positions with short term agreement not applying procedures poses the risk that inadequate staff may be engaged in such positions, and it may result in poor performance and failure to meet the objectives.

Recommendation C1 The Mayor should ensure the termination of such a practice of engagement without recruitment procedures. Further on, if there is a need for regular positions, the Municipality should address this request during budget planning, and to address and discuss this issue with MoF.

3.1.4 Subsidies and Transfers

The final budget for subsidies and transfers was €302,250. Of these, €300,260 or about 99% of the planned budget were spent. Expenditures mainly relate to support for cultural, sports and on-spot aid activities.

Recommendations

We have no recommendations in this area.

3.1.5 Capital Investments

The final budget for capital investments was €7,798,973. Out of them, €7,319,388 or around 94% of the planned budget was spent. They mainly relate to infrastructure construction costs, road construction, sewerage, sidewalks, construction and maintenance of facilities, equipment and various improvements to capital assets.

⁶ Six employees by the law on Labour and 39 by the law on civil service were engaged without recruitment procedures.

⁷ Legal Officer, Driver, IT Officer Etc.

Issue A 3 – Misclassification of capital expenditures**Finding**

Law no. 06 / L-020 on the Budget of the Republic of Kosovo for 2018 and the accounting plan clearly define that expenditures should occur from appropriate economic categories. We have identified five cases of misclassification of capital expenditures mainly due to poor budgeting such as:

- From capital investments were paid €4,752 to supply MFMC with 10 oxygen appliances. Also, for the supply of pellets were paid €1,000, and €612 for the supply of computers. These supplies by their nature belong to goods and services;
- From capital investments were paid €17,353 for purchase of cow milking machines for farmers of the municipality, although this payment by the nature belonged to the subsidies; and
- From capital investments, €73,068 was paid according through court decision /enforcement procedure - for compensation of a student who had suffered physical/psychological injuries from the explosion of the central heating tan in a primary school.

According to the municipal officials, the reason for this occurrence is that budget appropriation for category of goods/services and subsidies were really low, while the need was very high.

Risk

Inappropriate planning of budget appropriations not based on needs has led to misclassification. Incorrect reporting or classification of the data in the financial statements leads to misunderstanding of the Municipal financial activities.

Recommendation A3 The Mayor should ensure that a proper budget planning is made in accordance with the needs, and ensure that only those capital projects that are related to the acquisition of assets for the needs of the municipality are set in the PIP. Planning and budgeting of certain projects should be done based on the accounting plan approved by the Treasury.

Issue A 4 – Shortcomings in certification of payments and management of contracts

Finding In three cases we have identified shortcomings in certification of payments, and management of contracts as follows:

- In the payment of €19,913 for the maintenance of the schools we have found that the installation of the heating tanks in the amount of €900 was billed and paid twice. Upon our addressing of this issue the financial error is corrected;
- In the payment of €73,182 for “ Construction of the building of Music School Halit Kasapolli” we have found that for three items⁸ the invoiced prices were higher than the contracted ones, and subsequently they paid about €1,065 more than needed;
- In the contract “Construction of secondary school of art Odhise Paskali”, through physical examination we verified that the supply of material and fixing of metal made stairways combined with wood was not done, even though the payment was issued based on the letter for acceptance of works. According to contract managers, the items have a common price and there was no way to make a separate payment for the stairways, and the stairways will be fixed upon completion of all other rough works in the building, to prevent their damage during execution of the works.

This was due to the negligence/inattentiveness of contract managers and certifying staff in applying effective controls on public funds expenditure. It should be noted that upon our remarks the municipality has taken necessary measures and has come to the agreement with the economic operators for return of public funds into the municipal budget.

Risk The negligence/inattentiveness of contract managers and certifying officers to apply controls may result in irregular payments and increase the risk for misuse of public funds.

Recommendation A4 The Mayor should ensure that Contract Managers and Certifiers apply effective controls in the process of public funds expenditure, to ensure that payments are made only for contracted prices and work/supplies. Further on, when financial errors are identified, the municipality should make sure that the funds will be returned to the municipal budget, or withhold them from the next payments, during the execution of these contracts.

