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Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

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

Pristina, Jun 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 Prizren, 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 Kapllan Muhaxheri (Team Leader) and Fetah Osmani, Fanol Hodolli and Arian Zenelaj (team members), under the management of the Head of Audit Department Luljeta Morina.

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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 Prizren 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 02/11/2018.

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

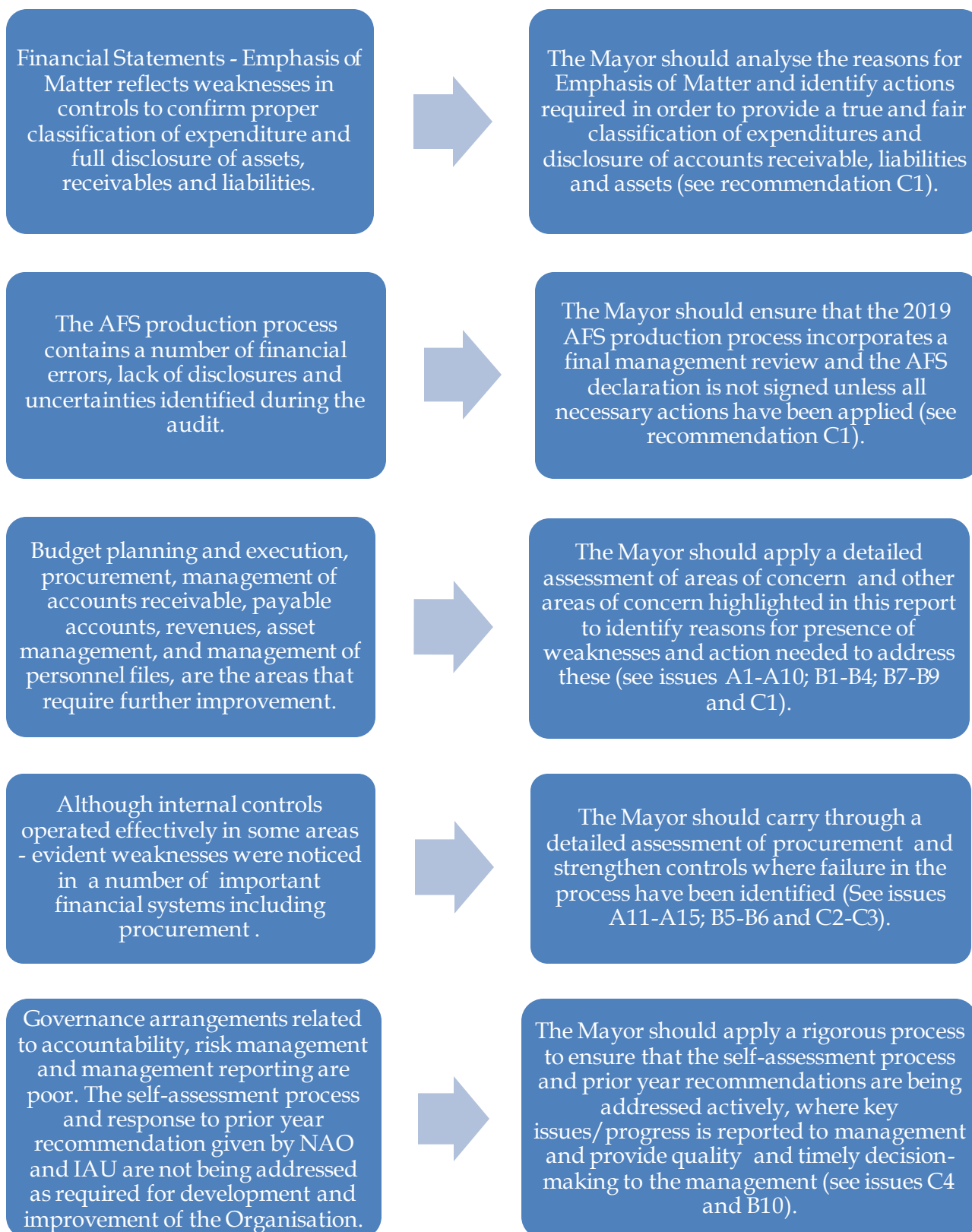
We draw your attention to the fact that expenditures in the amount of €1,047,427 were misclassified, of which €923,878 were budgeted and approved by the Law on Budget.

Further on, disclosure of receivables for property tax were overstated by €214,234 and outstanding liabilities were understated by €904,746. In addition, the information about assets disclosed in the financial statements was incomplete and inaccurate.

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



Management response to audit 2018

The Mayor agreed with the findings and conclusions of the audit, and has committed to address all the recommendations given. The National Audit Office evaluates the cooperation of the management and the staff of the Municipality 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 appropriate actions have been taken for implementation of audit recommendations.

Audit work undertaken is based on risk assessment. We have analysed the Municipality of Prizren 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. Management responses to audit results can be found in Annex II.

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 Prizren 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 Law on Public Finance Management and Accountability -LPFMA (as amended by the Law No.03/L-221, by the law 04/L-116 and by the Law no.04/L-194), and MoF 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:

- Expenditures for goods and services, salaries and wages as well as subsidies in the amount of €965,864 were budgeted, executed and reported incorrectly from the category of capital investments. From this value, payments in the amount of €923,878 were budgeted and approved based on the law on budget. These funds were mainly spent on contracts: Road cleaning; Supplying farmers with wheat and corn seeds; physical security of the building;

Subsidizing sports clubs; Celebrations of June holidays etc. According to the municipality, the reason behind such misclassification was due to the lack of budget in the relevant categories, although for the majority of expenditures the budget was approved by the treasury, but the project codes were classified incorrectly. Also, for court decisions and direct payment from the treasury under Article 39.2 of LPFMA, are made the expenditures for payment of the jubilee salaries to the teachers in the amount of €123,549, from the category of capital investments €41,986 and from the category of goods and services €81,563. These payments are made using the free funds regardless of the nature and the correct classification of expenditure. Despite the presented justifications, according to the public sector accounting standards, these expenditures do not meet the criteria to be regarded as capitals;

- The Municipality has not reconciled the final balances of the receivables for the property tax with the initial balances, overstating these accounts by €214,234¹ in the AFS. The Municipality failed to provide us with evidence to justify the presented difference;
- The liabilities of 2017 in the amount of €792,045, only by the category of capital investments in the amount of €773,114 and €18,931 from the category of goods and services paid during 2018 were not disclosed as outstanding liabilities as set under the requirements of Article 17² in the AFS of 2017. Also, the 2018 liabilities in the amount of €112,691 were not presented and disclosed as outstanding liabilities as set under Article 17³ and they were paid at the beginning of 2019, therefore, the balance of payable accounts for 2018 was understated by €904.746; and
- Non-financial assets over €1,000 disclosed in the AFS do not include the payment for purchase of vehicles from capital investments during 2018 in the amount of €75,707⁴. Our opinion is not modified for these issues.

Key Audit Matters

As key audit matters we mention the fact that:

- The Municipality of Prizren has presented the balance of accounts receivable (AR) in the amount of €18,932,000. This amount includes old receivables from many years, which are made of corporate taxes in the amount of €6,818,000, whereas the possibility to collect them

¹ Balance of 2017 was in the amount of = €7,238,000, billing for 2018 was + €2,833,078, the receipts in 2018 were in the amount of - €2,196,722, the balance should be in the amount of €7,874,356 while it was presented in the amount of €8,089,120, so we have an overstating by + €214,764.

² ("Statement of liabilities (invoices) unpaid from tested samples/supplier base").

³ (Statement of Liabilities (Bills) in Annex 1-Unpaid Bills were incomplete because bills of this value were not presented and they are paid at the beginning of 2019.

⁴ The payment executed in 2018, the purchase of the vehicle for the social welfare director with no. 017/2016 dated 29.12.2016.

is minimal. Also, more than 58% of this account presented in the AFS is made of receivables from waste and property tax;

- During 2018 the municipality has been indicted for significant amounts of liabilities, with €2.5 million being paid directly from the treasury and through court decisions; and
- Municipality has a continuous increase of contingent liabilities. For more than 3,880 cases are subject to court proceedings, their value has reached the amount of €4,130,000, with an increase of €2,907,000 compared to the previous year. If litigation is decided in favour of the operators, the organization is expected to have serious financial loss.

Responsibility of Management for AFS

The Mayor of the Municipality of Prizren 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 by Law no. 03/L-221, Law no.04/L-116 and Law no. 04/L-194;
- Compliance with MoF Financial Rule no.01/2013 – on Expenditure of Public Money and 02/2013 – on Management of Non-Financial Assets by Budget Organizations;
- Law on Local Government Finances No. 05/L- 108 as amended and supplemented by No.03/L-049;
- Requirements of the Law on Budget for 2018;
- Requirements of Financial Management and Control (FMC) procedures;
- Other budget reporting requirements such as: monthly, quarterly reporting, and operating (performance) reports;
- Quarterly reporting to the Municipal Assembly and CAO reports by the MA;
- Action Plan on implementation of recommendations; and
- Procurement Plan and Report on signed Public Contracts.

The AFS submitted in January 2019, were presented with some errors, which management had adjusted and corrected. Along with the adjustments made, the AFS still had some errors, mainly in misclassification of expenditures, as well as disclosures of assets, receivables and liabilities, which we have presented within the Emphasis of the Matter at Audit Opinion.

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, except for the issues we have emphasised in audit opinion.

In the context of other external reporting requirements, we have observed that the Municipality has complied with reporting requirement at a satisfactory level, except for full/accurate reporting of liabilities to the MoF, as set under financial regulation 02/2013.

2.3 Recommendations related to Annual Financial Statements

Recommendation C1 The Mayor should ensure that an analysis is undertaken to determine the causes of the Emphasis of Matter. Actions should be taken to address weaknesses in registration and fair presentation of expenditures, to eliminate weaknesses for full disclosure of assets, liabilities and accounts receivable disclosed within the Emphasis of Matter at Audit Opinion.

Further on, the Mayor should ensure that effective processes are in place to confirm that the 2019 AFS production plan formally addresses all compliance related issues. This includes Management review of the draft AFS with specific focus on high-risk areas and/or areas where errors have been identified in previous years. The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be submitted unless all necessary checks have been applied to the draft AFS.

