



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

**AUDIT REPORT FOR THE MUNICIPALITY OF JUNIK 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. has conducted the audit of the Annual Financial Statements of the Municipality of Junik for the year ended December 31, 2018, on behalf of the Office of the Auditor General.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Municipality of Junik 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 Armend Osaj team leader and members Taulant Murati and Elvirë Pllana.

TABLE OF CONTENTS

Executive Summary.....	4
1 Audit Scope and Methodology.....	6
2 Annual Financial Statements and other External Reporting Obligations.....	7
3 Financial Management and Control.....	10
4 Good Governance.....	21
5 Progress in implementing recommendations.....	23
Annex I: Explanation of the different types of opinion applied by NAO.....	30
Annex II: Letter confirmation.....	33

Executive Summary

This report summarises the key issues arising from our audit of Annual Financial Statements for the Municipality of Junik 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 Junik.

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 attention to the fact that municipal properties, although they are identified and evaluated, they are still not recorded in the assets module in the KFMIS, while for non-capital assets there is no complete and accurate register.

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



The National Audit Office appreciates the cooperation of the management and personnel of the Municipality, during the audit process.

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.

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 Junik 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 Organizations.

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.

We draw attention to the fact that:

- 275 municipal properties were identified and evaluated, but they are still not recorded in the accounting register in the KFMIS.
- The e-assets program was used much frequently in 2018, however, not sufficiently enough, as a result that recording haven;t been made for previous periods as well. As a result, there is no complete and accurate register of non-capital assets and stationaries.

This reflects inaccuracies in the assets registry and inaccurate disclosure in the AFS of 201.

Responsibility of Management for AFS

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

Auditor General's Responsibility for the Audit of the AFS

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

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

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

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

2.2 Compliance with AFS and other reporting requirements

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

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
- Requirements of LPFMA no. 03/ L-048, (as amended and supplemented);
- Compliance with Financial Rule no.01/2013 and 02/2013;
- Action Plan on implementation of recommendations; and
- Self-assessment questionnaire of the Financial Management and Control components.
- The annual procurement plan and the annual report of public contracts signed, and
- Three months reconciliations of expenditures and revenues with treasury.

The AFS were prepared in accordance with reporting format, and were signed and submitted within the legal deadline in the MoF.

Given the above, the Declaration made by the Chief Administrative and Financial Officer upon submission of the AFS to the Ministry of Finance can be considered correct.

In the context of other external reporting requirements we have identified that Municipality has not submitted to the MoF detailed quarterly reports on the physical progress of implementation of capital projects.

2.3 Recommendations related to Annual Financial Statements

For the abovementioned issue, the recommendation is given:

Recommendation B1 The Mayor should ensure that an analysis is undertaken to determine the causes for Emphasis of Matter of the audit opinion. Actions should be taken to address the underlying causes in a systematic manner in order to eliminate errors in disclosing of assets, asset registration and to confirm their accurate assessment. It should be continued to implement the recommendations made during the preliminary audits according to the action plan and it is necessary to improve the drafting of the annual procurement plan, respectively, a better procurement planning is needed. Further on, the Mayor should ensure that effective processes are in place to confirm that the 2019 AFS production plan formally addresses all issues related to the compliance.

This also includes Management review of the draft AFS with specific focus on high risk areas or areas where errors have been identified in previous years.

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

Although the Municipality of Junik has made a number of governance improvements, there are still a number of areas where further developments are needed. Some of the issues raised by last year's audit were not sufficiently reviewed. Registration and evaluation of assets is done but not recorded in the KFMIS and is therefore considered not sufficiently addressed by the management.

In the context of financial systems, controls over revenues are generally appropriate and are being implemented effectively – but controls over a range of expenditure areas require further enhancement to prevent irregularity of expenditures and non-rational expenditures. Improvements are mainly required in procurement planning through public procurement, commitment of funds and as well as in the management of accounts receivable.

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	1,730,462	2,152,048	2,082,278	1,754,304	1,584,964
Government Grant -Budget	1,631,453	1,982,604	1,974,583	1,534,867	1,179,419
Carried forward from previous year ² -	-	38,529	17,407	17,697	13,442
Own Source Revenues ³	99,009	99,009	60,851	89,483	69,306
Domestic Donations	-	17.50	-	20,900	4,082
External Donations	-	31,889	29,437	91,357	318,715

The final budget compared to the initial budget had increased for € 421,586. This increase resulted due to the increase of government grant in the amount of €351,151, revenues carried

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.

forward from previous year for €38,529, revenues from internal donations in the amount €17.5 and external donations in the amount of €31,889.