⁸ Item A3.1 (contracted price €0.65 - invoiced price €0.69); item A4.1 (contracted price €60 - invoiced price €94.8); and item A6.1 (contracted price €1.25 - invoiced price €1.30);

Issue A 5 - Changes in the bill of quantities for the non-framework contracts without the approval of the CAO

Finding Changes in quantities are allowed in framework contracts. We have found that there were adjustments or changes in the quantities carried out in some items in three (3) non-framework contracts⁹, increasing/decreasing over 10% of the contracted quantity, not affecting the total contract price. For such changes no approval was obtained by CAO, as required by Articles 61.21, 61.22 and 61.23 of the rules and operating guidelines for public procurement.

It should be noted that project managers were not aware of the legal requirements for public procurement regarding the necessary approvals for amendment of contracts.

Risk Changes in the bill of quantities and estimated value without the approval of the procurement office and the NAO reveals the weaknesses in the controls applied by the senior management and poses the risk that the cheapest operator is not selected due to changing of the terms of the contract.

Recommendation A5 The Mayor should ensure that Project Managers are properly informed about specific requirements for public procurement, and that it is reported for any deviation from the terms and conditions of the contract. Further on, every change in the terms of the contract must be justified and approved by the Procurement Office and the CAO.

⁹ 1. Road asphaltting Hysni Rama, Mihajlo Pupin 2. "Installation of horizontal and vertical signs in the streets of Municipality of Peja"; 3. Supply and planting of trees at the entrance of city along regional road Pejë-Prishtina"

Issue A 6 - Lack of an executive project and contract management plan**Finding**

Article 20 paragraph 10 of the Operational Guidelines for Public Procurement (OGPP) requires that the technical specifications for the work contract should include an executing project as a substantial part of itself. We have found that:

- In 22 signed employment contracts, the municipality had not drafted an executive project but initiated procurement procedures by preparing only the bill of quantities and estimated value. The Municipality had no internal capacity nor contracted companies to carry out drafting of executive projects. Executive projects were announced/contracted only for specific constructions. Lack of projects was mainly on road asphaltting and according to municipal officials it was due to the lack of financial funds, and according to them the drafting of executive projects is increasing the cost of road asphaltting; and
- In 4 employment contracts we have found that no contract management plan was drafted as required by article 61.7 of OGPP.

Risk

Failure to draft the executive project and plan constitutes the opportunity that the projects that are initiated only with bill of quantities and estimated value are not worked in professional way, there will be delays in their implementation, and as such may produce additional costs.

Recommendation A6 The Mayor should ensure through the procurement manager that all work-related procedures are not initiated prior to ensure the executive project. Proper preparations for a project will lead to preparation of clear specifications, eliminating obstacles such as, delays and additional costs. The contract management plans should also be drafted.

Issue A 7 – Delays in execution of contracts

Finding From tested payments we have identified delays in execution of the following works:

- In seven (7)¹⁰ completed contracts there were delays in their implementation from 20 calendar days up to 10 months; and
- In four (4) other contracts¹¹ that should have been completed in 2018, but were not yet concluded during our audit (April 2019).

It should be noted that in none of these cases there was a request/approval for extending the deadline for performance of contracts as required by Articles 17 and 18 of the tender dossier in. Also, there was no penalty applied.

According to contract managers, delays in execution of contracts were mainly due to work specifications, damage of worksite for objective reasons, development of works at the same time by different operators, issues with local residents, weather conditions, etc.

Risk Delays in execution of contracts increase the risk that the obligations will be carried forward at the end of the year, this will burden the budget of the following year, and all this will subsequently affect in achievement of the objectives defined by the Municipality.

Recommendation A7 The Mayor should ensure that contract managers provide sufficient information on the performance of the contracts implementation in their reports, and to validate the process for extension of deadlines, when they are justified by the Municipality. In addition, to increase control measures, in order to apply penalties for days when there are unjustified delays.