3 Financial Management and Control

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

Regarding the financial management and implementation of controls, non-execution of capital projects according to the budget, and delays in payment of liabilities (direct payments from Treasury) remain the most concerning challenges faced by the municipality. In the context of financial systems, controls over revenues in general and controls in some areas of expenditure require further improvement to prevent the execution of payments for court decisions. The main areas where more improvements are needed are budget execution in capital projects, management of accounts receivable, misclassification of expenditures, special service agreements, and other.

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 ⁵	2018 Outturn	2017 Outturn	2016 Outturn
Sources of Funds	45,090,516	48,570,932	41,749,765	36,765,293	36,983,514
Government Grant -Budget	36,470,071	36,134,711	33,736,653	30,869,927	30,767,839
Carried forward from previous year ⁶ -	0	3,229,709	2,996,203	1,573,645	1,345,624
Own Source Revenues ⁷	8,121,284	8,121,284	4,687,469	4,125,517	4,679,230
Domestic Donations	0	310,212	56,121	83,697	84,038
External Donations	0	251,607	117,311	14,150	106,783
Borrowings ⁸	499,161	523,409	156,008	98,357	-

The final budget in relation to the initial budget was increased by €3,480,416. This increase is a result of savings from government grants based on government decision, by €335,360, Carried forward revenues from previous year in the amount of €3,229,709, increase of borrowing funds in the amount of €24,248 and obtaining of funds from domestic donations in the amount of €310,212 and external donations by €251,607.

In 2018, the municipality spent only 86% of the final budget, with a lower execution compared to 2017 (91%), the budget implementation remains at an unsatisfactory level and explanations for the current position are detailed below.

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

Description	Initial Budget	Final Budget	2018 Outturn	2017 Outturn	2016 Outturn
Spending of funds by economic categories	45,090,516	48,570,932	41,749,765	36,765,293	36,983,514
Wages and Salaries	19,956,411	19,745,113	19,495,068	18,777,598	18,919,546
Goods and Services	5,761,619	6,252,553	5,609,365	2,670,957	2,807,989
Utilities	1,081,200	1,244,975	763,464	869,094	762,688
Subsidies and Transfers	477,615	548,459	539,906	463,438	325,767
Capital Investments	17,813,671	20,779,832	15,341,962	13,984,206	14,167,524

Explanations for changes in budget categories are given below:

⁵ Final budget - the budget approved by the assembly, which was subsequently adjusted for by the Ministry of Finance.

⁶ Own Source Revenues unspent in previous year carried forward into the current year.

⁷ Receipts used by the entity for financing its own budget.

⁸ Borrowing from World Bank (for Health and Education Directorates).

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- Despite the final budget increase by €2,986,161 compared to the initial budget, for Capital investments only 74% of the budget was spent. The execution of the budget for capital investments presented in the amount of €15,341,962, includes payments in the amount of €2,432,034 for the debts accrued from previous years. Therefore, the real expenditures under the program for capital investments is estimated to be only €12,909,928 or only 62% of the current budget. Also, the execution dynamics is not in line with the planning because 42% of the expenditures from this category are incurred in the last quarter of the year. It is also worth mentioning that at the end of the year there were 56% or 97 contracts signed in the amount of €6,213,219 out of 173 total signed contracts during 2018 in the amount of €9,401,040, this is an additional reason for not executing the budget and a challenge that needs to be addressed by the management. According to the procurement manager the reason for this occurrence is the lack of executive projects set forth in advance as a legal criterion prior to the initiation of procurement procedures.
 - There were saving in the final budget in the category of salaries and wages by €211,298 (and no clarification was provided by the responsible officials in this regard) compared to the initial budget.
 - The final budget for goods and services compared to the initial budget was increased by €490,934, but despite this, the level of execution was only at 90%. Also, the dynamics of the execution is not in line with the planning because 32% of the expenditures from this category were executed at the end of the two-month period, because the municipality was not able to plan and manage the available budget;
 - The final budget for utilities compared to the initial budget was increased by €163,775 and the municipality managed to spend only 61% of the budget for this category. It is also worth noting that the liabilities in this category have been increased by €37,000 (from €8,000 in 2017 to €45,000 at the end of 2018);
 - The final budget for the category of subsidies is increased by €70,844 compared to the initial budget, while 98% of the final budget is spent;
 - The Municipality has also received grants from domestic and external donors in the amount of €561,819, and only 30% were collected during. This has happened because the municipality was not able to plan and manage the available budget from donors; and;
 - The municipality has also received a loan in the amount of €523,409, which was spent by the category of goods in the amount of €156,008⁹, for the Directorate of Education and Health.

⁹ For the Directorate of Health in the amount of €148,336, and the amount of €7,672 (for the Directorate of Education)

Issue B1 – Low level of Budget Execution

Finding The main challenge faced by the municipality is the budget execution for capital investments. We consider that only 62% of the funds are used to achieve the planned objectives/projects this year, because the presented value of €15,341,962 includes payments of €2,432,034 for accrued debts from previous years. The level of execution compared to the set objectives was not achieved since the management had not conducted a regular analysis of budget performance as a result of which revenues in the amount of €2,731,779 were carried forward in the following year, as unspent funds.

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

Recommendation B1 The Mayor should ensure that budget performance is monitored systematically on a monthly basis and that this review identifies and addresses barriers to budget execution at a planned level. Where initial budget assumptions are incorrect, this should be fully reflected in the final budget position.

3.1.1 Revenues

Revenues generated in 2018 were in the amount of €6,307,458, or compared to the last year the municipality has lower collection of own source revenues by €310,241 or expressed in percentage at the rate of 4.7%. This was particularly affected by low collection of revenues from construction permits, where the reduction was 22% (€314,776). The municipality has stopped issuing building permits due to the postponement for execution of the decision on the approval of the urban regulatory plan for a period of time, by an order that was issued by the Basic Court of Prizren, due to some property disputes with Kosovo Railways.

The dominating category in the structure of own source revenues is the collection of revenues from property tax in the amount of €2,196,722 or about 35% of total revenues, revenues from waste collection in the amount of €1,184,328, construction permits of €1,098,971, etc. The Municipality has yet not established effective internal controls in relation to revenue collection and reporting, and their aggregation into the AFS.

During this year, the Municipality has generated revenues in the amount of €878,991 (from police fines in the amount of €779,169, from court fines in the amount of €81,820, and from forestry agency in the amount of €18,002). During 2018, the Municipality spent revenues in the amount of €7,683,672, mainly for capital projects at a rate of 59%, or in the amount of €4,525,377.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2018 Receipts	2017 Receipts	2016 Receipts
Own source revenues	8,121,284	8,121,284 ¹⁰	6,307,458	6,617,699	6,292,849

Issue A 1 – Outflow of funds from the Treasury Single Account**Finding**

Pursuant to Article 16, paragraph 3 of the LPPM – “Receipt of Public Money”, all public money (including money that becomes public money upon receipt) shall be immediately deposited into an official bank account established or designated by the Treasury. While, Article 7 of the Financial Regulation No.03 /2010 on Revenues specifies that the Treasury Department shall, within the main account in CBK, establish subaccounts for each Budget Organization for collection of public money.

The City Library “Xhemajli Berisha”, which operates as a unit within the Directorate of Culture, during 2018 generated revenues in the amount of €8,167 (including those carried forward from the previous year), and expenditures in the amount of €4,443. These revenues and expenditures are managed in cash and from through an unauthorized bank account, and are not presented and disclosed in the AFS. At the time when City Library was transferred from Ministry within the municipality, no UNIREF has been established for collecting and depositing revenues in the municipality account. This occurrence resulted from negligence and lack of professionalism of the responsible officials of this unit, but also due to the lack of oversight by the management of the respective municipal directorate.

Risk

Transactions carried out through unauthorized accounts lead to misstatement of revenues or expenditures. Funding of the above activities is out of the legal framework on expenditure of public money and does not provide sufficient assurance that the allocated funds have met the intended purpose, and it does not provide adequate controls over these funds.

Recommendation A1 The Mayor should undertake measures to regulate the financial management of the library by incorporating this unit into the system. Received public funds must be deposited in the official bank account designated by the Treasury, and spending of these funds shall be made in accordance with the rules.

¹⁰ In the total amount of presented revenues are also included indirect revenues (€550,000) and that from; traffic fines in the amount of €450,000, court fines €120,000 and revenues from forestry agency in the amount of €15,000.

Issue A 2 – Non-reconciliation of revenues between respective directorates

Finding The Municipality does not perform reconciliation of data including monthly balances for revenues from the Directorate of Cadastre and Geodesy, MFMC and Urbanism. During 2018, these Directorates have not performed regular reconciliation (each month) with the responsible head revenue officer as required by article 13.3 of the Regulation no. 03/2010. This situation resulted from negligence of the officials from respective directorates.

Risk Non-reconciliation of revenues leads to incorrect reporting of revenues or in failure to identify classifications by incorrect transaction codes.

Recommendation A2 The Mayor should ensure that the reconciliations between the respective directorates are carried out on a regular monthly basis and all possible discrepancies are clarified on time.

Issue B2 – Shortcomings in management of revenues from property tax

Finding Article 16 of the Administrative Instruction 03/2011- "On Registration of Property", stipulates that "All unfinished objects shall be taxed at 40% of the market value of residential premises and in the calculation of tax shall not be included deduction of €10,000, depreciation rate and construction quality. We have identified that in five (5) cases the municipality had not acted in accordance with the law, because there were taxpayers who possessed two or more registered property as primary residence and for each property, a deduction of €10,000 have been applied. Also based on the analysis of the property tax base (Protax by the municipality) we found that about 680 properties (out of 36,990 registered properties for housing), the municipality has allowed irregular deductions. The effect of these irregular deductions implies that the municipality has lower tax charges of about €10,200, respectively less incomes from property tax. According to the municipal officials, it is not allowed to change the data as the system is managed from the central level. According to the responsible officials, the reason for this occurrence lays with the new property tax software (2009), which was replaced (the former format was in Access) before the entry into force of the Law on Immovable Property, and changes into the system can only be made at central level. Failure to engage competent municipal officials and property tax officers have led to irregular deductions, because they have not reported mistakes to the officers at central level, so the latter could carry out appropriate corrections; and

In six (6) cases, the unfinished properties are assessed with the rate of 1.1-excellent construction quality, which has increased the amount of estimated tax. The amount of overstated charge to the taxpayer for the six cases was about €295. Although the financial outcome of the identified discrepancies is not considered to be high, the very existence of such shortcomings indicates the lack of effectiveness of internal controls. Failure to perform on-site verification of these buildings have led to the assessment with excellent rate.

