



Republika e Kosovës
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Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

**AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS
OF THE MUNICIPALITY OF MITROVICA SOUTH FOR
THE YEAR 2019**

Prishtina, June 2020

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.

The reports of the National Audit Office directly promote accountability of public institutions as they provide a base for holding managers' of individual budget organisations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability.

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

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

The report issued is a result of the audit carried out by *Albesa Tolaj-Ramosaj*, *Team Leader*, and *Abdurrahmon Berbatovci* and *Mexhit Ferati*, *team members*, under the management of the Head of Audit Department *Shkëlqim Xhema*.

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Executive Summary

This report summarises the key issues arising from our audit of the Municipality of Mitrovica South for 2019, which includes the Opinion of the Auditor General on Annual Financial Statements. Examination of 2019 financial statements was undertaken in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

Our audit focus has been on:



Conclusions

The annual financial statements preparation process has been managed in accordance with applicable legislation with the exception of misclassification of expenditures, which have led to the Emphasis of Matter.

The accountability, risk management, and management reporting process has been followed by numerous weaknesses, especially in the field of procurement, which was lacking a proper analysis on the planning and implementation of contracts. Significant weaknesses have also been observed in other important financial areas, including revenues, expenditures, liabilities, receivables and non-financial assets.

The response to the prior year recommendations is not being addressed at the required level. Out of the 16 recommendations, four (4) were implemented, two (2) recommendations were considered closed, whilst 10 recommendations have not been implemented yet.

Opinion of the Auditor General¹

Unmodified Opinion with Emphasis of Matter

For more details, see Chapter 1 of this report.

Management's Response to audit 2019

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

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

¹ Annex I explains different types of Opinions in line with ISSAIs.

Audit Scope and Methodology

The Audit involves examination and evaluation of Financial Statements and other financial records in regard to as the following:

- Whether the financial statements give a true and fair view of the accounts and financial matters for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- Whether the internal controls and internal audit functions are appropriate and efficient; and
- Whether appropriate actions for implementation of audit recommendations have been undertaken.

The audit was based on risk assessment. We have analysed the Municipality's operations, the extent the management controls could be relied to in order to determine the level of in-depth testing required to obtain evidence supporting the Auditor General's opinion.

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

The following chapters provide in detail our audit findings and recommendations in each audited area. Management's response on audit results are presented in Annex II.

1 Audit Opinion on Annual Financial Statements

We have audited the AFS of the Municipality of Mitrovica South for the year ended on 31 December 2019 in accordance with the Law on NAO and the International Standards of Supreme Audit Institutions. Audit examinations were carried out in order to allow expressing opinions on AFS which comprise the Statement of Cash Receipts and Payments, and Budget Execution Statement, provided further in detail.

Unmodified Opinion

In our opinion, except for the omission of the information referred to in the Basis for Qualified Opinion paragraph, the Annual Financial Statements for the year ended on 31 December 2019 give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards of cash based accounting.

Basis for Opinion

The audit is carried out in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the section 'Auditor's responsibilities for the audit of the Annual Financial Statements' of our report. In compliance with ISSAI 10 and 30, and other relevant requirements for audit of budget organisations' AFSs, the NAO is independent from the Municipality. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

We would like to draw your attention to the fact that, through budget planning, the Municipality paid from and recorded expenditures in inadequate economic category. They paid for goods and services from the capital investments category and for capital investments from the subsidies and transfers category. For more details see sub-chapter 2.1 Budget planning and execution. Our opinion has not been modified in this respect.

Responsibility of Management for AFS

The Mayor of Mitrovica South and the Chief Financial Officer are responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards - Financial Reporting under the 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 No. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented) and Regulation No. 01/2017 on Annual Financial Statements of Budget Organisations.

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

Auditor General's Responsibility for the audit of the AFS

Our responsibility is to express an opinion on the AFS based on our audit conducted in accordance with ISSAIs. These standards require that we 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 every material misstatement that might exist. Misstatements may 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.

The 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.

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

We communicate with the management of the audited entity regarding the audit scope, planned time and significant findings including any significant shortcoming in internal control that we have identified during the audit.

The audit report is published on the NAO's website, except for information classified (as sensitive) or other legal or administrative prohibitions in accordance with applicable legislation.

2 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 and assets and liabilities as well as the internal audit function.

Financial Management and Control Conclusion

In the context of financial systems, controls over planning, budget execution, revenues and expenditures need to be further improved in general in order to prevent irregularities.