10 Lot 1 - "Construction of the Physical Education Hall in primary school "Lidhja e Prizrenit"; Lot 2 - Construction of the Physical Education Hall in primary school "Dëshmorët e Kombit"; "Installation of parquet and painting of the sports hall at Primary School in Nabërgjani"; for "Asphalting of roads Hysni Rama, Mihajlo Pupin," Public lighting construction in Broliq village "," Construction of music school Halit Kasapolli - rough works "and" Supply and planting of trees at the entrance of the city along regional road Pejë-Prishtina " .

11 1. Contract for "Asphalting of roads in the villages Jabllanicë e Leshanit, Kliqine, and Leshan"; 2. "Installation of Public lighting in some districts in the city of Peja - stage II"; 3. Contract for "Construction of the Secondary School of Art Odhise Paskali" and 4. "Construction of the sports hall in the primary school in Vitomirica".

Issue A 8 – Shortcomings in procurement procedures**Finding**

Purchases through public procurement shall be carried out in accordance with the requirements of the LPP, respecting the criteria set out in the tender dossier and the contract notice. We found that:

- In the contract for “Construction of the Protective Wall to Lumbardhi from Shoe Leather processing Factory to the Bridge in Transit” in the amount of €697,190, we found that the performance security did not cover the period of contract execution. The deadline for the performance of the contract was 31.12.2020 while performance security expires on 31.12.2019; and
- In the procurement activity “Construction of the primary and low secondary school in village Leshan” were not fulfilled the requirements of the tender dossier/contract notice related to the professional experience of the staff, respectively project manager assigned by the operator have not provided a contract but only a CV, and that only for 2 years of work experience and not for 3 as required.

This situation resulted from negligence of the relevant officials in applying controls during the performance of their duties.

Risk

Lack of performance security to fully cover execution of the project, provides limited possibility to the CA to force the EO in respecting the terms of the contract poses the risk that the contract will not accomplished. Further on, awarding of contract without fulfilling the criteria leads to disrespecting of the criteria set out in the tender dossier.

Recommendation A8 The Mayor should ensure through the procurement manager that the criteria have been met in full compliance with the requirements, and ensure that all these shortcomings related to fulfilment of the criteria are identified and prevented during the evaluation process.

Issue A 9 - Shortcomings in the process of selecting and supervising the agreement**Finding**

The Municipality financed €18,673 for the construction of a depot-refrigerator on a private farmer's property in order to expand the capacity for cultivation and storing of raspberry in the municipality of Peja. The agreement was reached for 10 years where the Municipality would own the depot/refrigerator. We have found that:

- The selection of the beneficiary was not made through the public announcement procedure as required by Section 12 of the Municipal Regulation No.01-2017 on allocation of subsidies, but this was based only on the farmer's request and his agreement with several other farmers raspberry cultivators; and
- The agreement reached did not oblige the beneficiary to report on the implementation of the terms of the agreement, a requirement set under Articles 13¹² and 23¹³ of the municipal regulation. The Municipality did not foresee any supervising/guaranteeing mechanisms for implementations of the terms of the agreement.

Risk

Failure to assign responsibility for regular reporting, and lack of supervising/guaranteeing mechanisms poses the risk that the refrigerator is not used in compliance with the purpose and conditions set forth for Public Funds Expenditure. While, non-application of public announcement makes this process non - transparent and does not provide certainty that the best possible agreement has been reached.

Recommendation A9 The Mayor should ensure that the agreement between the Municipality and the Beneficiary have been renewed, which will determine the obligations related to the reporting of the Beneficiary on a regular basis, as well as to determine supervising/guaranteeing mechanisms to guarantee fulfilment of the purpose and implementation of the terms of the agreement. Further on, to ensure that public announcement procedures are applied for similar cases.

¹² It stipulates that for execution of the subsidy, an agreement should be concluded which defines the rights and obligations of the parties such as: purpose, amount of financial funds, time limits, supervision, subsidy form, reporting etc.

¹³ Beneficiaries are obliged to submit a narrative and financial report after receiving subsidies, which must have all documented costs and activities that have been carried out during project implementation.