Risk

Failure to apply charges according to legal property tax requirements poses a risk where revenues from this category are lower, and lack of effective controls in management of property tax revenues will continue to result in low collection, while if tax charges are overstated, the credibility of the municipality for a fair treatment of taxpayers may be undermined, and the municipality may become subject of lawsuits by the taxpayers.

Recommendation B2 The Mayor should establish solid controls that ensure an effective revenue collection, by including and determining fair assessment of the tax charges, in accordance with the rules and according to the on-site situation, through engagement of competent interviewers.

Issue A 3 – Shortcomings in calculation of the property tax base**Finding**

According to Article 11 of the Property Tax Law, each municipality is responsible for managing tax information on property and entering data into the central base, as well as preparing and issuing of tax bills. Article 2 of the Regulation on Application of Property Tax in the Municipality of Prizren has designated six (6) areas of the city.

In five (5) cases, taxpayers' bills are overstated because municipal property tax bills are not in line with municipal areas (city streets) according to the Regulation. In one case, this occurred because the taxpayer activity was a workshop and the tax rate should have been 0.16%, and not how it has been billed by 0.18%, overstating the tax charge by €21. Whereas in four other cases, difference/overstating was by €4,311, because billing according to tariffs is set for zone II, whereas properties according to the Regulation belong to Zone III; and

The Municipality have not made zone defining for street "Besim Shala", which had 68 properties and for street "Atnan Krasniqi" with 162 properties. In two audited cases, the billing was done according to zone II, without defined basis by the Regulation.

Risk

Failure to apply charges according to the legal requirements of property tax increases the risk of receiving irregular incomes from this category, constituting the possibility for complaints by parties for incorrect charging. Non-compliance of municipal areas during billing for property tax may lead to payment of charges by a number of citizens for tariffs that do not belong to that zone, and this may result in incorrect charges, other than those set by regulation in one hand, and collection of lower funds on the other hand.

Recommendation A3 The Mayor should ensure additional actions and take the initiative to update the Regulation of the Municipal Assembly. Further on, should ensure proper allocation of these tax zones according to the factual situation in the field.

Issue B 3 – Weaknesses in management of contracts allocated for concession and rent**Finding**

The Municipality has shown weaknesses in management of properties given on concession or use, and that as follows:

- Based on the "Concession Agreement" dated 01.08.2001, Article 4.6 stipulates; "The municipality has the right to terminate the agreement at any time for the following reasons: bankruptcy of the beneficiary, inability to pay, material breach of obligations, delay in payment (after three warnings), use of the site for purposes other than those that have been modified by the agreement".

In two (2) audited cases, the contract for the use of public property by concession had expired since 2013 for market places "B. Curri" and "Qylhani". In the last two years, the Municipality has not billed these users and the debt was understated since it was presented in the amount of €252,000 and according to the actual situation it should have reached the amount of €429,940. In addition, the beneficiary "Alcom Construction" has a contract with the municipality for the use of municipal property with concession for a period of 10 years (until 21.01.2019), the collection from this leaseholder until 31/12/2018 was zero and the company's obligation according to the card is €21,240.

Concerning the above cases, Municipality had not taken any preventive measures, has not filed a complaint in the court for debt collection, or at least did not respect article 7 and 8 of the contract signed between the parties, which states that in case the leaseholder fails to perform monthly obligations, the lessor (the municipality) shall undertake administrative measures to close down the market. The auditor has raised the same issue in the reports of the previous years.

- Law on Allocation for Use and Exchange of Immovable Property of the Municipality No.04/L44 , Article 5 states: “The procedures for allocation for short-term use of municipal immovable property shall be conducted through an open public competition, procedures foreseen by this Law “. In 2018 (from 2016), the Municipality also given eight (8) contracts for the use of municipal/local property at a price of €1 per month for political parties by not organizing public auctions as required by the Law on Allocation for Use and Exchange of Immovable Property of the Municipality. These premises were allocated based on the municipal assembly decision that was issued in 2005.
- Out of the 11 audited cases of public properties (premises) allocated for use, the users have not performed the obligations and the value of the obligation by the end of 2018 years amounts to €206,565.

The reason behind this occurrence is failure to implement on time contract terms to the property users and failure to undertake necessary measures by the Municipality.

Risk

Poor contract management of leased property have resulted in increase of uncollectable accounts for revenues from public properties. The unwillingness to take effective measures for collection of revenues increases the risk for non-implementation of the revenue plan and reflects less planned capital projects to be funded from these funds.

Recommendation B3 The Mayor should review the reasons for the existing situation and decide on appropriate measures to collect all arrears in a reasonable time or otherwise to disallow the use of public property by the owners who have not settled obligations towards the Municipality.

Issue A 4 – Weaknesses in Management of Revenues from Waste Management Department**Finding**

According to the Regulation “On Waste Management in the Municipality of Prizren”, the municipality has taken over the responsibility for billing and collection on households. Article 9 and Annex 1, sets the fees for household waste fee for urban and rural areas, in the amount of €4.50 per month, or €54 per year. The Municipality had contracted three (3) waste collection companies for urban and rural areas. While for the management of customer data on waste collection services, the municipality uses a software program, but this program does not generate up-to-date financial statements such as daily, weekly, monthly statements for the municipality needs.

The Municipality for the waste management program uses the property tax database of 2014, which is not updated based on the increase of households. By comparing the number of 2018 property tax databases with that of 2014, we have a difference or increase in the number of households for about 2500, which implies that the municipality will collect less income by €135,000.

Also about 3,500 households, families who are working abroad, the municipality has billed and collected the waste fee in the amount of €12 /per year without any legal basis (decision of the Municipal Assembly). This means that the municipality collects less revenues for the amount of €147,000, because the annual fee charge should be €54. This has happened because families who live abroad have made a request to pay less amount for these services compared to others.

Risk

Failure to update the database based on the factual situation in the field and failure to apply charges according to the legal requirements or approved regulation for waste collection pose the risk for lower collection of revenues from this category.

Recommendation A4 The Mayor should ensure that proper analysis on waste management is carried out in order to achieve the objectives of the municipality in establishment of a sustainable financial system. Further on, should consider updating the date base of fees, and to make changes and approval of the Regulation by the legislative body to free of charge, or to determine tariffs for certain households.

Issue A 5 – Contract Winner for use of business premises with lowest price**Finding**

Based on Article 6 “Auction Criteria” of the Regulation no. 23/2013- on the determination of the procedures for allocating to use and exchange of immovable property of the municipality, it is stated that: “The selection of the winner through a public auction shall be done based on the highest price offered at the public auction”.

The municipality in selecting the winners for the use of municipal property premises used the criterion “Economically most favourable”, using sub-criteria, not measurable and not relevant to this process, and this has led to selection of the bidder who has not offered the highest or the most favourable price for the Municipality, for the property allocated for use. In addition, during the analysis of the bids and complaints, the Commission of Appeals that was established at the municipality has ascertained that the complaints of the two bidders offering the highest price per m² were reasonable. Herein, we estimate that the municipality receives €5,748 less annual revenues, due to inadequate criteria applied, contrary to the legislation in force during the public auction process. This is also due to unprofessional competency in determining the criteria.

Risk

Such practices undermine the reputation of the municipality and the trust of potential bidders for a fair and transparent public auction process. Further on, failure to select the winner on the basis of the highest bid price results with lower revenues from rents.

Recommendation A5 The Mayor should ensure that the responsible persons comply with the Regulation to lease public spaces through public auction, and that the established criteria to be based on the rules by providing the possibility of gaining maximum benefits from the auction process.

3.1.2 Wages and Salaries

Wages and Salaries are paid through a centralized payment system managed by MAP and MoF. The final budget for the category of Wages and Salaries was €19,745,113, while expenditures were in the amount of €19,495,068 or at a rate of 99%. Key controls should confirm the accuracy and completeness of payments such as approval and enrolment of employee salaries in the payroll list, verification of the allowed number and other controls, and approval of the budget for Salaries and Wages by the Municipal Assembly. We also reviewed whether employees were paid under the contract.

Personnel Management

The number of approved staff was 3,101, while the current number of employees was 3,058. We have tested some recruitment procedures and staff files to confirm their regularity.

Issue A 6 – Shortcomings in staff recruitment process**Finding**

According to Article 8 of the Law on Labour, the Employer in Public Sector is obliged to announce public vacancy whenever recruiting an employee or establishing a working relationship. The contest must be equal for all target candidates without any discrimination, as provided for by this law and other applicable acts. In two (2) cases, and that; For the employment of a teacher according to the competition no. 2719/2018 dated 02.10.2018 in the elementary school “Atmaxha” and the school “A. Frashri” competition 2613/2018 for the admission of a professor of German language, we have identified that there is no public announcement in the newspaper.

In the first case, evidence of work experience, vocational training, of the most successful candidate file were missing. While in the second case the required evidence on professional training. We have also identified that the recommendation for the admission of the teacher to the work by the evaluation commission was done on the 17.08.2018 while the competition was dated 02.10.2018; therefore, the recommendation for admission was made before the competition.

In addition, in case of the admission of a teacher at the Elementary School “Ibrahim Fehmiu”, the competition dated 08/8/2018, we have identified that the written test of the selected candidate was not signed by the evaluation commission. In this case we have identified that the recommendation for admission to work by the evaluation commission (dated 17.08.2018) was done before completion of the written test (held on 04/9/2018) and the interview (organized on 27/9/2018).

Risk

The presence of irregularities in the recruitment process may result in unfair competition and in employment of inadequate staff.

Recommendation A6 The Mayor should ensure that immediate actions are taken to review the employment process, and to ensure effective controls so that recruitment processes are made in full compliance with the requirements of the Law on Labour.

