



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

**AUDIT REPORT FOR THE MUNICIPALITY OF HANI I ELEZIT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

Prishtina, 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 internationally recognized public sector auditing standards and good European practices.

"Univerzum Audit" Sh.p.k. as conducted the audit of the Annual Financial Statements of the Municipality of Hani i Elezit for the year ended December 31, 2018, on behalf of the Office of the Auditor General of the Republic of Kosova

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Municipality of Hani i Elezit in consultation with the Assistant Auditor General, in consultation with the contract manager Mujë Gashi, who supervised the audit.

The report is as a result of the audit carried out by "Univerzum Audit" Sh.p.k. by Team Leader – Besa Berisha, and the team members Qerim Qerimi, Laura Berisha and Eglantina Nikqi.

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Executive Summary

This report summarises the key issues arising from our audit of Annual Financial Statements for the Municipality of Hani i Elezit 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 19/11/2018.

Our audit focus has been on:



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

Opinion of the Auditor General

Unmodified Opinion with emphasis of the Matter

The Annual Financial Statements for 2018 with Emphasis of Matter

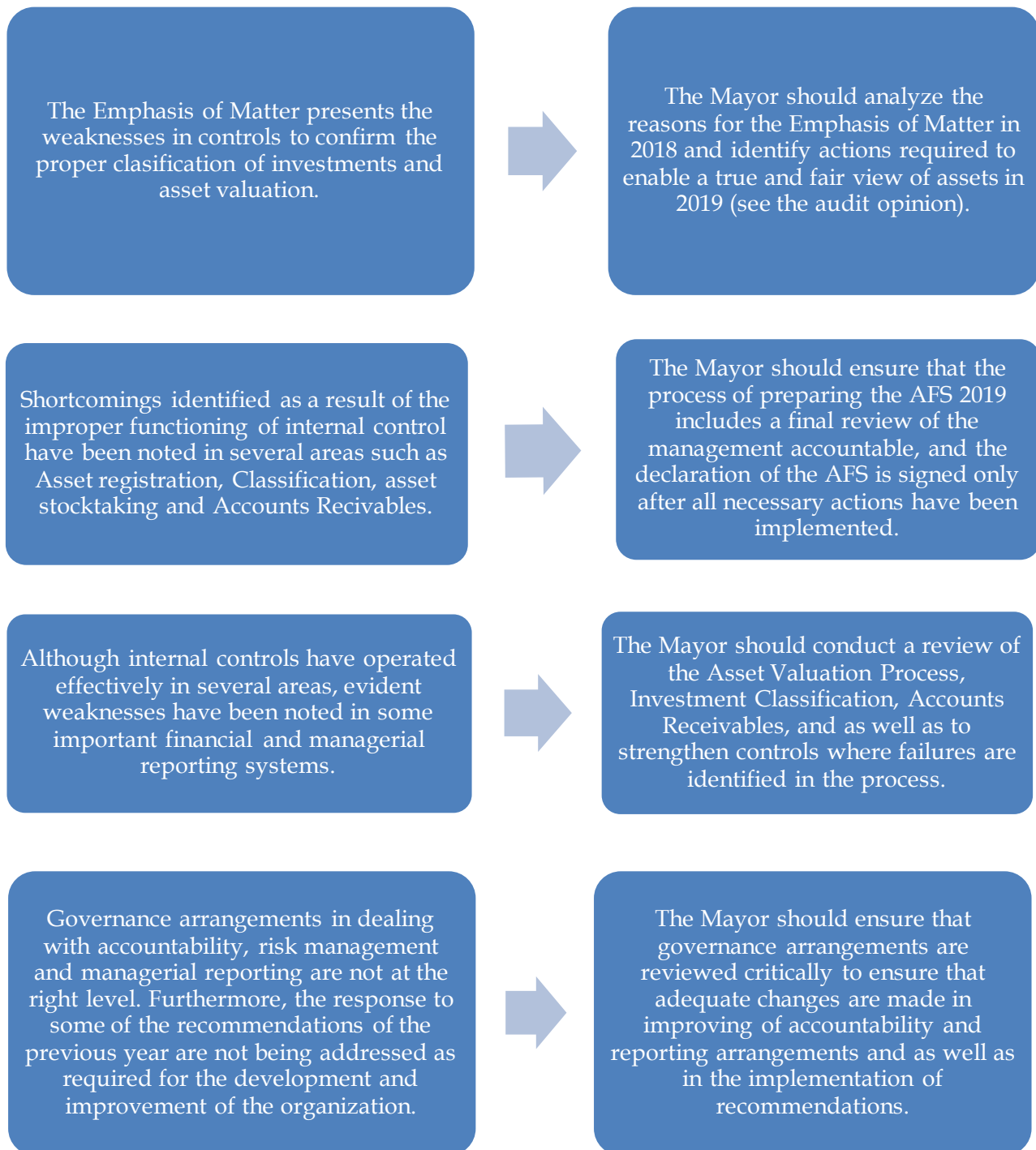
We draw your attention to the fact that the status of capital investments disclosed in the annual financial statements in the amount of €1,091,818 does not match the financial value of the nonfinancial assets in the assets register for the difference of €663,825.