3.1.6 Common Issues on Goods and Services and Capital Investments

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

Issue B3 –The consequences of payments through court - enforcement decisions

Finding

Article 39 of the LPFMA defines that CFO of the budget organization is responsible to ensure that each valid invoice is paid within 30 calendar days after receiving the invoice or payment request. We found that payments were executed based on court decisions in the amount of €539,411. Of which the main debt was €478,284, the interest for delays in payment and the procedural costs of the court (enforcement) were €61,126. Exceeding of legal deadline of 30 days due to the lack of budget has led to taking of funds from inadequate economic categories. We have tested two payments that were executed according to court/enforcement decisions, such as:

- Payment of €20,151 for “Digitalization of Cadastral Device” - of which the main debt was €17,857, while other expenses were €2,294; and
- A payment of €73,068¹⁴ for compensation of a student who had suffered physical/psychological injuries from the explosion of the central heating tank in an primary school. Of which the main debt was €56,675, while other expenses were €16,393.

In both cases, the Municipality have opposed the payment of fees based on the reasons given, however, the Municipality’s claims were unsuccessful for the fact that the court had not decided in favour of the Municipality.

Risk

The executed amounts of payments through court decisions constitute additional costs, leading to disruption of budget balance, and poses the risk for non-accomplishment of planned projects and reduce of the flexibility in municipality’s expenditures.

Recommendation B3 The Mayor should ensure proper planning of the budget by strengthening the financial discipline for timely execution of payments, and to take appropriate measures to properly manage obligations, and to prevent incurring of additional costs.

3.2 Capital and non-capital assets

According to the KFMIS accounting register, the presented net asset value (over €1,000) is €326,838,148, while the value of non-capital assets (under €1,000) is €289,740.

¹⁴ For this purpose are carried out two payments (€37,047 + €36,021)

Issue A 10- Shortcomings in asset management and inventory**Finding**

Asset Management is regulated by Regulation no. 02/2013. In property management we have identified the following shortcomings:

- Capital investments in the amount of €616,532 (16¹⁵ payments) were recorded as assets in use, while they were due to be registered as the ongoing investment because the projects were still in the investment /construction phase;
- Capital investments in the amount of €107,345 (4¹⁶ payments) were registered as new items in the capital assets register, although they were improvements to existing assets , and that the value of the respective asset should have been increased;
- The Asset Officer had incorrectly recorded in the capital asset register such as: 10 oxygen appliances of €4,752 (value of each unit is €475), supply of €1,000 for pellets and servicing of the tank in the amount of €130; and
- The Municipality at the end of the year had established an inventory commission, but we verified that the inventory process did not include schools, MFMC together with FMCs and outpatient care, which means that inventory was incomplete and this is in contradiction with article 19.4.1 of Regulation 02/2013 on asset management.

This situation have resulted from negligence and lack of knowledge of the Asset officer in relation to the requirements of Asset Regulation. It also happened because the municipality did not have any approved internal rules/procedures for recording, storage and alienation of assets, as required under section 4.1 of regulation 02/2013 on management of non-financial assets.

Risk

Lack of accurate and complete registers results in a lack of information for the management in relation to the assets owned by the municipality, causing over or understatement of assets, and may result in their incorrect presentation in the financial statements. Further on, incomplete inventory increases the risk for misuse, loss or alienation of assets.

Recommendation A10 The Mayor should ensure effective asset management, including full and timely inventory, so that asset registry presents real situation of assets, for the value of assets is not overstated or understated. Further on, adequate training should be provided to the asset officer in order for the latter has proper competence, and to avoid all uncertainties during asset identification and management.

3.3 Receivables

The Municipality has presented receivables in the amount of €17,635,880 related to: property tax €10,708,700, business taxes €6,391,030 lawsuits in the amount of €495,140, and lease of property in the amount of €38,940, and for kindergarten in the amount of €2,070.

Issue B4 – Constant increase of accounts receivable

Finding Law on property tax sets out the deadlines for payment of taxes. We have confirmed that Municipality receivables have been increased by €1,353,770 compared to the previous year, of which the largest increase was in property tax in the amount of €1,293,190 and the trend is constantly increasing. However, the municipality had taken action through the bailiffs and had signed customer agreements for payment of installments of debts. The effects on the collection of receivables are expected to reflect in the years to come.