The BO in 2018 has spent 97% of the final budget or €2,082,278, with an improvement from 84% compared to the year 2017. The budget execution remains at satisfactory level and explanations are given below on the current status.

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	1,730,462	2,152,048	2,082,278	1,754,304	1,584,965
Wages and Salaries	1,118,322	1,085,806	1,085,806	1,054,758	1,005,752
Goods and Services	149,956	179,974	177,073	184,416	211,927
Utilities	30,000	38,000	33,005	29,476	29,904
Subsidies and Transfers	5,755	15,755	15,600	6,050	5,460
Capital Investments	426,429	832,514	770,794	479,604	331,922

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

- Wages and Salaries – the final budget was reduced for €32,516. The reduce was affected by the transfer from the Government of Republic of Kosova, in accordance with the decision no. 07/80 dated 18.12.2018 in the amount of €(32,516.55) transferred from the central level from the category of salaries
- MGoods and Services – the final budget had increased for €30,018. Initially this was affected from KOSTT donations in the amount of €17.50 transfer from the Government of Republic of Kosova, in accordance with the decision no. 04/74 dated 06.11.2018 in the amount €30,000.00;
- Utilities – are increased by €8,000. This increase was affected from the transfer of the Government of the Republic of Kosovo, in accordance with the Government Decision no. 04/74 dated 06.11.2018 in the amount of € 8,000.
- Subsidies and Transfers - the final budget has increased for €10,000. This increase was affected from the transfer of the Government of the Republic of Kosovo according to the Government Decision no. 04/74 dated 06.11.2018 in the amount of €10,000.
- Capital Investments - The final budget has increased for €406,085. This increase was affected by the transfer of donations from UN-HABITAT in the amount of € 260.98, Helvetas Swiss Intercooperation (DEMOS) in the amount of € 25,628, from Save the Children in the amount of € 6,000, transfer of unspent revenues from 2017 carried forward for expenditure in 2018 in the amount of € 38,528.78, from the transfer of the Government of the Republic of Kosovo on the basis of the Government Decision no. 04/74 dated 06.11.2018 in the amount of €

250,000, and as well as the transfer from the Government of the Republic of Kosovo according to the Government Decision no. 11/79 dated 11.12.2018 in the amount of €85,667.00.

Recommendations

We have no recommendations in this area

3.1.1 Revenues

Revenues generated by the Municipality of Junik were in the amount of €119,107.93 or 120% of the plan. Compared to the previous year, the level of revenues collected has decreased by 2.5%. Largest part of revenues generated come from tax revenues by €64,776 and non tax revenues revenues by €54,332.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2018 Receipts	2017 Receipts	2016 Receipts
Own source revenues	99,009	99,009	119,108	122,377	83,989

Issue B2 - Shortcomings in the recording of revenues

Finding	In some cases we have noticed that revenues have been recorded up to a week behind, due to the inability of retroactive recording in the system.
Risk	Late revenue registration makes it difficult to harmonize the data and financial reporting, except that, the three-month report will not present the real situation of the municipality at that date.
Recommendation B2	The Mayor should ensure that revenues are recorded on time in the KFMIS so that analyzes and reports are based on accurate information.

3.1.2 Wages and Salaries

Wages and Salaries are paid through a centralised system managed by Ministry of Public Administration and the MF. At the end of 2018, the Municipality of Junik had 163 employees, including 39 members of the Municipal Assembly. For wages and salaries was spent almost the entire budget of this category or €1,085,806. The share of wages and salaries in in the overall municipal expenditures is 52%.

Recommendations

We have no recommendations in this area

3.1.3 Personnel Management

Our audit included personnel files, recruitment procedures, annual performance appraisals, retirements, as well as unpaid leave and maternity leave. Administrative staff members with the status of civil servant are managed by the personnel office in the Municipality, while the educational personnel and health personnel are managed by respective directorates, Directorate of Education and the Directorate for Health and Social Welfare.

Issue B3 - Irregularities in personnel management

Finding For the position in the directorate for health, although it was requested by advert, the candidate had not provided the court confirmation in time, which certifies that an applicant is not in the investigation procedure or convicted of a criminal offense at the time of application, the same lack of documentation we have also noted in one part of the staff engaged with special service agreements.