Capital assets are also overvalued for the amount of € 32,305, underestimating the assets under € 1,000 (e-assets) as a result of the bad classification.

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 has considered and agreed on the audit findings and conclusions and has committed to address all given recommendations.

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 have been taken appropriate actions for implementation of audit recommendations.

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

Our procedures have included a review of internal controls, accounting systems and related substantive tests, as well as related governance arrangements to the extent considered necessary for the effective performance of the audit. Audit findings should not be regarded as representing a comprehensive statement of all the weaknesses that may exist, or of all improvements that could be made to the systems and procedures operated.

The following sections provide a detailed summary of our audit findings and recommendations in each area of review. Management's responses to our findings 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 Hani i Elezit for the year ended on 31st of December 2018, which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement and the Explanatory Notes of the Financial Statements.

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

Basis for the opinion

Our audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the AFS section of our report. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.

Emphasis of Matter

- We draw your attention to the fact that the status of capital investments disclosed in the annual financial statements of the Municipality are at the amount of €1,091,818. Assets registered in the capital investment registry of the Municipality are at the amount € 1,842,193 including also the existing registered assets through a committee during 2018 at the amount €1,414,200. Capital investments executed during the year 2018 and the ones not registered in the assets registry are at the amount of €663,825.
- Capital assets are also overvalued for the amount of € 32,305, underestimating the assets under € 1,000 (e-assets) for the same value as a result of the bad classification.

Our opinion is not modified for these matters..

Responsibility of Management for AFS

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

Auditor General's Responsibility for the Audit of the AFS

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will detect any material misstatement that might exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

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

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

2.2 Compliance with AFS and other reporting requirements

The Municipality is required to comply with a specified reporting framework and other reporting requirements. We considered:

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organizations;
- Requirements of LPFMA no. 03/ L-048, (as amended and supplemented);
- Compliance with Financial Rule no.01/2013 and 02/2013;
- Action Plan on implementation of recommendations; and
- Requirements of Financial Management and Control (FMC) procedures;
- If AFS are prepared within the time frame and delivered in MF;
- If the draft plan and final procurement plan is delivered in time; and
- If the Municipality had prepared and submitted regular quarterly reports to the Municipal Assembly and a copy to the MoF.

In addition to the issues raised to the audit opinion respectively Emphasis of matter, the AFS were prepared in accordance with the format for reporting, and were signed and submitted within the legal deadline in MoF.

In the context of other external reporting requirements, we have no issues to raise, except for the ones described at the emphasis of the matter.

2.3 Recommendations related to Annual Financial Statements

For the abovementioned issue the recommendation is given:

Recommendation B2 The Mayor should ensure that an analysis is carried out to determine the reasons for the Emphasis of the matter of the Audit Opinion. Specific actions should be undertaken to address the causes systematically in order to eliminate errors in the disclosure of assets and capital assets and to confirm their accurate assessment.