Risk The high level of receivables and ineffectiveness in their collection remain a challenge for the upcoming period. Non-collection of receivables leads to statutory limitation of receivables, which may become uncollectible, creating direct financial losses for the Municipality.

Recommendation B4 The Mayor should ensure that all possible options are actively reviewed by setting policies in order to increase the efficiency in collecting receivables. Further on, all measures in accordance with the law should be considered against operators who fail to meet the contractual obligations.

¹⁵ Construction of secondary school Odhise Paskali €76,154. construction of primary school in Leshan village €74,060 and €61,257, asphaltting of several streets and alleys in the city of Peja €69,512 and €30,688, construction of the gym in primary school in Vitimirica €45,028, €18,354 and €16,711, construction of the dam and irrigation canal in Gllaviqice-Vragoc €20,457 and €15,157, construction of the protective wall and promenade of Lumbardh from Patriarchate to Gegaj Bridge, €50,000 and €16,848, construction of the road in the village of Reka e Allagës €44,809, €21,796 and €19,950, construction of public lighting in some districts of Peja town“ €35,751;

¹⁶ Summer maintenance of roads €69,324; School maintenance €19,913; Installation of parquet in the sports hall €16,332 and arrangement of administration counters €1,776.

3.4 Outstanding liabilities

The statement of liabilities not paid to suppliers presented in the financial statements at the end of 2018 was €853,050. These obligations were carried forward to be paid in 2019. However, this reflects only a part of budget implications faced by the Municipality.

Issue B5 - Partial reporting and delays in payment of outstanding invoices

Finding Article 5.2 of the Financial Rule no. 02/2013 on reporting of arrears by budget organizations states: "All Budget Organizations are obliged to report their outstanding liabilities to MoF -Treasury. We have found that:

During 2018 the municipality had reported only for January, June, September, October, November and December at MoF- Treasury.

Article 39 of the Law on Management of Public Finances sets the deadline for payment within 30 days upon receipt of the invoice. In 12 tested samples in the amount of €414,629 we identified delays in payments from 9 to 160 days.

This situation has resulted from negligence of the officer responsible for reporting of Outstanding Liabilities and according to him, this has happened due to some software issues that have led to the loss of electronic records on received invoices.

Risk Failure to regularly report liabilities in the monthly reports except for the omission of the rules is an incorrect reflection of the obligations of the management and others, while delays in the payment of obligations within the legal deadline may result in an increase in municipal obligations, the possibility of being subject to court proceedings, and budgetary implications for the following fiscal year.

Recommendation B5 The Mayor should ensure establishment of a financial discipline, which allows payment of all received invoices within legal deadline, in order to manage obligations. Further on, should establish an effective system in which all outstanding invoices are accurately and fully reported on a monthly basis to the MoF.

4 Good Governance

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

A key tool supporting effective governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. The level of compliance with FMC requirements by Budget Organizations is monitored by the self-assessment checklists completed by all BOs, which are submitted at the end of the year to the Ministry of Finance.

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

Overall Governance Conclusion

There is a number of governance weaknesses within the Municipality of Peja, particularly related to accountability, risk management and the quality of management reporting. An effective response to audit recommendations and the operation of a high quality internal audit unit are not in place.

The Municipality had drafted a risk register but still lacked effective monitoring and management.

All Municipalities are obliged to prepare and follow strategic plans at organization level, such as urban planning, spatial plans, emergency operational plans and more.

The Municipality has prepared the Urban and Municipal Development Plan 2006-2025, however, does not yet have the "Municipal Zoning Map", but only the decision for its drafting on 21.09.2017 has been taken, and so far its drafting has not taken place.

4.1 Internal Audit System

The Internal Audit Unit operates with two auditors. It had drafted the strategic plan, and the annual work plan. The Audit Committee also held four meetings during 2018.

Out of ten audits planned, all of them were implemented. Audits have covered different directories and were mainly focused in the area of expenditures, procurement, subsidies and revenues.

Out of 37 recommendations given in these internal audit reports, 26 were fully implemented, 6 were in the process, and 5 were unimplemented. This indicates that there is a good progress in implementation of recommendations, and this process was also followed by the support of the audit committee.