Risk Avoiding and inadequate application of recruitment requirements and procedures, besides being in disagreement with legal rules and procedures, also pose a risk of engaging inadequate persons, and do not ensure that adequate personnel was recruited.

Recommendation B3 The Mayor should ensure that recruitment activities are conducted in accordance with relevant procedures and regulations that ensure equal treatment for all potential competitors.

3.1.4 Goods and Services and Utilities

The final budget for goods and services and utilities in 2018 was €217,973o Out of them €209,697 or 96% were spent from the budget of these two categories. Mostly, they relate to costs of utilities and operational activities related to other contractual services, office supplies and equipment, fuel, maintenance, etc.

Issue B4 - Shortcomings in management of special services agreements

Finding Five employees were engaged through special service agreements. One of them is engaged in the Mayor's office as a Political Advisor whose contract begun from January 2018 until the end of the Mayor's mandate. For his engagement there was no simplified recruitment procedure has been undertaken. One employee is engaged in administration and as well as three others in Public Services, of which only for two employees which were engaged in public services have applied recruitment procedures.

Risk Avoiding simplified recruitment procedures when concluding contracts for special service agreements poses a risk of engaging inadequate persons to perform required services.

Recommendation B4 The Mayor should ensure that special service agreements are concluded after development of simplified recruitment procedures, and only when there are specific requirements, and should be developed within the timeframe established under the legal framework.

3.1.5 Subsidies and Transfers

The final budget for Subsidies and Transfers in 2018 was € 15,755. Out of these, € 15,600 or 99% of the budget of these two categories was spent. Subsidies are given to individual beneficiaries, public and non public entities. During the January-October period, a total of € 5,700 was allocated for subsidies, while a total of € 9,900 were allocated for November to December.

Issue C1 - Lack of regulation on subsidies

Finding Municipality of Junik had no regulation approved for granting subsidies until 31 October 2018. Their allocation was made only on the basis of the requests that were approved by the Mayor.

For subsidies allocated during November-December, the regulation has been approved but during the audit process we have noted that all requirements during applications for subsidy have not been respected and the applicant files have not been completed.

Risk Due to lack of a regulation is created uncertainty about subsidized projects and whether the allocation of subsidies is in agreement with established plans and objectives.

Recommendation C1 The Mayor should ensure that the Regulation on subsidies is implemented by respecting of all relevant procedures, up its approval. Furthermore, the Mayor, should ensure that the procedures for monitoring and reporting are followed as per the regulation in force.

3.1.6 Capital Investments

The final budget for capital investments was €832,514, out of which were spent €770,794 or 93%. They relate to financing of capital projects in road infrastructure, educational facilities and investment maintenance, project design, etc..

Issue A 1 - Changing of project manager by the contractor without the prior approval of the municipality**Finding**

The winning economic operator in the project "Asphalting of local roads in the neighborhood of Gaxheret", to fulfill the requirement for point III.2.4. - Technical and professional capacity, request with number 2 in relation to the required professional staff, has provided a contract that they made with another company, which states that the economic operator who subsequently is announced as the winner is provided with staff for use in order to compete in different tenders across entire territory of Kosovo and not in use for the execution of the project in question. Initially, this evidence was considered inappropriate by the evaluation team, but after reviewing the case in the PRB, it was returned to the re-evaluation and then during the re-evaluation process this evidence was considered as appropriate. One of the requirements in the dossier in one part of the technical and professional capacity was that the project manager had at least three years of work experience, the diplomas should've been notarized, to provide the employment contract, and positive references for the work carried out so far, the requirements that the economic operator has fulfilled by providing loaned staff.

However, during the implementation of the project as project manager there was another person. We could not provide any evidence that the municipality was timely notified on changing the project manager. Moreover, we did not have information that the person who led the project had the experience and qualifications as initially required by contract.

In addition, the same operator has competed and has won two other municipal projects, more or less at the same time, by fulfilling the selection criteria with the same loaned staff and by not by then engaging the staff provided in the execution of works.

Risk

Failure to respect the professional criteria presents a continuing risk that the works on the project by the economic operator will not be carried out as planned and required by the Municipality.

Recommendation A1

Professional persons provided by the operator during the bidding process should be engaged for work for which they were also asked by the municipality. The supervisor appointed by the municipality should ensure that such persons are engaged in the implementation of the project. In the case when the economic operator has to replace these persons, then they should be approved by the municipality in advance in order to ensure that the economic operator has proper professionalism in the implementation of the project.