Furthermore, the Mayor should ensure that effective processes have been established to confirm that the draft plan of the AFS 2019 addresses all issues pertaining to compliance. This should also include the review of the AFS by management, with particular emphasis on high risk areas or fields where errors have been identified in previous years. The statement made by the Chief Administrative Officer and the Chief Financial Officer should not be signed unless all the necessary controls have been applied to the 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

Municipality of Hani i Elezit has managed to execute about 892% of forecasted revenues from the final budget for 2018 and also had spent 92% of the final budget for 2018, which implies to a good execution at the general level. In the context of financial systems, revenue controls are generally appropriate and are being effectively implemented, however, additional mechanisms are needed to decipher the accurate values of accounts receivables, including the old ones, and to react to their collection greatly. Furthermore, the main controls where further improvements are needed are the management of capital projects, capital asset management, increased revenue collection including municipal property management.

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 ¹	2018 Outturn	2017 Outturn	2016 Outturn
Sources of Funds	2,948,263	3,097,376	2,861,153	2,422,548	2,189,897
Government Grant -Budget	2,457,642	2,464,499	2,463,145	2,240,415	1,851,080
Carried forward from previous year ² -	181,518	181,518	138,390	31,440	106,108
Own Source Revenues ³	303,597	303,597	171,825	113,852	188,624
External Donations and loans	5,506	147,762	87,793	36,841	44,084

The final budget in relation to the initial budget was increased by 12% respectively to the amount € 330,631. This increase is a result of the transfer of unspent funds from own source revenues of 2017 at the amount of €181,517, unspent donations from 2017 in the amount of € 83, donations from MLGA/DEMOS - Grant for municipal performance in the amount of €29,970, donations from

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

² Own Source Revenues unspent in previous year carried forward into the current year.

³ Receipts used by the entity for financing its own budget.

Sharrcem in the amount of €110,000, donations from MEST in the amount of €2,220, and additional funds from the Ministry of Finance for the category of wages and salaries in the amount of € 6,856.

In 2018, the Municipality has spent 92.37% of the final budget or €2,861,153, 18% more than compared to 2017, showing a positive trend in budget execution.

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	2,766,746	3,097,377	2,861,153	2,422,548	2,189,897
Wages and Salaries	1,444,207	1,451,064	1,451,064	1,367,010	1,391,497
Goods and Services	225,312	229,656	226,206	188,215	211,387
Utilities	44,533	44,533	44,405	49,932	48,264
Subsidies and Transfers	51,104	52,795	47,659	49,801	53,158
Capital Investments	1,001,590	1,319,329	1,091,819	767,590	485,591

Explanations for changes in budget categories including reasons and impact they had:

- There are no changes in between the final budget and the execution of wages and salaries.
- The difference between the payments and the final budget for goods and services is € 3,450, where out of these means €765 are from the Government grant and they will be placed into surplus, other means in the amount of €278 are from own source revenues and are carried forward in the following year, whereas the value of €2,405 are borrowing means in education;
- The difference between the payments and the final budget for utilities is in the amount of €127, where these funds are from the Government grant and will remain in surplus;
- The difference between the payments and the final budget for subsidies and transfers is €5,136, these funds are from own source revenues and are carried forward in the following year; and
- The most significant difference between payments and final budget is in the category of capital investments which difference is in the amount of €227,509, out of which €460 are from the Government grant and will remain in surplus, the other part in the amount of €169,485 are own source revenues and are carried forward in the following year, a part of donations in the amount of €55,083 that is carried forward in the following year and as well as the value of €2,479 from borrowing in education.

The primary reason for non-execution of the capital investment budget is the non-execution of planned own source revenues to be spent on this category.

Issue A1⁴- Budget execution

Finding Although at the general level, budget execution was at 93%, the Municipality had not managed to execute the budget for all expenditure categories, especially where the most significant change is in the category of capital investments with a execution of 83%.

Risk Unrealistic planning and insufficient execution in respective categories results in non-achievement of Municipality's objectives and in carrying current year liabilities over to the following years

Recommendation A1 The Mayor should conduct a comprehensive assessment of causes behind poor execution in relevant categories, and ensure adequate budget planning in line with projects aimed, and regularly monitor budget performance with the aim of budget execution and avoiding of bad statements.