Issue A 7 – Shortcomings in Civil Service Recruitment Procedures**Finding**

Article 11 of the Law no. 03/1-149 on Civil Service stipulates that Admission to the Civil Service of Kosovo shall be done in compliance with principles of merit, professional capacity, impartiality, equal opportunities, non-discrimination and equal representation, on the basis of public competition and upon verification of eligibility of the candidates to act. Also, the criteria, conditions, and documentation required in public vacancy no. 01-111-58872 dated 24.04.2018 of the Inspectorate Directorate for the position of the construction inspector required 3 (three) years of professional work experience.

The candidate selected in the announced competition did not meet the work experience requirement according to the requirements of the competition even though a reference for the professional work experience as architect from a design and construction company was brought in where in, the candidate had only two years of professional experience in the company. However, the documentation provided by the Personnel Officers, the Pension Savings Trust Document for the same candidate proves that he had worked in a retail company, so the reference for professional experience as architect was irrelevant. The reason for this occurrence is lack of professionalism, unrealistic assessment by responsible persons for selection of candidates for this position based on merit.

Risk

Such practice of employment does not provide competition and transparency, undermines municipal image and poses the risk for selection of candidates not to the required skills and professional experience.

Recommendation A7 The Mayor should ensure that the selection of candidates is made only after all recruitment and appointment procedures have been implemented in accordance with applicable laws and regulations.

Issue A 8 – Lack of Personnel Files and Payment Without Legal Basis**Finding**

For 29 officials who are recruited in the Directorate for Emergency and Security, the municipality was not able to provide us with the complete files and contracts of these officials, on the basis of which the compensation of salaries is carried out. According to the Personnel Manager, there is no relevant documentation for these officials and this practise has emerged as a result of a memorandum signed years ago, as officials are part of the Ministry of Internal Affairs, while compensation of salaries and other compensation is carried out by the Municipality. This reflects a lack of clear specifications by the Human Resources Department in the Municipality.

The Government of Kosovo, based on the decision no. 11/26 dated 19/05/2010 defines that all individuals categorized as civil employees under the Law on Civil Service will receive financial funds on a monthly basis in the gross amount of €30. Furthermore, according to the data requested by the Ministry of Internal Affairs we have identified that these officials are not categorized as civil servants, while they are compensated with an additional amount of €31.2 per month, which in total makes a compensation of these employees in the amount of €10,826 during 2018.

Risk

Payments of officials in absence of relevant documentation results in the inability to justify the salary/allowances, inability to perform review of performance evaluation results, and payment of allowances not based in government decision constitute additional payments and budget loss for the Municipality.

Recommendation A8 The Mayor should ensure the review of the possibility for transfer of these officials to the institutions they work, or to complete their files in the municipality to establish legal basis for execution of their salaries. Additional payments are made only to the officials foreseen by the Government's decision, and the amounts that are obtained not in line with this decision should be returned to the municipal budget.

Issue B4 – Failure to update Personnel Files

Finding Government Decision No. 06/29 dated 15.05.2015 requires a verified decision by authorized personnel officers for evidence of years on work experience. In addition, Law no. 04/L-032 on pre-university education, Article 20, paragraph 2.2 determines that the director of the educational institution has executive responsibilities in the overall management and administration of the institution, including assignment of duties for evaluation, discipline and other matters pertaining to teachers; and other employees in education department. In 11 cases in the education department, evidence on work experience years was not reflected in a decision verified by authorized personnel officers as a basis for compensation. In addition, the files at the Directorate of Education did not enclose the leave requests and performance evaluations. This has resulted from the lack of coordination between schools and the education directorate, and negligence of the management and responsible staff.

Risk Payments that are carried out without relevant evidence pose the risk for compensation of work experience not on real basis. In addition, the lack of staff evaluation does not provide an accurate view of the achieved performance.

Recommendation B4 The Mayor should ensure that the Directors of Educational Institutions and the Personnel Manager have completed the evidence of work experience, to establish legal basis for execution of the allowance on the basis of experience. Further on, should ensure that School Directors monitor performance evaluations and that the relevant evidence is enclosed in the staff files.

Issue A 9 – Officials with expired employment contract

Finding Article 10 of the Law on Labour no. 03 / I-212 Employment Contract requires the Main Family Medicine Centre (MFMC) in Prizren to conclude employment contracts with the employees.

During the audit of personnel files we have identified that the finance manager at the MFMC-Administration Department from 31.12.2013 is compensated without employment contract. The Director of the MFMC, each year as of 2014 to 2018 had made Appointment Acts for a term of one year, with a decision for appointment at workplace. This occurrence has resulted from the lack of professional competence by the personnel officer and responsible management at the MFMC.

Risk Lack of controls on personnel management, and incomplete personnel files (expired contracts) will result in additional compensation and compromise the quality of the process in general.

Recommendation A9 The Mayor should ensure that the recruitment procedures or extension of the contracts, when required, is done prior to the expiration of the employees' contracts, and that the procedures on extension of contracts are made in accordance with the applicable rules and guidelines.

Issue A 10 – Irregular compensation of Maternity Leave

Finding Article 4 of the AI no. 05/2011 on payment procedures for Maternity Leave, defines that, for six (6) months of maternity leave, compensation made by the employer is 70% of base salary. In three cases¹¹, the municipality compensated total salaries, not applying deductions for maternity leave. The reason for these payments was the lack of coordination between schools and the Directorate of Education. From audited cases, the municipal budget loss was in the amount of €994, although the financial outcome of the discrepancies found is not considered high, the very existence of such shortcomings indicates the lack of effectiveness of internal controls.

Risk Payment in total amount of maternity leave has resulted in payments not based in legal procedures and in municipal budget loss.

Recommendation A10 The Mayor should ensure that competent personnel is tracking changes to the payroll list and that deductions to the Maternity Leave are carried out in accordance with the rules and applied in due time.

¹¹ According to the decision from 01.11.2017 until 01.05.2018 for maternity leave, no deduction was applied by the municipality and the compensation for month of January and February 2018 was done in total amount.

The second case, the decision for maternity leave without pay was extended for another three months and that from 01.02.2018 to 30.04.2018, but the compensation was paid in total for February and March 2018; and

The third case of maternity leave according to the decision was from 19.07.2018 until 19.01.2019, but the compensation for August 2018 was paid in total.

3.1.3 Goods and Services and Utilities

The final budget for goods and services, and utilities in 2018 was €7,497,528. Of these, €6,372,829 or 85% were spent.

Issue B5 – Irregularities in Recruitment of Staff for Special Services

Finding

Article 12, point 4 of the Law on Civil Service (LCS) states that fixed-term appointments for a period of less than six months will be made on the basis of the contracts called “Special Services Agreement – SSA” which are subject to the Law on Obligations, and for which a simplified recruitment procedure is applied.

The municipality in 2018 had recruited 65 employees with SSA, where three employees in the position of professional associates for registration of property tax were paid for the period of six months. According to the personnel manager this has occurred due to the need for further engagement of the staff to accomplish additional objectives of the municipality.

Risk

Such recruitments lead to legal non-compliances and lack of monitoring, posing the risk that the municipality will receive inadequate contribution / performance/service from recruitment of staff in this manner.

Recommendation B5 The Mayor should ensure that special service agreements are planned properly and recruitments for these services do not last more than six months. The Mayor should also ensure that employees with special service agreements are engaged only for specific needs.

Issue A 11 – Irregularities in Expenditures for Official Travel

Finding Administrative Instruction no. MPS 2004/07 for official travel respectively Article 2 of this Instruction states “Official travels are those movements that have a destination or purpose that serves to perform official duties in the interest of the Government of Kosovo and the Civil Service of Kosovo”. In one (1) case, according to the Mayor’s decision, the municipality paid the amount of €3,000 for official travel abroad of three persons who were part of a project, but they did not belong to the municipal staff, they were part of non-governmental organizations. According to the responsible officials, this case has occurred because they were part of the project and there was no other way of payment.

Risk Payments for official travel of persons who are not part of the municipal staff causes additional and unnecessary expenditures for the municipality, spending the budget, which is allocated for municipal officials.

Recommendation A11 The Mayor should make sure that the financing of travel abroad is done only for municipal officials that bring over direct benefits, while in other cases, respectively financing of persons who are not part of the municipality, is done in accordance with the legislation in force.

3.1.4 Subsidies and Transfers

The final budget for subsidies and transfers was €548,459. Of these, in 2018, €539,906 or 98% were spent. They relate to subsidies for public entities: sports clubs, various NGOs, cultural artistic associations, and individual beneficiaries, etc.

Recommendations

We have no recommendations in this area.

3.1.5 Capital Investments

The current budget for the category of Capital Investments is €20,779,831 while the expenditures during the January-December period are €15,341,962, or expressed in percentage of 74% of the budget. They relate to the construction of roads, sewer networks, school buildings, social housing facilities, etc. Compared to the previous year, a better budget performance is observed in this category by €1,357,756, or about 10%.

Issue C2 - Systematic weaknesses in management of payments and acceptance of works for investments**Finding**

Article 26, paragraph 2 of Financial Rule No.01/2013 on Public Funds Expenditure, specifies that “for processing of the payment it is required to provide a copy of contract which is signed by the responsible officer of procurement as an authentic copy of the original, report of acceptance, and original invoice”.

In the project “Construction of the new school building “ Ekrem Rexha” in Gërinqare, Prizren”, the municipality paid the bill for the Stage 13 in the amount of €30,000, based on the report on acceptance of works dated 15.11.2018, which was certified by the contract manager. Within this Stage was included Item No. 2 various works - Supply and installation of artificial stone tiles in halls and corridors, in colour and design defined by designer’s request on a surface of 291m². During the physical examination by the audit team with the attendance of the Supervising Authority body, we found that the works for this Item were not executed at all. The total value of this paid Item was €4,080 or 14% of the value of the work Stage.

In the contract “Construction of Roads and Sewer Network In Village Kobaj”, the municipality paid the bill for the first Stage (1) in the amount of €35,100, based on the report for acceptance of works dated 12/12/2018 certified by the Supervising Authority, and within this Stage was also included Item No.4.1- Supply, Transport and Laying of cobble stone (C-30/37/d8cm) on an area of 3,963m². During the examination by the audit team with attendance of the Supervising Authority we found that the works for this Item were completed on an area of about 2,500m². Also within this Stage was included the item no.4.2-“Supply, transport and installation of concrete block sidewalks (C 30/37, 18x25cm) stretching over 930m, where we found that the works for this item were executed for about 500m. The paid amount for these two Items of unfinished works is €11,298. This situation has resulted from negligence and lack of responsibility by project supervisors, as well as the predisposition to use the funds, so that they are not carried forward as a surplus for the coming year.