Issue C2- Improper separation of duties and responsibilities**Finding**

In at least two cases, the Municipality did not respect the requirements of the Procurement Operational Guidelines (Article 62.3) regarding the proper separation of duties during the procurement process. The same officers who had prepared the technical specification were engaged as managers of those same contracts.

In the project "Construction of secondary sewerage network", initially the contract manager was appointed an officer who was included as a member of the bid evaluation committee for this project. After the official request for release from this duty, another officer was as the contract manager, who was also a member of the tender evaluation committee. Furthermore, also in the "Maintenance of Local Roads", the member of the Bid Evaluation Committee is simultaneously appointed as the Project Supervision Manager. The rules and operating guidelines for public procurement stipulate that members of the evaluation committee can not be appointed as a project managers.

Risk

Shortcomings in contract management reduce the assurance that the works/services are performed in accordance with the terms/conditions specified in the contract and the improper separation of duties can cause conflicts of interest in process management.

Recommendation C2 The Mayor should ensure that controls are effective in the implementation of procurement procedures and contract management and to apply measures for proper separation of duties in accordance with the applicable legal framework.

Issue C3- Shortcomings in the bid evaluation process and technical acceptance of projects**Finding**

In at least four cases of capital investment, shortcomings or deviations in the bid evaluation process or in the technical acceptance process of the projects have been identified. One deviation relates to the technical acceptance in the project "Construction of secondary sewerage construction" where although the project has been completed the municipality has not yet finalized the technical acceptance. The same shortcoming was also noted in the project "Asphalting of the Local Roads Phase II. Moreover, in this project the professional workers submitted by the economic operator who was part of the winning consortium are not employees declared in the KTA register, respectively the employment contracts presented in the tender dossier are signed contracts with an another entity who is in Albania. The fourth deviation relates to the "Maintenance of Local Roads" where the winning operator has presented qualified workers with valid employment contracts, but which do not appear on the employee lists presented and declared in TAK.

Risk Failure to respect and declare the winning operator without the fulfillment of preliminary or professional requirements puts in risk the selection of the operator who may endanger the execution of the project for which he has been selected.

Apart this, considering the project as completed without the finishing the technical acceptance presents the risk that the project will not be completed as foreseen, and on the other hand is paid.

Recommendation C3 The Mayor should ensure that the evaluation committee makes the bid evaluation accurately according to the requirements presented in the tender dossier.

The Mayor should also ensure that each completed project has the technical acceptance completed.

3.1.7 Common Issues on Goods and Services and Capital Investments

This part of report foresees to include common issues in the area of procurement that relate to goods and services and as well as capital investments:

Recommendations

We have no recommendations in this area

3.2 Capital and non-capital assets

According to the AFS, the net value of capital assets at the end of the year is €2,796,000, while non-capital assets were €124,153. Municipality of Junik has established a work committee and has inventoried assets at the end of 2018. Another committee for assets evaluation was also established and made the evidencing of municipal properties and their evaluation. However, the evaluated and evidenced properties of municipality are not yet listed in the assets accounting register, an issue which we have addressed in the Chapter Audit Opinion - Emphasis of Matter. In addition, the following deficiencies have been encountered.

Issue A 2 – Shortcomings in recording work in progress

Finding Situations of executed projects are not recorded as continuous investments but directly as capital assets.

As a result, one project in KFMIS appears in several positions depending on how many situations it has during its execution. Moreover, such recording not only affects the unfair presentation of assets in financial statements, since the value of work in progress is not presented at all, but also impacts on the unfair depreciation of capital assets. They begin to depreciate from the moment the situation is recorded in the KFMIS, and not from the moment the project is entirely completed.

Risk Failure to register the work in progress affects not only the incorrect presentation of the financial statements, but as well the improper depreciation of municipal assets.

Recommendation A2 The municipality, should record the executed situations in the KFMIS as the work in progress. Then at the end of the project, a request should be made to the treasury that the registered situations are removed and then capitalise the entire project as completed in KFMIS.

Issue A 3 – The value of assets under 1,000 € generated form E-assets

Finding In the AFS of 2018 the value of assets under € 1,000 is € 124,153. On the occasion of verifying these assets in e-assets it is noted that this balance € 75,216 relates to stationaries that have been recorded during the year that were not discharged from e-assets. As a result, the value of assets under € 1,000 shoul've been € 48,937. Moreover, this value may also be subject to change as the asset list on e-assets is incomplete due to the non-accuracy of registrations in previous years.