3.1.1 Revenues

The revenues generated by the Municipality of Hani i Elezit in 2018 were at the amount of 288,496€ or 15,101€ lower than planned revenues. The execution of own source revenues are for €63,303 higher compared to 2017. They relate to tax revenues in the amount of €133,801 and non-tax revenues in the amount of €154,695, mainly executed from property tax in participation out of €133,801, various taxes, licenses and revenues from the use of public property.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2018 Receipts	2017 Receipts	2016 Receipts
taxed revenues	112,000	112,000	133,801	79,588	104,659
Non-taxed revenues	191,597	191,597	154,695	145,605	147,172
Total	303,597	303,597	288,496	225,193	251,831

⁴ Issue A and Recommendation A- means new issues and recommendations

Issue B and Recommendation B- means repeated issues and recommendations

Issue C and Recommendation C- means partially repeated issues and recommendations.

Issue B2- Low revenue collection from rented public properties

Finding Revenues from municipal taxes are the only category of own revenues from which the execution of collections in 2018 is in the amount of €74,395, respectively lower than the in 2017 where the execution was €76,224. Thus, from this it results in the increase of accounts receivable of this category for €11,306 out of €250,680 in 2017 to €261,986 in 2018.

Except for one case against a single business in the Basic Court in Ferizaj and a case carried forward to the private enforcer for collection in 2015 to which it is expected the collection of debt, as well as to other clients where besides remarks, the recent remarks and despite rulings issued where it is foreseen also the shutdown of business activity, there is still no serious step towards collection or provision of debts. It is worth mentioning that from the total amount of debts in the category municipal taxes, at only 46 clients, the debt is 61,511.60 euros, liabilities that are not charged at all.

Risk Failure to undertake punitive measures for all businesses that have not cleared their obligations, such as municipal taxes, increases the risk of non-collecting of taxes.

Recommendation B2 The Mayor should ensure and take the appropriate measures that in shorter time period to collect all of the accounts receivables. Furthermore, all possible options should be considered, including the legal ones, to ensure the collection of revenues of this category, as well as to create and maintain a clear and complete evidence with all the necessary information's so that revenue management is more efficient.

3.1.2 Wages and Salaries

Wages and Salaries are paid through a centralized payment system managed by MoF. Controls that operate in the local level by the Municipality relate to: payments control, by signing the payroll lists, verification of possible changes that could be presented through forms; the budget review for this category and reconciliation with the Treasury. According the KFMIS data, the budget for the Wages and Salaries category was €1,451,064, while expenditures were at the same amount at €1,451,064, or expressed in percentage about 100% of the final budget of this economic category. The participation of the Wages and Salaries expenditures in the Municipality's total expenditures is 50.72%

Recommendations

We have no recommendations in this area

3.1.3 Goods and Services and Utilities

The final budget for goods and services for 2018 was €229,656. Out of them, €226,206 were spent. They relate to utilities, fuel and heating supplies, contractual services, maintenance and repair expenditures, as well as official travels.

Recommendations

We have no recommendations in this area

3.1.4 Subsidies and Transfers

The final budget of Subsidies and Transfers was 52,795 euro. Out of them, in 2018, €47,65 or 90% of the final budget were spent. Awarded subsidies relate to financial support by the Municipality for different area and activities, as for sports clubs, cultural-artistic society, scholarships, the agricultural sector, etc. In this category, we have not encountered in problems that would result with findings.

Recommendations

We have no recommendations in this area

3.1.5 Capital Investments

The final budget for capital investments was 1,319,329€. Out of them in 2018, were spent 1,091,819€. They relate to administrative business facilities, medical facilities, educational facilities, construction of regional roads, local roads, sewerage, water supply, investment maintenance, machinery etc.

3.2 Capital and non-capital assets

Issue B3 – Poor management of non-financial assets

Finding

The value of Non-Capital Assets-Inventories under €1,000 reported in the Annual Financial Report is €3,847, while registered in the Municipality's assets register in inventories under € 1,000 they are € 87,383. Within the registry of inventories under € 1000 there are invoices registered in the economic codes 31610 and 31690 all of them in the amount of €61,106 which caused an over-valuation of assets under €1,000 and underestimation of capital assets for the same value. As well as the value of €26,277 are inventories purchased at the end of 2017 registered at the beginning of 2018, which in total give the value of the registered assets at 87,383 €. While the value of €32,305 was misstated as capital investment in the economic code 31610, while it should have been registered in economic code 13501, by underestimating this category.