The main areas where more improvements are needed are budget execution and proper classification of expenditures, elimination of irregularities in the application of law for property tax revenues and renting of municipal property, as well as the application of rules when planning and incurring expenditures through procurement.

Particular attention should be also paid to the management of assets owned by the Municipality and the establishment of mechanisms for managing liabilities, undertaking of actions to reduce accounts receivable and their accurate disclosures in the AFS.

In addition, the Municipality needs to focus more on preventing payments being directly paid from Treasury and through court decisions. The Municipality has still not established an audit committee

2.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Sources of Funds	19,728,815	20,282,112	19,555,066	96%	19,067,588	16,682,266
Government Grant - Budget	17,073,332	17,187,532	16,950,914	99%	16,627,843	14,471,605
Carried forward from previous year ³ -	-	354,666	347,061	98%	317,997	328,678
Own Source Revenues ⁴	2,464,403	2,464,403	2,116,286	86%	1,927,625	1,759,351
Domestic Donations	-	82,238	16,464	20%	79,767	78,665
External Donations	-	137,618	71,463	52%	114,356	43,967
Borrowings	191,080	55,655	52,878	95%	-	-

The final budget increased by €553,297 compared to the initial budget. This increase is a result of the increase from the government grant by €114,200, revenues carried forward from the previous year in the amount of €354,666, domestic and external donations in the amount of €219,856. While borrowing with the final budget was decreased by €135,425.

For 2019, the Municipality spent €19,555,066 or 96% of the final budget, which is the same percentage compared to last year's. However, explanations on how the budget has been spent at the category level are detailed below.

² Final budget – the budget approved by the Assembly subsequently adjusted by the Ministry of Finance.

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

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

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

Description	Initial Budget	Final Budget	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Spending of funds by economic categories	19,728,815	20,282,112	19,555,066	96%	19,067,588	16,682,266
Wages and Salaries	12,025,408	12,045,186	11,885,268	99%	11,906,445	11,338,652
Goods and Services	2,398,883	2,295,225	2,072,726	90%	2,351,120	1,201,215
Utilities	493,815	493,815	482,100	98%	460,597	474,854
Subsidies and Transfers	530,043	570,724	531,282	93%	723,730	537,369
Capital Investments	4,280,666	4,877,162	4,583,690	94%	3,625,696	3,130,176

Explanations for changes in budget categories are given below:

- The increase in the budget for Wages and Salaries was as a result of an external donation in the amount of €19,778 given to the Directorate of Education from Save the Children;
- The budget for Goods and Services decreased by €103,658 compared to the initial budget in as a result of budget cuts, unlike utilities where no changes were made;
- In the category of Subsidies and Transfers, the final budget increased by €40,681 compared to the initial budget as a result of own source revenues carried forward from the previous year and domestic donations received by the Municipality; and
- The final budget for Capital Expenditures increased by €596,496. This was as a result of own source revenues in the amount of €326,017, financing from borrowing in the amount of €14,863, domestic and external donations in the amount of €141,418 and state reserves allocated by the Ministry of Finance in the amount of €114,200 for the project "Establishment of a monument dedicated to the martyr Harun Beka" and "Purchase of digital apparatus for health care".

Issue B1 – Misclassification of expenditures in economic category

Finding Financial Rule no.01/2013/MF on Public Funds Expenditure stipulates that expenditures should have the adequate codes, as defined under the Administrative Instruction for the accounting plan. Treasury’s accounting plan stipulates the codes and respective categories of expenditures that BOs should apply.

As mentioned in the Emphasis of Matter, the Municipality paid €361,469, of which €354,670 were paid for goods and services from the Capital Investments category and €6,799 for capital investments from the Subsidies and Transfers category. According to the Municipality, these is a consequence of the limited budget for goods and services, which are indispensable; therefore, they were approved by Law on Budget.

Impact Payments made from inadequate categories lead to misclassification of expenditures in the Municipality’s financial statements which, as such, provide incorrect information to the users of AFS.

Recommendation B1 The Mayor should ensure that all actions are undertaken in order to enable that all expenditures are planned under adequate budget lines or funds are re-designated and that payments and recording of expenditures are made under adequate economic codes.

2.1.1 Revenues

Revenues generated by the Municipality in 2019 totalled €2,304,797. These relate to revenues from property tax, revenues from construction permits, revenues from business activities, revenues from rent, administrative fees etc. In addition, the Municipality had collected indirect revenues generated from traffic fines, court fines, and Forest Agency fines in the total amount of €271,886.