Risk The lack of a full list of assets under € 1,000 in e-assets causes the non-presentation of these assets in the municipality's AFS and negatively affects the management and preservation of these assets by the municipality.

Recommendation A3 The Mayor should ensure that the list generated by e-assets is complete and presents the exact the value of assets under € 1,000 which the municipality has in ownership. The Mayor should also ensure that the responsible person for asset management has the appropriate level of knowledge and accurately reports the value of assets in the AFS.

3.3 Handling of cash and its equivalents

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

Recommendations

We have no recommendations in this area

3.4 Receivables

Accounts receivable (A/R) relate to property tax and business income taxes. During 2018, a large number of receivables were observed and improvements were made especially in the collection of property tax and business taxes, but due to the increase of revenues from these two sources, there was no change in the overall value of receivables from 2017. Consequently, it is noted that there are improvements in the management of accounts receivable, but it needs to be continued in order to improve their collection more thoroughly. As presented in the AFS, their total value reaches € 190,000, out of which 76% belongs to the property tax, while 23.5% is subject to business tax.

Recommendations

We have no recommendations in this area

3.5 Outstanding liabilities

According to the AFS, outstanding liabilities towards suppliers by the end of 2018 were €10,496, out of which €4,978 belong to capital investments, to goods and services €4,693, and to utilities €1,825. These liabilities were carried forward to be paid in 2019. In addition to financial liabilities, Municipality of Junik also faces contingent liabilities, and their value is expected to be around €43,000.

Issue B5 - Entering into liabilities without budgetary means

Finding There are still some unpaid liabilities since 2014. They were not paid due to entering into liabilities at that time without providing sufficient budgetary means. During 2018, the Municipality has taken measures to confirm the existence of these liabilities by requesting confirmation of liabilities from suppliers. Liabilities in the amount of € 1,050 for servicing vehicles during 2014 have been confirmed.

Furthermore, there were also delays in payment of liabilities to suppliers from which at least three invoices were identified with delay more than 30 days from the receipt of the invoice.

Risk Entering into liabilities without securing funds beforehand and failure to pay liabilities on time may result in additional costs and damage to the budget due to lawsuits filed by suppliers.

Recommendation B5 The Mayor should ensure additional controls over the management of liabilities owed to contractors. Entry into liabilities should be done only if sufficient financial means have been committed in advance. Liabilities should be paid within 30 days from the receipt of invoices. Furthermore, solutions should be found in clearing of debts that date from the year 2014.

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

Improvements have been noted regarding governance within the Municipality of Junik especially regarding accountability, risk management and quality of managerial reporting. Effective responses to audit recommendations have been made and the operation of a more

quality internal audit system has been established. The Audit Committee was established at the beginning of 2019 and is expected to function during this year, which will positively influence the proper independence of internal audit. The EO has also met the request of the MoF regarding the submission of the self-assessment questionnaire.

All budget organizations are obliged to prepare and follow strategic plans at the organization level, such as urban planning, spatial planning, emergency operational plan, strategic anti-corruption plan, regional development strategy, etc. The municipality of Junik has drafted municipal development plan, urban regulatory plan, internal regulations, annual work plans according to directorates and annual work report.

4.1 Internal Audit System

The Internal Audit Unit (IAU) operates with only one auditor. To carry out an effective audit, it requires a comprehensive work program that reflects the financial and other risks of the audited entity and that provides sufficient assurance on the effectiveness of internal control. The impact of Internal Audit products should be judged by relevance which is given by the Management to the addressing of recommendations as well as by the systematic support of an effective Audit Committee.

Out of the 37 recommendations given in the internal audit reports, the IAU estimated that 15 of them were implemented, 10 under the implementation process and 12 were not implemented due to their implementation deadline by 2019.

Issue C4 - Lack of audit committee

Finding During 2018, the Municipality had not established an Audit Committee. This was done in 2019. In 2019, a meeting with the audit committee was held. The municipality should ensure that the committee meets regularly and addresses the reports and issues arising from internal audit reports, so that the recommendations are timely addressed and responsibility is given to the findings.

Risk The failure to function properly of the Audit Committee may result in the risk that issues identified will not be addressed timely and at a lower level of responsibility by the management of the municipality.