The committee on asset registration over 1000 Euros, by the date of financial reporting did not provide a report on inventorying of assets and their comparison with asset registers. Further on, the Municipality has not depreciated the non-capital assets with the value €1,000. According to municipal officials, the e-property system is not functional enough because it does not allow the calculation of depreciation, that resulted in the incorrect disclosure of assets in the AFS

Risk

Misclassification of capital and non-capital assets results in an incorrect statement of the assets of the Municipality and failure to fully inventory of assets, causes deficiency in correct management and reporting of assets, at the same time risking misuse or loss of assets, while the non-recording of assets and lack of depreciation impacts in the overstate of municipal assets value.

Recommendation B2 The Mayor should ensure that the process of registering of assets in the Municipality's assets register should be performed by accurate classifying into the relevant economic codes and after the completion of this process, the asset condition should be inventoried. After the inventorying, the concluded situation should be compared with the general assets register, so that the potential differences can be identified and then reflected in the asset registers.

3.3 Receivables

At the end of 2018, accounts receivables are mainly comprised of receivables from property tax in the amount of € 241,599, municipal tax from business activities at the amount €264,656, other receivables from rent in the amount of €15,954.

Issue B3- Lack of mechanisms for collecting receivables

Finding Despite the fact that the Municipality has taken active measures regarding the collection of receivables, receivables have an upward trend compared to the previous year. The increase of receivables over the years presents inefficiency in debt collection, especially old debts carried forward over the years.

Risk Lack of specific measures to collect the debts, in particular, to those carried forward within years, had an impact on their growth and consequently, also in non-execution of expenditures which were planned to be financed from own source revenues.

Recommendation B5 The Mayor should take measures to address the causes of failure of collections of receivables and to provide effective mechanisms for their collection. Likewise, the Mayor should establish appropriate measures to collect all outstanding liabilities within a reasonable period and initiate a process of revaluation of accounts receivable where all accounts will be analyzed in terms of seniority, significant amounts and real opportunities for their collection, and in certain cases their provisioning or settlement in case of categorization as bad debts.

3.4 Outstanding liabilities

The statement of liabilities not paid to suppliers at the end of 2018 was €22,000. These liabilities are carried forward to be paid in 2019. However this only reflects part of the faced budgetary challenges. The Municipality has also disclosed contingent liabilities from court disputes in the amount of €18,000, where it is noticed a decrease of contingent liabilities comparing to the previous year. The Municipality implements a relatively regular reporting process of obligations. In General, the Directorates are aware of the requirements of the regulation on reporting unpaid bills and the responsible officer reports timely to the Treasury about it.

Recommendations

We have no recommendations in this area.

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

There is a number of governance weaknesses within X particularly related to accountability, risk management and the quality of management reporting.

One of the key elements of effective governance is implementation of recommendations given by external audit. The effective response to the implementation of recommendations is not satisfactory. This section has been handled in more detail in the chapter 'Progress in implementing recommendations.

The self-assessment checklist, completed by the municipality, only partially reflects this situation, responding to most of the questions with an average grade of 2.52 up to 2.92. According to the self-assessment questionnaire, the Municipality had responded negatively to 10 questions from a total of 106.

Further on, the questions that relate with the assets recording (question 70), were evaluated with maximum grade 3, while during the audit we have noticed that the non-financial assets registers are incomplete. This means that the Management should take into account the issues which have not reached the expected level.

The Municipality has the 2010-2025 Municipal Development Plan, it has approved the 2018-2022 Social Economic Development Strategy. Still, the municipality does not have into possession the anti-corruption plan.

4.1 Internal Audit System

According to the Administrative Instruction no. 23/2009 on Establishing and Functioning of the Internal Audit Units in the Public Sector, each public subject with budget of 1 up to 3 million should have an internal auditor.

Issue B 4- The lack of the IAU establishment

Finding The Municipality still had not secured the IAU establishment. According to the AI 23/2009 on Establishing and Operating of IAU in the Public Sector, article 3, point 2.1, it determines that the public sector with budget 1 up to 3 million should have an internal auditor. However, during 2017 they have secured an Internal Audit from the Ministry of Finance.