According to the Contract "Construction of Sewer Network and Roads in Hoqë E Qytetit in Prizren", respectively Report for payment No.12 dated 06.02.2018" Supervisor of projects of DHSP-Prizren EO has brought in the report of the works carried out according to the Stage on this bill no. RP3 / 054/2017 and based on the report of the Supervising Authority, the contracting authority allows to make the III payment in the amount of €50,000". While the analysis on the acceptance report of the works results that the payment obligation is €49,660. The cause of this non-reconciliation was a technical failure in a Stage by the Supervisory Body, which was not previously identified by the responsible persons. Although the financial effect of the identified discrepancies is not considered to be high, the very existence of such shortcomings indicates the lack of effectiveness of internal controls.

Risk

Payments for unfinished work of Items or acceptance of products not based on the Stages and their billing increase the risk that the works are being carried out with a poor quality and not in compliance with the standards laid down in the Contract. This situation has led to the payments without evidence or payment for unfinished works.

Recommendation C2 The Mayor should strengthen control measures so that such failures are not repeated. Further on, to ensure that competent officials are assigned to supervise projects and monitor implementation of the contract, and they accept only finished works, sign the Stages according to the real situation, in contrary measures will be applied for failures committed due to irresponsibility or negligence.

Issue C 3 - Initiating procurement procedures without commitment of sufficient funds and commitment of funds after receipt of bills/ acceptance of goods, and the lack of executive project

Finding

According to the Financial Regulation no. 01/2013 on Public Funds Expenditure " No public contract should be signed without commitment of funds" also "budget organization does not undertake any obligation during the current fiscal year in an amount exceeding the allocated funds". During the audit of the procurement procedures, we have identified:

- In two (2) cases that the contract was signed with commitment of insufficient funds. The total value of the signed contracts was €480,602, while the committed funds for them was only €130,000 or about 27%. Furthermore, from the audit of payments for compliance purposes, in 12 cases the municipality had received the bill together with supporting documentation prior to the date of request for commitment of funds. The reason behind such occurrence is inadequate budget planning and initiation of procedures not in line with applicable Rules.

According to the Guidelines on Public Procurement Guide, paragraph 20.13 specifies that: The Executive project is a graphic design of all administrative and engineering processes of the required works, as described in the Technical Specifications and, therefore, sets forth, and in any particular, architectural, structural and plants of the works to be executed. The Contracting Authority is responsible for drawing up the Executive Project which shall be mandatory attached (also on electronic devices) to the Technical Specifications, which are part of the Tender Documentations. No Contracting Authority is allowed to issue Tender Documentation without attaching the detailed project description. We have identified that:

- The municipality in the contract "Construction of Sports Fields in Prizren", in the amount of €87,279, have not drafted the executive project, as required by the above-mentioned Guidelines. The project was not drafted due to the negligence and indecisiveness of the responsible persons, on whether to perform or not the executive project for the Framework Contract.

Risk

Entering into obligations without committed funds increases the risk that projects are not funded in complete and may result in failure to perform them. In addition, partial commitments constitute delays in payments and pose the risk to become subject of lawsuits, constituting additional expenditures due to potential delays. In addition, carrying out of procurement procedures prior to the drafting of the project may lead to deviation of the works implemented in these projects from the standard construction requirements, and in failure to achieve proper quality.

Recommendation C3 The Mayor should ensure that the controls are functional and that the Procurement Office should not sign any public contract without the commitment of funds or undertake an obligation that exceeds the amount of allocated funds. Further on, should also ensure that the drafting of executive projects is carried out in compliance with legal requirements, prior to the initiation of procurement procedures for work, otherwise project tendering shall not commence.

Issue A 12 – Lack of evidence during assessment of the criteria for housing of families in poverty

Finding

According to the Law no. 03/L-164 and Administrative Instruction No.21/2010 for determining the order of priority for the categories of households that can benefit from special housing programs, respectively Article 5 of this Instruction “criteria for determining the priority order for providing housing are : housing status; highness of incomes; health state; disabled person; family structure.

From audit of a payment for compliance purposes, in one (1) case, the commission during the evaluation of the criteria or appraisal procedures have not requested/received evidence on fulfilment of the relevant criteria for evaluation of applications and selection of beneficiaries by the above program. According to the responsible officials, the reason behind such occurrence was the lack of information on documentation of the relevant criteria for which the evaluation and the selection of the beneficiaries was made.

Risk

Evaluation and selection of beneficiaries in absence of evidence on fulfilment of the criteria pose the risk that the latter will not present the real situation, on basis of which the beneficiary was selected, and it violates the principle of advantage and priority, and undermine the reputation of the municipality.

Recommendation A12 The Mayor should ensure that during the assessment of applications for special housing programs, the process for evaluation of the set criteria is supported by adequate evidence.

Issue A 13 – Failure to extend validity of performance security during contract execution**Finding**

In the contract “Construction of the new building for school “ Ekrem Rexha “in Gërnqare village in Prizren” respectively paragraph 1.18 of the specific terms, amongst states that the performance security of the contract is 10% of the value of the contract. The Procurement Office did not request for extension of contract performance security during the period in which the contract is active. The date of signing the contract was on 11/03/2015 with an extension of 120 working days, so was the validity of security. While from this period there is no evidence about extension of the performance security although the works have not been completed yet. The Municipality have extended contract execution security upon identification of the issue by the auditor on 01/04/2019, extending the security validity up to 30/06/2019.

Risk

This occurred due to the negligence of responsible officials to extend the validity of performance security of the respective contract. Implementation of the contract in absence of performance security other than constituting violation of the contracted criteria, it also poses the risk that the project will not cover potential losses during the project implementation phase, and in case of a dispute increases the risk for implementation and completion of the works according to the quantity and quality set under the contract.

Recommendation A13 The Mayor should develop policies and procedures to ensure that the execution of the projects is fulfilled within the time frame set out in the respective contract and to be guaranteed with performance security throughout work execution period, based on contracted agreement, thereby eliminating the likelihood of contracting without sufficient funds, and other obstacles that may arise during the execution of the works.

Issue A 14 - Delays in execution of contracts**Finding**

In the contract "Construction of sewer network and roads in village Hoqë e Qytetit, in Prizren" in the amount of €106,965 signed in 2017, amongst other paragraph 1.18 of the specific terms, the dynamic plan on completion of works specifies that the days for completion of the works should be 200 working days, while up to the technical acceptance of the works there were 289 working days. According to the contract supervisor, the reason for these delays was the lack of funds available to conclude the contract. In addition, another reason is that some on-site property disputes have been identified during the implementation of the project.

Risk

Inadequate planning of assets and failure to settle ownership of property disputes has resulted in delays for completion of projects, based on the dynamic plan. Due to these delays, the Municipality may become subject to lawsuits for failure to respect contract and failure to execute payments in time to the contractors, and inability of citizens to benefit from the services it delivers.

Recommendation A14 The Mayor should ensure higher controls in monitoring the implementation of projects, so that they are completed according to the dynamic plan, and that obstacles such as, lack of resources and property disputes have been eliminated prior to signing the contract. When delays are made on behalf of the contractor to impose punitive measures under the terms set out in the contract, in order to increase the accountability of the economic operators.

3.1.6 Common Issues on Goods and Services and Capital Investments

Issues requiring attention remain payments executed through court decisions and provisions under Article 39.2 of the Law on Public Financial Management and Accountability (LPFMA):

Issue B6 - Payment of penalties due to delays in execution of payments

Finding

Article 39.2 and Article 40 of the LPFMA regulates payment of bills by the Treasury, enforcement agents and through court decisions. Out of 100 payments in the amount of €2,508.733 executed directly by the treasury for court decisions and through private enforcement agents, only for administrative expenses and other enforcement expenditures were paid €43,466. One of the reasons for such occurrence was signing of contracts with operators without sufficient funds available. However, another reason for this occurrence was the negligence of the responsible municipal officials, as in some cases there was available budget potential/means for paying the bills within the legal deadline. In addition, the surplus or free funds from capital investments were in the amount of €2,792,308, which could be used by the municipality for settlement of liabilities.

Risk

Entering into obligations without committed funds, negligence for execution of payment within the legal deadline poses the risk that the projects are not funded in total, and it may lead to failure for their execution, and it also poses the risk for additional expenditures may incur for payment of interest and penalties due to delays in carrying out payments.

Recommendation B6 The Mayor should increase controls on project management. At first, the sufficient funds and all other requirements should be provided for initiation of the projects, and then should proceed with other procedures for contracting with the EO. Further on, should ensure controls over monitoring of the payment of invoices within the legal deadline, throughout the payment execution process.

Issue A 15 – Failure to establish communication and provide information when payments are executed by the Treasury**Finding**

Based on Article 39 of the LPFMA, the treasury has prepared the “Procedure for handling of the requests submitted by the suppliers for delayed and unpaid obligations under section 39.2”, where section 5 of this procedure requires that a communication through a signed follow-up letter is made for each payment, which is sent via email to the budget organization which may disapprove or approve the letter. This standard request approval/disapproval form from budget organization must be accompanied by copies of the documentation presented by the supplier together with the request (e-mail), to ensure and confirm the authenticity of the documentation in question.

We have identified that 11 payments in the amount of €181,164 were executed by the treasury without communicating or informing the municipality. In addition, in one case, the payment of 10/7/2018 in the amount of €19,306 was made directly by the treasury to the private enforcement agent in accordance with article 39.2, whereas according to the documentation/evidence for payment, the funds were spent even though the obligation towards this supplier laid with the Municipality of Prizren. The municipality have not identified the mistake and this payment was included in the register of expenditures, and this payment was corrected only after the audit team has informed them. Thereby, the Treasury officials have also confirmed that this payment was executed incorrectly. The reason for such occurrences is due to the irresponsibility of the Treasury, for lack of regular communication with the budget organization during execution of the payment.