Recommendation C4 The Mayor should ensure full implementation of internal audit recommendations, and as well as the audit committee is continuously functional

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. The management organizes meetings with head officials, and has established a formal internal reporting process by municipal directorates.

During 2018, the municipality has developed risk management procedures and risk registers with appropriate steps, based on concrete objectives in managing the identified risks, concrete actions to be taken, responsible departments and timelines for meeting the objectives. With these actions, the Mayor has provided direct delegation of responsibilities for risk management across relevant sectors of administration. It is also foreseen that the responsible departments report on a quarterly basis on achievements regarding the risk management objectives.

5 Progress in implementing recommendations

The Audit Report on the 2017 AFS of the Municipality of Junik resulted in 14 recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented.

At the end of our 2018 audit, five recommendations have been implemented, while five were repeated and four of them were partially implemented.

During 2018 it is considered that the Municipality has increased the level of implementation of the recommendations. This is because the Mayor has secured the establishment and implementation of the action plan, which is monitored continuously and reported on a regular basis with respect to the progress achieved in the identified areas. Recommendations that are not implemented by deadlines are reviewed in the short term by the Mayor and proactive actions are taken against the barriers presented during the implementation. For a more thorough description of the recommendations and how they are addressed, see Annex II. (or the Table of recommendations)

Table 4 Summary of prior year recommendations and of 2018

No	Audit field	Recommendation for the year 2017	Actions undertaken	Status
1	2.3 Recommendations related to Annual Financial Statements	<p>The Mayor should ensure that an analysis has been carried out to determine the Causes for Emphasis of Matter and take specific actions to address the causes in a systematic way and to confirm the management, evidencing and accurate reporting of the property. Also, The Mayor should ensure that effective processes are established to confirm that the drafting of the FSMs for 2018 addresses all issues pertaining to compliance. This should also include reviewing the management of the IFPs, with particular focus on high risk areas or fields where errors have been identified in previous years. The Declaration made by the Chief Administrative and Financial Officer should not be signed unless all the necessary controls have been applied to the PFVs. The Mayor should also ensure that all other reporting requirements comply with regulatory requirements.</p>	<p>Measures were taken during 2018, assets were recorded and assessed but not yet registered in KFMIS. It has also been worked towards better use of e-assets, but the fullness of e-wealth is still to be achieved</p>	Not implemented

2	3.2. Revenues	The Mayor should ensure that the performance of the collection is systematically monitored by the respective directorates and the finance office, and that this revision addresses timely barriers that hinder revenue collection as per the plan. Also, ensure that revenues are classified fairly and timely recorded in KFMIS.		Not implemented
3	3.4 Personnel Management	The Mayor should ensure that recruitment activities are conducted in accordance with relevant procedures and regulations that ensure equal treatment for all potential competitors.	Measures have been taken, but there is still work to improve this point.	Not implemented
4	3.5 Goods and Services and Utilities	The Mayor should ensure that special service agreements relate to the development of simplified recruitment procedures and only in cases where there are specific requirements as well as to be carried out within the timeframe established by the legal framework.	Measures have been taken but there are still cases where the contract on work is done without simplified recruitment procedures.	Not implemented
5	3.6 Subsidies and Transfers	The Mayor should ensure that the Subsidy Regulation is finalized and approved within a short period of time after receiving this report.	The Subsidiary Regulation was approved at the end of the year.	Partially implemented
6	3.7 Capital Investments	The Mayor should ensure that public contracts are signed only with operators that fully meet the criteria required by the tender dossier.	There are some omissions identified during 2018.	Partially implemented

7		The Mayor should ensure the division of duties and responsibilities is made in accordance with the requirements and regulations for financial management and internal control.	Measures have been taken, but two cases have been observed again in 2018.	Partially implemented
8	3.8 Common Issues on Goods and Services and Capital Investments	The Mayor should ensure that a review of audit findings is undertaken where processes have not been applied effectively and appropriate supervision is not applied. In this regard, detailed analysis of contract planning and execution should be conducted.		Yes
9	3.9 Capital and non-capital assets	The Mayor should ensure that official vehicles are used in accordance with legal rules and requirements. For each official vehicle used, full and accurate records of past kilometers and other necessary data should be kept.	Measures have been taken, a database has been created, but improvements are still needed at this point.	Yes
10	3.10 Receivables	The Mayor should ensure that all possible options, including legal remedies, are actively reviewed to ensure timely collection of accounts receivable.		Yes
11	3.11 Outstanding liabilities	The Mayor should provide additional controls on the management of obligations to contractors. Entrance into obligations should only be made if sufficient financial means have been committed in advance. Obligations must be paid within 30 days from the receipt of invoices.		Not implemented