Risk The lack of an internal Audit can result with continuous repetition of weaknesses in key internal control systems. Furthermore, the management may not timely identify and respond to irregularities and control weaknesses.

Recommendation B5 The Mayor should ensure that the legal requirement is met, respectively to recruit one internal auditor. If this requirement cannot be executed, then the internal audit service should continue to be performed by the Ministry of Finance, or any other public entity. The audit service would support the Management in decision-making and elimination of weaknesses.

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 B 5- Weaknesses in management controls and risk management

Finding As a result of poor management controls, substantial amounts from the capital investment budget have not been spent. Accounts receivable were not properly addressed by management, as well the registration of assets and full inventorying is not carried out. The Management does not carry out regular analysis of budget performance.

The Municipality also has no written policies and procedures for managing risks, in particular the risk of fraud and irregularities. There is no risk register drafted according to FMC requirements, there is no risk management strategy, nor any report on their management has been prepared.

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

Recommendation B5 The Mayor should ensure that a review has been carried through to determine the form of financial and operational reporting to Senior Management. Budgetary performances, including revenues and expenditures, and procurement plan should be subject to regular reporting and review by the Management, the registration and inventorying process must include all of the assets of the municipality. 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.

5 Progress in implementing recommendations

The Audit Report on the 2017 AFS of the Municipality of the Hani i Elezit has resulted in 8 findings and recommendations, the Municipality had prepared an Action Plan stating how all given recommendations will be implemented. Further on, the audit report was discussed also in the Municipal Assembly.

Until the end of our 2018 audit, one recommendation have been implemented, three were in process and four have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Table 4.

1. Table 4 Summary of prior year recommendations and of 2018

No	Audit field	Recommendations of the year 2017	Actions undertaken	Status
1	AFS 2.2 Compliance with AFS and other reporting requirements	The Mayor should ensure that an analysis is undertaken to determine the causes of the Emphasis of Matter, and proper actions to be taken to address the causes systematically and to confirm the full recording of assets and to eliminate errors in the classification of expenditures. Further on, it should ensure that effective processes are in place to confirm that the 2018 AFS production plan addresses all issues raised in the report and the Declarations made by the Chief Administrative Officer and Chief Financial Officer, should not be signed unless all necessary checks have been applied to the draft AFS.	Also in this year there were bad classifications and poor asset management	Not implemented
2	Revenues Issue - Verification of recorded properties	The Mayor should improve the process of properties verification and to ensure that the verification of their 1/3 is being made on a regular annual basis, in order that notes about the property tax to be complete, to reflect the real situation of taxed properties. The increase of the property recording will result with more municipal revenues and better budget performance.	During the audit we have noticed that this finding was implemented	Implemented
3	Issue 3 - Failure to collect the business fees	The Mayor should ensure that proper measures are set in order that all its receivables are collected within a reasonable time period. Further on, he should actively review all possible options, including legal remedies to ensure that the revenues have been executed.	We have concluded that this recommendation is still unaddressed	Not implemented
4	3.7 Capital and non-capital assets Issue 4 - Poor management of non-financial assets	The Mayor should ensure that in cooperation with the Ministry of Public Administration, the deficiencies in the e-Asset system are eliminated, including the assets depreciation and recording of remaining assets. Further on, the inventory process should be timely carried out, before the AFS have been prepared, and the inventory report should include a comparison of physical situation with that in the registers situation. If the difference is confirmed, those should be presented in the assets register and in the accounting register.	We have concluded that this recommendation is still unaddressed	Not implemented