Risk

Lack of communication poses the risk for execution of payments by the Treasury for the obligation that that does not pertain to the budget organization/municipality and damages the municipal budget.

Recommendation A15 The Mayor should ensure that signed agreements with donors and operators are fully implemented and that there are no delays in execution of contractual obligations. Further on, should establish controls to prevent such mistakes and ensure that the municipality identifies and responds on time to mistake/failure committed by subordinating organizations. Measures should also be taken to establish communication with the Treasury and to be informed on time about the payments executed by the Treasury.

3.2 Capital and non-capital assets

The value of capital assets presented in the AFS by assets over €1,000 is in the amount of €481,551,000 while assets under €1,000 in the amount of €1,052,000. We have reviewed whether the records keeping process is in compliance with the requirements of MoF-No. 02/2013 on management of non-financial assets by budget organizations, the inventory process and the physical presence of assets. Major issues about assets are dealt with in section 2.1.

Issue B7 - Shortcomings in inventory and asset identification and lack of internal procedures

Finding

Article 19.4 of Regulation 02/2013 on Management of Non-Financial Assets states that the responsibilities of the Inventorying Commission include, amongst other, inventory of all non-financial assets owned and controlled by the budget organization. Also, Article 13 paragraph 4.7 stipulates that "Drafting of the general report on the basis of individual reports of the Non-Financial Assets on Inventorying Commission shall be prepared in due time, prior to the preparation of the annual financial statements". Whereas paragraph 4 of Article 13 stipulates that "All changes in the number or in the value of assets that are identified after the inventory should be presented in the assets register and in the accounting register";

Article 4.1 of Regulation 02/2013 on Management of Financial Assets states that "The Chief Administrative Officer is responsible for adoption of internal rules and alienation of non-financial assets:

The report of the asset inventorying commission was deficient and not completed in due time, prior to the preparation of the annual financial statements. The inventorying commission had completed and submitted the report on 26.02.2019, which was not in line with the requirements of the regulation on asset management;

Despite the fact that the inventorying commission had identified damaged assets and assets with zero value, the municipality did not provide evidence that a commission was established to evaluate whether they should be disposed from use or alienated, as required by the MoF Regulation no. 02/2013 and;

The E-Asset Register is not accurate because purchases made by MFMC Social Welfare and Education Directorate sectors are not recorded in this software, as provided for in Article 6 of Regulation 02/2013 on management of financial assets ; and

During this year, the Municipality has not approved any regulations on internal procedures for asset management, although this was recommended in the last year's report.

Risk

Failure to complete the asset inventory as required by the regulation may prevent the municipality to identify the real and factual situation of assets that may be exposed to loss or alienation. Shortcomings for registration of all assets, non-inclusion of all purchases, hampers the identification of assets for confirmation of their physical existence, origin and ownership. Further on, this will lead to understatement of assets presented and disclosed in the AFS. Likewise, the lack of internal procedures for the preservation and alienation of property may result in mismanagement of Municipality assets, and incorrect presentation in financial statements.

Recommendation B7 The Mayor should ensure that registration of all assets is completed on time, and to proceed with asset valuation within shortest time possible and upon completion of the process to prepare a final report about the state of assets, which have to be reconciled with Municipality's Accounting registers. Identified differences should be clarified and registers shall be updated according to the latest recorded data. Requirements on asset registration and maintenance should be applied entirely, and recording of all movable property inflows/outflows (under €1,000) for all municipal departments using the E-Asset system should be made. Further on, should ensure drafting of internal rules and procedures for recording, storage and disposal of non-financial assets as required by regulation 02/2013.

3.3 Handling of cash and its equivalents

We have no recommendations in this area.

3.4 Receivables

The list of debtors that owe to the municipality, according to the data in the AFS is €18,932,000. Most of them relate to property tax receivables (€8,089,000), business tax (€6,818,000), waste (€2,955,000), markets (€252,000), and premises (€532,000), etc. Major issues about this account are dealt with in section 2.1.

Issue B8 - High Level of Receivables

Finding Although the municipality faces the high amount of uncollected accounts and their increase from year to year (from 17.063 million in 2017 to 18.932 million in 2018), there was still no adequate policy drafted or applied for collection of receivables from previous years, in particular from property tax, business taxes, waste collection revenues, and debts from rent. The increase of debt towards municipality is also evident in uncollected revenues for waste collection compared to 2017, this account has been increased by €614,000. The billing of 8,000 households that do not pay, and the debt is estimated to be €432,000¹², has directly resulted in increase of this uncollected account.

The reason for increase of accounts is the failure of the municipality to establish adequate mechanisms for collection of these revenues. Except for issuing some warnings as a tool used by the municipality, there were no continuous actions taken such as, the initiation of procedures for mandatory collection of debts through other competent bodies.

Risk Lack of mechanisms has resulted in high value of receivables which pose the risk for these accounts may become status-bared, uncollectible by the time, and lead to non- accomplishment of the plan on expenditures.

Recommendation B8 The Mayor should ensure that all possible options are actively reviewed by setting policies, regulations and other mechanisms in order to increase the efficiency for collection of receivables. Further on, should review all measures against operators who do not meet contractual obligations in accordance with the law.

¹² 8000 households *54 Annual Fee.

3.5 Outstanding liabilities

The statement of liabilities to suppliers from the amount of €3,294,000 at the end of 2017 has been decreased to the amount of €2,228,685. These liabilities were carried forward to be paid in 2019. This amount of outstanding liabilities have resulted from inadequate internal controls and entering into liabilities without sufficient funds. The Municipality is also subject to contingent liabilities, which are presented in the AFS in the amount of €4,130,000. Major issues about liabilities are dealt with in section 2.1.

Issue B9 - High Level of Liabilities

Finding According to the Financial Rule, 01-2013 MoF- Public Funds Expenditure the BO should pay every valid invoice for payment of goods and services received within 30 calendar days from the receipt of the invoice. Moreover, we have identified that payments made during 2018 that have exceeded the legal deadline for their payment were in the amount of €5,835,202. The reason for this occurrence was due to entering into obligations without sufficient funds, not planning jubilee salaries and non-functioning of internal controls.

Risk Delays in payment and lack of complete information may weaken the ability of the municipality to estimate and manage liquidity needs. Further on, the municipality may put up with additional expenditures for payment of interest and penalties imposed for delays in payments.

Recommendation B9 The Mayor should strengthen controls in management of payment process to ensure that the municipality does not enter into obligations without sufficient funds, and that all invoices are paid within the legal deadline. Further on, should ensure that the reporting of the obligations is made each month in accordance with the legal requirements, including their exact status.

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 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

We have assessed several activities that can contribute to good governance, as well as existing opportunities for further improvement as follows:

Full and qualitative addressing of our recommendations as well as raised compliance issues remain a challenge for the Municipality of Prizren. Progress in the management of the organization, mainly in revenue collection, in settlement of liabilities, and a significant number of actions have been undertaken in establishment of contractual relations with various donors. For most municipal activities there is communication and reporting between unit holders and the Mayor, but there are no recorded minutes of meetings and strategic monitoring, and there is no formal and systematic reporting (monitoring) that relates municipal objectives to the results.

There is a number of governance weaknesses within the Municipality, particularly related to accountability, risk management and the quality of management reporting. The self-assessment questionnaire filled in by the municipality reflects this situation only partially, with some positive comments for presence of some arrangements not supported by evidence.

Key areas that require further improvements are in: registration of municipal assets, management of municipal property, management of receivables, where no specific commission was established to identify property disputes, and the use of premises, in particular use of markets by debtors who have not yet paid their obligations to the municipality. According to the verification, most of the business premises do not have valid contracts for their use since, the contracts had expired in 2013, and furthermore, their use by different persons without any legal basis, prevents the opportunity for billing by the municipality.

Although the municipality had established the team for drafting of the strategic plan, it had not yet managed to draft the strategic plan, and had not compiled the list of risks it could face. Also, other strategic plans such as spatial plans, anti-corruption strategic plan, regional development strategy etc., have not been drafted yet.

4.1 Internal Audit System

To carry out an effective audit requires a comprehensive work program that reflects the financial and other risks of the audited entity and provides sufficient assurance on effectiveness of internal control. The impact of Internal Audit reports should be judged by the importance given to management by addressing the recommendations, as well as by the support provided by an effective Audit Committee. The Internal Audit Unit (IAU) operates with one member – the Head of the IAU. Considering the budget of the municipality, according to the AI requirements. 23/2009 on Establishment and Functioning of the IAU, capacity of this unit with only one auditor is not sufficient, although the request and notification by this unit was constantly made when reporting to the Harmonization Unit.

In addition to the strategic plan, this unit had also drafted an annual work plan, which included eight audits, and for the reporting period 2018 it had completed and finalized six reports according to the plan, one report upon management request, have performed a review to verify addressing of the recommendations, and a review on implementing of the recommendations given by the NAO, in cooperation with USAID.

Issue C4 - Failure to Address IAU Recommendations

Finding

IAU had given recommendations on how management should improve the functioning of internal control. According to the Action Plan prepared for 2018, out of 24 recommendations given, nine were implemented, 12 were in the process of implementation, and three were not yet implemented. In addition, the implementation of the recommendations given for 2017 was not at the right level. Out of 23 recommendations, only five were implemented and nine were in the process of implementation, while others were not implemented.

During this year, the Audit Committee held three meetings with the IAU, but the impact of Committee has not been improved yet to increase management activities in addressing the recommendations.

Risk

Lack of staff in the IAU will result in inadequate functioning of the internal audit system, reduces the assurance provided to management in relation to the functioning of key financial systems, especially in an organizational environment such as the Municipality of Prizren, where there is a number of schools, subordinate institutions or other entities that generate revenues and expenditures and should undergo a number of occasional audits. This may result in unidentified weaknesses and the continuation of ineffective practices, and will reduce the possibility for the NAO to obtain assurance from the IAU's work, despite the quality of the work undertaken; and

Failure to address internal audit recommendations can result in continuance of identified weaknesses, inefficiency in the internal control system, financial loss for the municipality, and poor value for money.

Recommendation C4 In order to achieve the utmost benefit from internal audit services, the Mayor should ensure that is provided sufficient staff to the IAU and to review the reasons for the limited actions taken concerning the recommendations. Further on, additional actions should be undertaken to put CA into function in order to ensure the supervision, establishment and strengthening of the internal audit role.