12	4. Progress in implementing recommendations	The Mayor should ensure that the implementation of the Action Plan is monitored on a regular basis and reported on a regular three-month basis regarding the progress achieved in this regard. Recommendations that are not implemented by deadlines should be revised in the short term by the chairman, and proactive actions taken against the barriers presented during the implementation.		Yes
13	5.1 Internal Audit System	The Mayor should ensure full implementation of internal audit recommendations. Action plans in the implementation of recommendations are monitored continuously by management. Also consider the possibilities of establishing an Audit Committee, or in cooperation with any other municipality, to engage the Audit Committee with the Cooperating Municipality.		Partially implemented
14	5.2 Management reporting	The Mayor should ensure that direct responsibility for risk management is delegated to the respective administration sectors and provide quarterly reporting on the implementation of the requirements in this area.		Yes
No	Audit field	Recommendation for the year 2018		

1	2.3 Recommendations related to Annual Financial Statements	The Mayor should ensure that an analysis is made to determine the causes for Emphasis of Matter as well as take specific actions to address the causes systematically and to confirm the management, evidencing and accurate reporting of the property. It should be continued to implement the recommendations made during the preliminary audits according to the action plan and it is necessary to improve the compilation of the annual procurement plan, ie better procurement planning is needed. Likewise, the Mayor should ensure that effective processes are established to confirm that the drafting of the FSMs for 2018 addresses all issues pertaining to compliance. This should also include reviewing the management of the IFPs, with particular focus on high risk areas or fields where errors have been identified in previous years.
2	3.2. Revenues	The Mayor should ensure that revenues are recorded on time in the KFMIS so that analyzes and reports are based on accurate information.
3	3.4 Personnel Management	The Mayor should ensure that recruitment activities are conducted in accordance with relevant procedures and regulations that ensure equal treatment for all potential competitors
4	3.5 Goods and Services and Utilities	The Mayor should ensure that special service agreements relate to the development of simplified recruitment procedures and only when specific requirements are fulfilled and within the timeframe set out in the legal framework.
5	3.6 Subsidies and Transfers	The Mayor should ensure that the Subsidy Regulation is implemented by following all relevant procedures, until their approval. Moreover, the Mayor should ensure that monitoring and reporting procedures are followed in accordance with the applicable regulations.
6	3.7. Capital Investments	Professional persons offered by the operator during the bidding process should be engaged for work for which they were also asked by the municipality. The supervisor appointed by the municipality should ensure that such persons are engaged in the implementation of the project. In the case when the economic operator has to replace these persons, then they should be approved by the municipality in advance in order to ensure that the economic operator has proper professionalism in the implementation of the project.

7		The Mayor should ensure that controls are effective in the implementation of procurement procedures and contract management and apply measures for proper segregation of duties in accordance with the applicable legal framework.
8		The Mayor should ensure that the evaluation commission must make the bid evaluation accurately according to the requirements set out in the tender dossier. The Mayor should also ensure that each completed project has completed technical acceptance.
9	3.9 Capital and non-capital assets	Municipality, the realized situations should register in SMKf as the following investment. Then at the end of the project, a treasury request should be made that the registered sites be removed and then the whole project capitalized as completed at SMFF.
10		The Mayor should ensure that the list generated by e-assets is complete and presents exactly the value of assets under € 1,000 which the municipality owns. The Mayor should also ensure that the responsible asset management body has the appropriate level of knowledge and accurately reflects the value of assets in the PFV.
11	3.12 Outstanding liabilities	The Mayor should provide additional controls on the management of obligations to contractors. Entrance into obligations should only be made if sufficient financial means have been committed in advance. Obligations must be paid within 30 days from the receipt of invoices. There is also a solution for payment of obligations dating back to 2014.
12	4.1 Internal Audit System	The Mayor should ensure that internal audit recommendations are fully implemented as well as the Audit Committee is consistently functional.

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 confirmation



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 Junikut, për vitin 2018 (në tekstin e mëtejshëm "Raporti");
- 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. Agron Kuçi
Kryetari i Komunës së Junikut

Data: 16.Maj 2019, Junik