Recommendations

We have no recommendations in this area.

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 Organization.

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

Issue B6 – Weaknesses in management controls and risk management

Finding Our Review of Managerial Controls Implemented in the Municipality’s Main Financial System has highlighted poor financial reporting on expenditures and revenues as well as incomplete analysis of service delivery. Although accountability and communication lines were functional through regular weekly meetings, the current reporting format does not provide a basis for effective internal controls, since written reporting to senior management is made only upon request, and not on a regular basis. As a result of poor controls, weaknesses in the procurement area, payment of expenditures, asset registration and collection/payment of debts have been observed.

The Municipality has compiled a risk register which identified the expected risks against set objectives, determining their management manner, and responsible units to address them. However, their management was not formally monitored.

Risk Poor accountability requirements and low quality financial reporting reduce the effectiveness of financial management. This results in weaknesses in the budget process and reduces management’s ability to timely respond to the financial challenges. It also reduces the effect of budget controls and increases the risk of additional expenditures. Subsequently, this may also result in the provision of poor service delivery.

Recommendation B6 The Mayor should ensure that a review is carried out to determine the form of financial and operational reporting to senior management. Further on, the municipality should ensure effective monitoring and quarterly reporting on implementation of requirements in this area, in order to reduce the impact of risks at acceptable levels.

5 Progress in implementing recommendations

Our Audit Report on the 2017 AFS of the Municipality resulted in 19 key recommendations. The Municipality of Peja prepared an Action Plan stating how all recommendations will be implemented. However, sufficient actions has not been taken since the action plan has not been fully implemented and the same shortcomings continue to be repeated in several areas.

At the end of our 2018 audit, 11 recommendations have been fully implemented; one was in process; and six have not been addressed yet. While, one recommendation was closed. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or Table of recommendations).

Table 4 Summary of prior year recommendations and of 2018

No	Audit area	Recommendations of 2017	Actions taken	Status
1	Revenues	The Mayor should ensure that the verification of immovable property tax is done in accordance with the rules in order to integrate any eventual changes to the existing property database in order to determine the realistic tax burden for all facilities within the territory of the municipality.	Management had taken appropriate actions to implement the recommendation.	Recommendation implemented
2		The Mayor should ensure that the necessary actions are taken to correctly calculate the tax burden on the taxpayer by applying the quality criteria of the facilities in accordance with the multipliers set by the legislator.	Management had taken appropriate actions to implement the recommendation.	Recommendation implemented
3		The Mayor should analyze the reasons for inadequate management of municipal property and ensure that the use of municipal immovable property is made only when legal requirements are met in accordance with the rules.	No action was taken.	Recommendation not implemented
4	Wages and Salaries	The Mayor should strengthen human resources controls and ensure that when recruiting education staff public competition criteria is adhered to and only candidates who fully meet the criteria set out are hired.	We have not identified any shortcoming during the tests.	Recommendation implemented
5		The Mayor should ensure that all employee files are completed with the necessary documentation for staff management and performance appraisal, achievement of objectives, which should be tailored to a specific internal policy on this issue.	No action was taken.	Recommendation not implemented
6	Goods and Services	The Mayor should ensure that measures are taken to terminate the practice of concluding contracts	This year there was no deadline exceeded for	Recommendation in process.

		without recruitment procedures and the duration of these agreements is made in line with the relevant legislation. If there is a need for additional employees in the Municipality (regular positions) to ensure that the following years budget in the category of wages and salaries include the salaries of all requires employees, as well as all payments for their salaries go through the payroll system.	contracts with SSA, and there were no recruitments in most of the cases this year.	
7		The Mayor should strengthen internal controls that ensure that bill of quantity and pre-calculations are prepared by the requesting unit in order for the supplies is in line with the real needs of the institution and that the calculation of the contract value is made in accordance with the LPP requirements.	Proper actions were taken.	Recommendation implemented
8		The Mayor should provide that when setting up different committees, the principles of segregation of duties are considered as foreseen by the applicable law.	Proper actions were taken.	Recommendation implemented
9		The Mayor should ensure that the type of wood to be supplied to the municipality is clearly specified in such cases in accordance with real needs.	Proper actions were taken.	Recommendation implemented
10		The Mayor should ensure that during the travels, the list of participants is approved beforehand to ensure that expenditures rely on adequate and sufficient evidence.	Proper actions were taken.	Recommendation implemented
11		The Mayor should ensure that requirements arising from the law on procurement are being implemented entirely and in any case only the extension of public framework contracts is not practiced.	Proper actions were taken.	Recommendation implemented