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 B10 – Weaknesses in Management Controls and in Risk Management

Finding

Our review of managerial controls implemented in the municipality's main financial system has highlighted ineffective financial reporting on expenditures and revenues to senior management as well as incomplete analyses. Despite being declared for monthly reporting, the municipality did not provide reports, which are submitted by the directorates to senior management to review whether the prior year's recommendation. Thereby, general government arrangements require improvement. We have identified that revenue controls are still not very effective and there are shortcomings in controls in some expenditure areas, in particular the level of budget execution for the category of investments. Also in 2018, the municipality has no written policies and procedures for managing risks, in particular the risk of fraud and irregularities.

Failure to update financial reporting and activities of the senior management reduces management's ability to manage municipal activities proactively and mitigate the effect of budget controls. This may also lower the ability for collection of revenues to the expected level. Likewise, it may result in poor service delivery. Lack of reporting by administrative unit holders reduces the effectiveness of financial management within the municipality, resulting in weaknesses in the budget process, and reduces the ability of management to respond to financial challenges on time. They also pose the risk for additional expenditures.

Recommendation B10 The Mayor should ensure that a review is carried out to determine the form of financial and operational reporting to senior management, from which is obtained all relevant information that affects the quality and timely management decision-making. Budgetary performance, including revenues and expenditures, and implementation of the procurement plan should be subject to regular reporting and review by the management.

5 Progress in implementing recommendations

Our Audit Report on the 2017 AFS of the Municipality of Prizren resulted in 20 key recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented. Further on, the municipality had not followed any formal process to monitor the implementation of the recommendations and take the necessary actions for their implementation. This has resulted in partial implementation of recommendations and recurrence of the same shortcomings in some areas. The Municipal Assembly of Prizren on 31 July 2018 has reviewed and discussed the NAO audit report for 2017. Despite the commitments mentioned, the largest part of the recommendations have not been implemented, or are in the process of implementation.

At the end of our 2018 audit, five (5) recommendations have been implemented, four (4) are in the process, ten (10) have not been implemented yet and one (1) has been closed unimplemented. 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	AFS	The Mayor should ensure that an analysis is undertaken to determine the causes of the Emphasis of Matter. Actions should be taken to address the underlying causes in a systematic and pragmatic manner to mitigate the weaknesses disclosed within the Emphasis of Matter at Audit Opinion. Further on, the Mayor should ensure that effective processes are in place to confirm that the 2018 AFS production plan formally addresses all compliance related issues. This includes Management review of the draft AFS with specific focus on high-risk areas and/or areas where errors have been identified in previous years. The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be submitted unless all necessary checks have been applied to the draft AFS.	Specific actions have been taken, the municipality has managed to do budgeting of waste from the category of goods and services, but did not perform registration in the E-asset in the Directorate of Health, the Social Ministry and the Directorate of Education.	Partially implemented.
2	Budget Execution	The Mayor should ensure that budget performance is systematically monitored on a monthly basis and that this review identifies and addresses barriers to budget execution at a planned level. Where initial budget assumptions are incorrect, this should be fully reflected in the final budget position.	The municipality has shown weaknesses in executing the budget one capital investment this year as well.	Not implemented.
3	Revenues	The Mayor should ensure that verification is carried out on a regular annual basis in line with the requirements of the applicable legislation, reflecting up-to-date records of the registry and accurate tax charges.	During the testing and analysis of the database, as well as the amendment of the Law on Property Tax, the necessary actions have been taken.	Implemented.

4	Irregularities in renting municipal property	The Mayor should review the reasons for the existing situation and decide on appropriate measures to collect all arrears in a reasonable time, or otherwise prohibit the use of public property to owners who have not settled obligations towards the Municipality, to ensure that public tenders are organized for all public properties and contracts are signed under the legislation.	Even this year, effective controls on revenue collection have not been established. Also during this year we have noticed irregularities in tax charges.	Not implemented.
5	Irregularities in calculating of revenues for property tax and other revenues	The Mayor should ensure that charges for payment of citizens' obligations are applied under the regulation on taxes, fees, charges and penalties from municipal services and activities. On the contrary, the regulation should be amended and supplemented according to new fees.	Despite preventative measures, no other legal actions have been applied.	Not implemented.
6	Lack of Personnel Records	The Mayor should ensure the review of the possibility for these officials to be transferred to the Institutions where they work or to complete their files in the Municipality to establish legal basis for executing their salaries. The Mayor should also ensure that the payroll list is signed by all the employees of the Municipality.	The municipality has had meetings with representatives of the respective MIA Directorate, when drafting the implementation plan of the recommendations but no specific agreement has been reached.	Not implemented.
7	Lack of evidence on overtime	The Mayor should ensure that overtime work is planned effectively, compensation for additional working hours should only be considered during periods of greater volume of work and additional work should be documented and justified.	This year, the auditor have not identified non-compliances in this area of concern.	Implemented.
8	Irregularities in engaging staff for specific services	The Mayor should ensure that employees through special service agreements are engaged only in cases where there are specific requests in place. Engagement should be made in accordance with legal requirements through a competitive and transparent	This year too, recruitment of officers with special service agreement has been significant.	Not implemented.

		process and the engagement period should be within the terms foreseen by law. While for all regular job positions it should be secured that they are budgeted out of the category of Wages and Salaries and paid through the payroll system.		
9	Payments for Goods and services without procurement procedures	The Mayor should ensure that procurement procedures are not neglected where applicable, and when the requirements for vehicle maintenance are prepared, it is possible to include all necessary vehicle spare parts.	The Municipality has taken specific measures and the auditor has not identified such cases.	Implemented.
10	Systematic Weaknesses in Managing Contracts for Capital Investments	The Mayor should ensure that projects are implemented in line with plans and budgets. In cases where there is a need for re-allocation or change of projects, new administrative procedures on fund allocation should be followed. The supplies and the execution of the works should be continuously monitored and the payments are made only after the full assurance that the invoiced stages are carried out according to the bill of quantity and the pre-estimates, as well as to strengthen control	Regarding the enclosure of projects in the annual procurement plan, the recommendation was implemented. While during this year we have noticed that payments for unfinished items have been made.	Partially implemented.
11	Poor Contract Management and Planning	The Mayor should increase controls in managing capital projects. Initially, the required funds and all other prerequisites for starting the projects should be provided, and then other procedures for contracting with the EO should be developed. Further on, controls on the monitoring of the works up to the payment execution process should be provided.	Concerning drafting of the projects, despite measures taken, the recommendation has not yet been fully addressed, also the payments in accordance with the terms of the contract have been addressed (since the quality of the construction is addressed).	Partially implemented.
12	Payment of penalties as a consequence of delays in settling obligations	The Mayor should ensure that the Procurement Office does not start the procurement procedures before the legal criteria are complied with,	There is same situation in the Municipality.	Not implemented.

		respectively without drafting the executive project, as well as providing additional controls that funds are committed before the contracts are signed. Further on, all payments are made fully in compliance with the terms set out in the contract.		
13	Avoidance from Regular Procurement Procedures	The Mayor should ensure that controls in place are functional when evaluating and selecting operators, where there is a possibility to review cases in detail and request additional clarifications. Further on, to require detailed planning and units should evaluate fairly the procurement requirements, and fully comply with the LPP and AI, so that the above cases are not repeated.	Relevant recommendations have been addressed.	Implemented.
14	Weakness in asset registration under €1,000 - E-assets	The Mayor should ensure that internal rules and procedures for the recording, storage and disposal of non-financial assets is drafted as required by Regulation no. 02/2013, as well as to ensure that the all-inclusive property registration process will continue within a term optimal and a final register on the assets of the Municipality is produced. Further on, all movable property inflows/outflows of under €1,000 are made through e-assets system in all municipal departments.	The municipality continues to have the same situation this year, the e-Asset system has not been applied in all municipal departments.	Not implemented.
15	Delayed Deposit of Money Collected	The Mayor should strengthen controls to ensure that daily cash deposits are made at the end of each day in accordance with the applicable legislation.	The municipality has taken measures for implementation of this recommendation.	Implemented.
16	Increase in receivables	The Mayor should ensure that all possible options are actively reviewed by putting in place policies, regulations and other mechanisms in order to increase the efficiency of collecting receivables. Further on, all measures in accordance with the law should be considered, against operators who do not fulfil contractual obligations.	The municipality continues to have this same situation this year. In addition to written warnings sent to the party, other measures that are foreseen during the drafting and signing of the	Not implemented.

			contract have not been applied.	
17	High level of liabilities and increase of contingent liabilities	The Mayor should strengthen controls in process of managing payments to ensure that all invoices are paid within the legal deadline of 30 days after the invoice is received. Further on, to ensure that the liabilities are reported on monthly basis for compliance with legal requirements, which should include their exact balance. Additional plan for the obligations of the previous years for their payment should be set which should be completed before the end of 2018.	Payments of court decisions have resulted in reduction of outstanding liabilities, but no other proactive measure have been taken. While, also this year the level of contingent liabilities have been increased.	Not implemented.
18	Low level of implementation of previous and previous year's recommendations	The Mayor should ensure that the implementation of the action plan is monitored on a regular basis and reported on a regular monthly or quarterly basis in relation to the progress achieved in this regard. Recommendations that are not implemented according to deadlines should be revised in the short term by the Mayor, as well as taking pro-active actions against the barriers presented during the implementation.	Despite drafting of an action plan, its monitoring is ineffective as this year the municipality has shown weaknesses in financial management, controls and reporting.	Recommendation closed.
19	Low level of implementation of IAU recommendations	The Mayor should take all actions against the administrative units to whom the recommendations are addressed, to have a maximum commitment in taking remedial measures in areas where weaknesses have been identified. The Audit Committee should review the results of the internal audit and the actions taken by management in relation to internal audit recommendations.	Although the Audit Committee has been put into function, and despite the actions taken by this Committee, many recommendations have not been implemented yet.	Partially implemented.
20	Weaknesses in Management Controls 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 from which all relevant information influencing the quality and timely decision-making of management could be extracted. Budgetary performance,	Failure to achieve a satisfactory level of budget by some categories, failure to compile a list of risks, high level of receivables and liabilities are facts that there is no	Not implemented.