Table 3. Revenues (in €)

Description	Initial Budget	Final Budget	2019 Receipts	% of 2019 Receipts	2018 Receipts	2017 Receipts
Revenues	2,464,403	2,464,403	2,304,797	94%	1,998,186	1,951,350
Total	2,464,403	2,464,403	2,304,797	94%	1,998,186	1,951,350

The value of revenues collected during 2019 was higher by €306,611 compared to the previous year, which is a better budget performance by 15%.

In regard to our testing, we found the following:

Issue A1 - Irregularities in the calculation of property tax revenues**Finding**

According to Article 1, 2 and 3 of the Municipality's Regulation no. 01/2019 on Immovable Property Tax, property valuation should be done in accordance with the value in € per m² according to zones and sub-zones defined by the regulation and the application of tax rates for immovable property should be done based on the valuation of the property.

From testing 10 samples for immovable property tax collection, we have identified that:

- In one (1)⁵ case, the property was not evaluated according to the tax zones defined by the regulation, understating the tax burden for €59; and
- In six (6) cases, the municipality had not applied the correct tax rates⁶ for valuation by overstating the tax burden in the amount of €934.

This was as a result of the negligence of officials who insert data into the Protax system or failure to update the system in a timely manner, as well as the lack of management oversight of the relevant municipal directorate

Impact

Improper valuation of properties and incorrect application of tax rates for municipal taxpayers not only is damaging the taxpayer financially or the municipal budget, but this can also affect the poor perception of the image of the municipality and increases the risk of non-payments by taxpayers that would result in an increase in property tax debts.

Recommendation A1 The Mayor should ensure that the property tax system is updated in a timely manner and before the application or processing of the property tax invoice. This is in order to ensure that invoicing is based on accurate valuation and application of tax rates according to the zones or sub-zones defined in the regulation.

⁵ The activity of the taxpayer was the workshop belonging to zone II according to the regulation and had to be charged with €320, while the charge was done according to zone I with €350.

⁶ According to the above-mentioned regulation, the tax rates for commercial units of facilities were set at 17%, while the tax burden for taxpayers was set at 18%, while the tax rates for all other property categories were set at 15% and the tax burden for taxpayers was applied with 16%

Issue A2 - Irregularities in the issuance of construction permit

Finding

According to Law no. 04/L - 110 on Construction, Article 4 where it is specified that the issuance of a construction permit and establishment of its requirements shall be implemented in accordance with the following principles: para. 1.1. Protecting health and safety, as well as Article 21 Procedure for issuing the construction permit para. 2. If the competent body determines that the construction documents are not prepared in conformity with the terms of construction and in accordance with the provisions of this law, it shall not issue the construction permit.

From testing eight (8) samples for the issuance of construction permits, we have identified that:

- In one (1)⁷ case, the decision on the construction permit was issued eight (8) months before the consent was obtained from the Directorate for Rescue and Protection of the Municipality of South Mitrovica; and
- In four (4) other cases, the decision for construction permit at the fire protection and noise protection section was issued in two (2)⁸ of them without signing the Checklist List for review of construction documents, and in two (2)⁹ other cases the list in question was signed 1 respectively 26 days after the issuance of the construction permit.

We did not receive any answer as to why such issues occurred.

Impact

The issuance of a construction permit without the consent of the Directorate for Rescue and Protection, non-verification of the necessary documents for construction, as well as the signing of checklists after the issuance of permits risks that constructions are not according to established construction standards and this may put citizens life to danger.

Recommendation A2 The Mayor should ensure that no construction permit is issued without obtaining all the necessary consents to start construction and that any construction permit is issued only after all construction documents have been verified.

⁷ For the building B + P + 6 which was foreseen to be built on parcel 71208072-03698-0 The Decision for Construction Permit was issued on 19.04.2019 while the Consent from the Directorate for Rescue and Protection was issued on 10.11.2019

⁸ Building B + P + 6 which was foreseen to be built on parcel 03704-0 -Decision for Construction Permit on 25.07.2019 while the checklist for review of the application was completed on 26.07.2019. Construction of the building B + P + 4 8 which was foreseen to be built on parcel 01349-1 Decision for Construction Permit on 04.10.2019 while the checklist for review of the request dated 30.10.2019.