5	Receivables Issue 5 – Handling of accounts receivables	The Mayor should ensure the strengthening of mechanisms for the collection of receivables, using all available measures, initially using all necessary actions within the Municipality, then after to use even other legal measures.	The management has taken measures and they are in the process of improving collection	In the implementation process
6	Progress in the implementation of recommendations Issue 6 – Low level of implementation of recommendations from the previous and earlier year	The Mayor should ensure that the implementation of the action plan is continuously monitored and reported on a monthly or quarterly basis in relation to the progress achieved in this direction. The recommendations which are not implemented according to the timeframes, to be reviewed in a short timeframe by the Mayor, and proactive actions to be taken against the presented barriers during the implementation.	During the audit we have noticed that recommendations are in the implementation process	In the implementation process
7	Internal Audit System Issue 7 – The lack of the IAU establishment	The Mayor should ensure that the legal requirement is met, respectively to recruit one internal auditor. If this requirement cannot be executed, then the internal audit service should continue to be performed by the Ministry of Finance, or any other public entity. The audit service would support the Management in decision-making and elimination of weaknesses.	We have concluded that this recommendation is still unaddressed	Not implemented
8	Management reporting, Accountability and Risk Management	The Mayor should ensure that a review has been carried through to determine the form of financial and operational reporting to Senior Management. Budgetary performances, 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.	During the audit we have noticed that recommendations are in the implementation process	In process of implementation
No	Audit area	Recommendations of 2018		
1	Compliance with AFS and other reporting requirements	The Mayor should ensure that an analysis is carried out to determine the reasons for the Emphasis of the matter of the Audit Opinion. Specific actions should be undertaken to address the causes systematically in order to eliminate errors in the disclosure of assets and capital assets and to confirm their accurate assessment.		

		Furthermore, the Mayor should ensure that effective processes have been established to confirm that the draft plan of the AFS 2018 addresses all issues pertaining to compliance. This should also include the review of the AFS by management, with particular emphasis on high risk areas or fields where errors have been identified in previous years. The statement made by the Chief Administrative Officer and the Chief Financial Officer should not be signed unless all the necessary controls have been applied to the AFS.
2	Budget Planning and Execution	The Mayor should conduct a comprehensive assessment of causes behind poor execution in relevant categories, and ensure adequate budget planning in line with projects aimed, and regularly monitor budget performance with the aim of budget execution and avoiding of bad statements.
3	Revenues	Recommendation A The Mayor should ensure and take the appropriate measures that in shorter time period to collect all of the accounts receivables. Furthermore, all possible options should be considered, including the legal ones, to ensure the collection of revenues of this category, as well as to create and maintain a clear and complete evidence with all the necessary information's so that revenue management is more efficient.
4	Capital and non-capital assets	The Mayor should ensure that the process of registering of assets in the Municipality's assets register should be performed by accurate classifying into the relevant economic codes and after the completion of this process, the asset condition should be inventoried. After the inventorying, the concluded situation should be compared with the general assets register, so that the potential differences can be identified and then reflected in the asset registers.
5	Lack of mechanisms for collecting receivables	The Mayor should take measures to address the causes of failure of collections of receivables and to provide effective mechanisms for their collection. Likewise, the Mayor should establish appropriate measures to collect all outstanding liabilities within a reasonable period and initiate a process of revaluation of accounts receivable where all accounts will be analyzed in terms of seniority, significant amounts and real opportunities for their collection, and in certain cases their provisioning or settlement in case of categorization as bad debts.
6	Internal Audit System	The Mayor should ensure that the legal requirement is met, respectively to recruit one internal auditor. If this requirement cannot be executed, then the internal audit service should continue to be performed by the Ministry of Finance, or any other public entity. The audit service would support the Management in decision-making and elimination of weaknesses.
7	Management Reporting, Accountability and Risk Management	The Mayor should ensure that a review has been carried through to determine the form of financial and operational reporting to Senior Management. Budgetary performances, including revenues and expenditures, and procurement plan should be subject to regular reporting and review by the Management, the registration and inventorying process must include all of the assets of the municipality. 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.
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This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.

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

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

153. The auditor should express a **qualified opinion if**: (1) having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex II: Letter of confirmation




Republika e Kosovës
Republic of Kosova

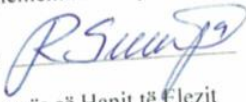

Komuna Hani i Elezit
Municipality of Elez Han

LETËR E KONFIRMIMIT
Për pajtueshmërinë me të gjeturat e Auditorit për vitin 2018 dhe për
implementimin e rekomandimeve

Për: "Univerzum Audit" Sh.p.k.
Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Auditorit për auditimin e Pasqyrave Financiare të Komunës së Hanit të Elezit, për vitin 2018 (në tekstin e mëtejshëm "Raport");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit;
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Z. Rufki Suma 
Kryetari i Komunës së Hanit të Elezit
Data: 21 Maj 2019, Hani i Elezit