		including revenues and expenditures, and procurement plan should be subject to regular reporting and review by the Management. Further on, in order to reduce the impact of risks to acceptable levels, the Organization should draft a risk register with all appropriate measures/actions to put the exposed threats under control.	proper reporting been established.	
No	Audit Area	Recommendations of 2018		
1	AFS	<p>The Mayor should ensure that an analysis is undertaken to determine the causes of the Emphasis of Matter. Actions should be taken to address weaknesses in registration and fair presentation of expenditures, to eliminate weaknesses for full disclosure of assets, liabilities and accounts receivable disclosed within the Emphasis of Matter at Audit Opinion.</p> <p>Further on, the Mayor should ensure that effective processes are in place to confirm that the 2019 AFS production plan formally addresses all compliance related issues. This includes Management review of the draft AFS with specific focus on high risk areas and/or areas where errors have been identified in previous years. The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be submitted unless all necessary checks have been applied to the draft AFS.</p>		
2	Low level of Budget Execution	The Mayor should ensure that budget performance is systematically monitored on a monthly basis and that this review identifies and addresses barriers to budget execution at a planned level. Where initial budget assumptions are incorrect, this should be fully reflected in the final budget position.		
3	Outflow of the treasury single account	The Mayor should undertake measures to regulate the financial management of the library by incorporating this unit into the system. Received public funds must be deposited in the official bank account designated by the Treasury, and spending of these funds shall be made in accordance with the rules.		
4	Non-reconciliation of revenues between respective directorates	The Mayor should ensure that the reconciliations between the respective directorates are carried out on a regular monthly basis and all possible discrepancies are clarified on time.		
5	Shortcomings in management of revenues from property tax	The Mayor should establish solid controls that ensure an effective revenue collection, by including and determining fair assessment of the tax charges, in accordance with the rules and according to the on-site situation, through engagement of competent interviewers.		
6	Shortcomings in calculation of the property tax base	The Mayor should ensure additional actions and take the initiative to update the Regulation of the Municipal Assembly. Further on, should ensure proper allocation of these tax zones according to the factual situation in the field.		

7	Weaknesses in management of contracts allocated for concession and rent	The Mayor should review the reasons for the existing situation and decide on appropriate measures to collect all arrears in a reasonable time, or otherwise to disallow the use of public property by the owners who have not settled obligations towards the Municipality..
8	Weaknesses in Management of Revenues from Waste Management Department	The Mayor should ensure that proper analysis of waste management is carried out in order to achieve the objectives of the municipality in establishment of a sustainable financial system. Further on, should consider updating of the date base of charges, and to make changes and approval of the Regulation by the legislative body to free of charge, or to determine tariffs for certain households.
9	Contract Winner for use of business premises with lowest price	The Mayor should ensure that the responsible persons comply with the Regulation for allocating public spaces for use through public auction, and that the established criteria to be based on the rules by providing the possibility of gaining maximum benefits from the auction process.
10	Shortcomings in staff recruitment process	The Mayor should ensure that immediate actions are taken to review the employment process and to ensure effective controls so that recruitment processes are made in full compliance with the requirements of the Law on Labour.
11	Shortcomings in Civil Service Recruitment Procedures	The Mayor should ensure that the selection of candidates is made only after all recruitment and appointment procedures have been implemented in accordance with applicable laws and regulations.
12	Lack of Personnel Files and Payment Without Legal Basis	The Mayor should ensure the review of the possibility for transfer of these officials to the institutions they work for, or to complete their files in the municipality in order to establish legal basis for execution of their salaries. Additional payments are made only to the officials foreseen by the Government's decision, and the amounts that are obtained not in line with this decision should be returned to the municipal budget.
13	Failure to up-date Personnel Files	The Mayor should ensure that the Directors of Educational Institutions and the Personnel Manager have completed the evidence of work experience to establish legal basis for execution of the allowance on the basis of experience. Further on, should ensure that School Directors monitor performance evaluations and that the relevant evidence is enclosed in the staff files.
14	Officials without expired contract employment	The Mayor should ensure that recruitment procedures or extension of the contracts, if required, is done prior to the expiration of the employees' contracts, and that the procedures on extension of contracts are made in accordance with the applicable rules and guidelines.

15	Irregular compensation of Maternity Leave	The Mayor should ensure that competent personnel is tracking changes to the payroll list and that deductions to the Maternity Leave are carried out in accordance with the rules and applied in due time.
16	Irregularities in Recruitment of Staff for Special Services	The Mayor should ensure that special service agreements are planned properly and recruitments for these services are not longer than six months. The Mayor should also ensure that employees with special service agreements are engaged only for specific needs.
17	Irregularities in Expenditures for Official Travel	The Mayor should make sure that the financing of travel abroad is done only for municipal officials that bring over direct benefits, while in other cases, respectively financing of persons who are not part of the municipality, is done in accordance with the legislation in force.
18	Systematic weaknesses in management of payments and acceptance of works for investments	The Mayor should strengthen control measures so that such failures are not repeated. Further on, to ensure that competent officials are assigned to supervise projects and monitor implementation of the contract, and they accept only finished works, sign the Stages according to the real situation, in contrary measures will be applied for failures committed due to irresponsibility or negligence.
19	Initiating procurement procedures without commitment of sufficient funds and commitment of funds after receipt of bills/ acceptance of goods , and the lack of executive project	The Mayor should ensure that the controls are functional and that the Procurement Office should not sign any public contract without the commitment of funds or undertake an obligation that exceeds the amount of allocated funds. Further on, should also ensure that the drafting of executive projects is carried out in compliance with legal requirements, prior to the initiation of procurement procedures for work, otherwise project tendering shall not commence.
20	Lack of evidence during assessment of the criteria for housing of families in poverty	The Mayor should ensure that during the assessment of applications for special housing programs, the process for evaluation of the set criteria is supported by adequate evidence.
21	Failure to extend validity of performance security during	The Mayor should develop policies and procedures to ensure that the execution of the projects is fulfilled within the time frame set out in the respective contract and to be guaranteed with performance security throughout work execution period based on contracted agreement, thereby eliminating the likelihood of

	contract execution	contracting without sufficient funds, and other obstacles that may arise during the execution of the works.
22	Delays in execution of contracts	The Mayor should ensure higher controls in monitoring the implementation of projects, so that they are completed according to the dynamic plan, and that obstacles such as lack of resources and property disputes have been eliminated prior to signing the contract. When delays are made on behalf of the contractor to impose punitive measures under the terms set out in the contract, in order to increase the accountability of the economic operators.
23	Payment of penalties due to delays in execution of payments	The Mayor should increase controls on project management. At first, the sufficient funds and all other requirements should be provided for initiation of the projects, and then should commence with other procedures for contracting with the EO. Further on, should ensure controls over monitoring of the payment of invoices within the legal deadline, throughout the payment execution process.
24	Failure to establish communication and provide information when payments are executed by the Treasury	The Mayor should ensure that signed agreements with donors and operators are fully implemented and that there are no delays in execution of contractual obligations. Further on, should establish controls to prevent such mistakes and ensure that the municipality identifies and responds on time to mistake/failure committed by subordinating organizations. Measures should also be taken to establish communication with the Treasury and to be informed on time about the payments executed by the Treasury.
25	Shortcomings in inventory and asset identification and lack of internal procedure	The Mayor should ensure that registration of all assets is completed on time, and to proceed with asset valuation within shortest time possible and upon completion of the process to prepare a final report about the state of assets, which have to be reconciled with Municipality's Accounting registers. Identified differences should be clarified and registers shall be updated according to the latest recorded data. Requirements on asset registration and maintenance should be applied entirely, and recording of all movable property inflows/outflows (under €1,000) for all municipal departments using the E-Asset system should be made. Further on, should ensure drafting of internal rules and procedures for recording, storage and disposal of non-financial assets as required by regulation 02/2013.
26	High Level of Receivables	The Mayor should ensure that all possible options are actively reviewed by setting policies, regulations and other mechanisms in order to increase the efficiency for collection of receivables. Further on, should review all measures against operators who do not meet contractual obligations in accordance with the law.
27	High Level of Liabilities	The Mayor should strengthen controls in management of payment process to ensure that the municipality does not enter into obligations without sufficient funds, and that all invoices are paid within the legal deadline. Further on, should ensure that the reporting of the obligations is made each month in accordance with the legal requirements, including their exact status.
28	Failure to Address IAU	In order to achieve the utmost benefit from internal audit services, the Mayor should ensure that sufficient staff is provided to the IAU and to review the

	Recommendations	reasons for the limited actions taken concerning the recommendations. Furthermore, additional actions should be undertaken to put CA into function in order to ensure the supervision, establishment and strengthening of the internal audit role.
29	Weaknesses in Management Controls and in Risk Management	The Mayor should ensure that a review is carried out to determine the form of financial and operational reporting to senior management, from which is obtained all relevant information that affects the quality and timely management decision-making. Budgetary performance, including revenues and expenditures, and implementation of the procurement plan should be subject to regular reporting and review by the management.

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: Comments of BO regarding findings in the report

 Republika e Kosovës Republika Kosova Kosova Cumhuriyeti	 REPUBLIKA E KOSOVËS • REPUBLIKÄ E KOSOVËS KOSOVA CUMHURİYETİ Komuna e Prizrenit • Opština Prizren Prizren Beledijesi Kryetari i Komunës • Predsednik Opštine Belediye Başkanı 01 Nr. 64/19 Dt. 30.05.2019	 Komuna e Prizrenit Opština Prizren Prizren Beledijesi
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DATË:	
REFERENCE:	
PËR:	Zyrën Kombëtare të Auditimit
NGA:	Prof.dr. Mytahir Haskuka Kryetar i Komunës së Prizrenit
LËNDA/TEMA	LETËR E KONFIRMIMIT - Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2018 dhe për zbatimin e rekomandimeve

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit/Pasqyrave Financiare të Komunës së Prizrenit, për vitin e përfunduar më 31 dhjetor 2017 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Prof. Dr. Mytahir Haskuka
Kryetar i Komunës,

Data: Maj, 2019, Prizren



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 Prizren 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:

Prof. Dr Mytaher Haskuka

Data: Maj, 2019. Prizren