12		The Mayor should ensure that the received supplies includes the staff of the relevant institutions as well as provide evidence and information on the quantity of supplies delivered.	Management had taken appropriate actions to implement the recommendation.	Recommendation implemented
13	Subsidies and Transfers	The Mayor should ensure that subsidy beneficiaries report on the way how funds are used, and in cases where funds are not used for the purpose given, legal action against subsidy beneficiaries is taken.	Measures were taken by the management, the beneficiaries report on the manner of utilization of the funds.	Recommendation implemented
14	Common issues related to goods and services and capital investment	The Mayor should ensure that a detailed analysis of the causes for execution of a large number of payments by court decisions has been made and required actions are taken to address them in order to eliminate additional payments for judicial decisions.	It is still a challenge.	Recommendation not implemented
15	Receivables	The Mayor should ensure that all possible options are actively reviewed by putting in place policies aimed at increasing the efficiency of collecting receivables. Further on, all measures in line with the law should be considered, against operators who do not meet contractual obligations.	No action was taken to implement the recommendation.	Recommendation not implemented
16	Outstanding Liabilities	The Mayor should ensure that all payments are made within 30 days of receiving the invoice. Further on, an effective system should be established where all unpaid invoices are accurately and thoroughly reported on a monthly basis in the MoF, and at the end of each year are explicitly disclosed in the AFS.	No implementation has started, but the need for implementation is obvious.	Recommendation not implemented
17	Progress in implementing recommendations	The Mayor should ensure that the implementation of the Action Plan is monitored on a continuous basis and is reported on a regular monthly or quarterly basis with respect to the progress achieved in this regard.	Recommendation closed.	Recommendation closed

		Recommendations that are not implemented by deadlines should be revised in the short term by the Mayor, as well as pro-active actions are taken against the barriers appearing during the implementation.		
18	Internal Audit System	The Mayor should ensure the effective and full functioning of the Audit Committee to achieve maximum benefit from the IAU's services.	Proper actions were taken.	Recommendation implemented
19	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. Further on, in order to reduce the impact of risks to acceptable levels, the Organization should draft a risk register with all appropriate measures to put the exposed threats under control.	It is still a challenge.	Recommendation not implemented
No	Audit area	Recommendations of 2018		
1	AFS	The Mayor should ensure that actions are taken to address the Causes of Emphasis of Matter in the Audit Opinion. All non-financial assets should be recorded in the assets register, while assets that are not owned by the Municipality should be removed from the records to avoid their overstating. Further on, the Mayor should ensure that effective processes are established to confirm that 2019 AFSs address all issues pertaining to identified financial errors. The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be signed unless all the necessary checks have been applied to the AFSs.		
2	Revenues	The Mayor should analyse the reasons for inadequate management of municipal property and ensure that the use of municipal immovable property is made only when legal requirements are met in accordance with the rules.		
3	Revenues	The Mayor should ensure through the property tax director that all owners on the database system are registered under the identification number, and take additional actions to do this at shortest time possible, eliminating errors in data processing.		
4	Wages and Salaries	The Mayor should ensure that specific steps have been taken to improve controls on personnel files so that all files are completed with the necessary documentation by the end of the year for the purpose of staff management.		
5	Wages and Salaries	The Mayor should ensure the termination of such a practice of engagement without recruitment procedures. Further on, If there is a need for regular positions, the Municipality should address this request during budget planning, and to address and discuss this issue with MoF.		

6	Capital Investments	The Mayor should ensure that a proper budget planning is made in accordance with the needs, and ensure that only those capital projects that are related to the acquisition of assets for the needs of the municipality are set in the PIP. Planning and budgeting of certain projects should be done based on the accounting plan approved by the Treasury.
7	Capital Investments	The Mayor should ensure that Contract Managers and Certifiers apply effective controls in the process of public funds expenditure to ensure that payments are made only for contracted prices and work/supplies. Further on, when financial errors are identified, the municipality should make sure that the funds will be returned to the municipal budget, or withhold them from the next payments, during the execution of these contracts.
8		The Mayor should ensure that Project Managers properly informed about specific requirements for public procurement, and that it is reported for any deviation from the terms and conditions of the contract. Further on, every change in the terms of the contract must be justified and approved by the Procurement Office and the CAO.
9		The Mayor should ensure through the procurement manager that all work-related procedures are not initiated prior to ensure the executive project. Proper preparations for a project will lead to preparation of clear specifications, eliminating obstacles such as delays and additional costs. The contract management plans should also be drafted.
10		The Mayor should ensure that contract managers provide sufficient information on the performance of the contracts implementation in their reports, and to validate the process for extension of deadlines, when they are justified by the Municipality. In addition, to increase control measures, in order to apply penalties for days when where there are unjustified delays.
11		The Mayor should ensure through the procurement manager that the criteria have been met in full compliance with the requirements, and ensure that all these shortcomings related to fulfilment of the criteria are identified and prevented during the evaluation process.
12		The Mayor should ensure that the agreement between the Municipality and the Beneficiary have been renewed, which will determine the obligations related to the reporting of the Beneficiary on a regular basis, as well as to determine supervising/guaranteeing mechanisms to guarantee fulfilment of the purpose and implementation of the terms of the agreement. Further on, to ensure that public announcement procedures are applied for similar cases.
13	Common issues related to goods and services and capital investments	The Mayor should ensure proper planning of the budget by strengthening the financial discipline for timely execution of payments, and to take appropriate measures to properly manage obligations and to prevent incurring of additional costs.
14	Capital and non-capital assets	The Mayor should ensure effective asset management, including full and timely inventory, so that asset registry presents real situation of assets, for the value of assets is not overstated or understated. Further on, adequate training should be

		provided to the asset officer in order for the latter has proper competence, and to avoid all uncertainties during asset identification and management.
15	Accounts Receivable	The Mayor should ensure that all possible options are actively reviewed by setting policies in order to increase the efficiency in collecting receivables. Further on, all measures in accordance with the law should be considered, against operators who fail to meet the contractual obligations.
16	Outstanding Liabilities	The Mayor should ensure establishment of a financial discipline, which allows payment of all received invoices within legal deadline, in order to manage obligations. Further on, should establish an effective system in which all outstanding invoices are accurately and fully reported on a monthly basis to the MoF.
17	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. Further on, the municipality should ensure effective monitoring and quarterly reporting on implementation of requirements in this area, in order to reduce the impact of risks at acceptable levels.

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

Annex I: Explanation of the different types of opinion applied by NAO

(extract from ISSAI 200)

Form of opinion

147. The auditor should express **an unmodified opinion** if it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the opinion in the auditor's report in accordance with the section on "Determining the type of modification to the auditor's opinion".

148. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor should discuss the matter with the management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the audit opinion.

Modifications to the opinion in the auditor's report

151. The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or if the auditor was unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Auditors may issue three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.

Determining the type of modification to the auditor's opinion

152. The decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification – that is, whether the financial statements are materially misstated or, in the event that it was impossible to obtain sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

153. The auditor should express a **qualified opinion** if: (1) having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the

aggregate, are material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

154. The auditor should express an **adverse opinion if**, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

155. The auditor should **disclaim an opinion if**, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, the auditor concludes that the effects on the financial statements of any undetected misstatements could be both material and pervasive. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the audit scope that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705¹⁹ provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex II: Letter of Confirmation



LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në 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 Pejës, 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. Gazmend Muhaxheri

Kryetar i Komunës së Pejës,

Data: 19. Qershor.2019, Pejë,



LETTER OF CONFIRMATION

To: National Audit Office Venue and date: 19.06.2019

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 Peja, 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.

Gazmend Muhaxheri

Mayor of Municipality of Peja

Date: 19.06.2019, Peja