⁹ For the commercial building L/01 B + P + 7 + 8 which was foreseen to be built on parcel 71208072 03703-0 and the commercial building B + P + 118 which was foreseen to be built on parcel 03333-30.

Issue A3 - Inadequate management of rented municipal properties**Finding**

According to Law 06/L-092, the immovable property of the municipality is rented out to all natural and legal persons with a certain term. According to the terms of the contracts, the payment of the obligation should be made by the 10th of each following month. The contract specifies that the Municipal Assembly, every 2 years, will reevaluate the economic situation of the families, in order to extend/terminate the validity of the contract. After the expiration of the term specified in the contract for the rent of the immovable property of the municipality, the property is returned to the municipality.

From testing the lists of public property users (renting out business premises, providing housing for families of martyrs, social cases and staff) out of a total of 80, we have noticed the following:

- Out of 14 premises rented out, in 6 of them the municipality collects revenues from rent, while in 8 other cases the municipality does not invoice and does not collect revenues. Also, in two cases the users operated without contracts as a result of the unilateral termination of the contract by the municipality in the absence of rent payments;
- In residential complexes rented out for families of martyrs and social cases (36 families) as well as for the fund for staff (13 families), the situation of users and contracts have not been verified since 2011 respectively 2018 for the fund for staff. The municipality does not collect revenues and does not issue invoices to lessees since their contracts have expired. However, the properties are still used without any official decision or contract renewal; and
- In the 17 apartments rented out in Stan Terg in 2018, users paid the rent only in the first months, while they have not paid for the rest, accumulating debts of €5,186.

The reported weaknesses resulted from the lack of controls and the Municipality's negligence to do more in this regard.

Impact

Continuation of such practices may also encourage other taxpayers to avoid paying rent. Failure to collect rent from the rented properties leads to budget loss of €18,289 per year for the Municipality and increases the risk that projects planned by own source revenues, or even new projects to the benefit of citizens, will be undermined.

Recommendation A3 The Mayor should ensure that appropriate legal action is taken to restore the properties used by natural or legal persons under the management of the municipality, or to renew contracts in order for the municipality to collect revenues from the rented properties.

2.1.2 Wages and Salaries

The final budget for 2019 was €12,045,186, out of which €11,885,268 were spent. The number of employees approved by the budget was 1,973, whereas by the end of the year the number of employees was 1,904. During 2019 there were employed 57 new staff.

We have tested 100 samples of €46,663 as part of substantive testing and 15 samples as part of compliance testing.

Issue A4 - Irregularities in teachers' contract management

Finding Article 3 of AI No. 10/2015 on the Employment Contracts of Teachers of Pre-University Education specifies that the employment contract of teachers can be an indefinite contract and a fixed-term contract; while Annex I to the employment contract, respectively Article 2, specifies that, the contents of the contract must state the monthly salary of the employee. In this regard, we noted that.

- In five (5) cases for education employees, the Municipality has entered into fixed-term contracts with the possibility of extension, but after the expiration of the contracts, the Municipality did not renew them, while it continued to compensate them without a contract. The amount paid without contract was €19,510; and
- In four (4) other cases, the content of the contract did not specify the monthly salary of the employees.

This happened as a result of poor inspections and communication of the Education Directorate with school principals, not controlling and updating the contracts according to the legal requirements.

Impact Payment of teachers without renewing contracts, in addition to being considered irregular payments, also violates the right to employment relationship. The lack of information on salaries in teachers' contracts risks that the payment will be made not in accordance with the work/hours held

Recommendation A4 The Mayor should ensure that every employee in the municipality is provided with a valid contract in accordance with the instructions, including information on the amount of the monthly salary.

Issue A5 - Failure to include employees in the payroll**Finding**

Budget Law No. 06 /L-133, Article 12, para. 2 stipulates that provided that the total number of employees and the allowed amount within the organisation does not change, the number of employees assigned in the budgetary appropriations to sub-programs in Tables 3.1, 3.1A and 4.1 may be adjusted by Minister's decision with appropriate justification by the Municipality. In regard to local level budget organisations a decision of the Municipal Assembly is required in advance.

- In one (1) case, the Municipality has developed recruitment procedures for the position of "Official for non-animal food products" in the Directorate of Agriculture and signed the contract on 04.07.2019 with the selected candidate, despite the fact that no vacant positions were foreseen in the law for this directorate. As a result, the employee was not included in the payroll and was not compensated until December 2019;
- In ten (10) cases, the Municipality has signed employment contracts with substitute teachers in various schools, who were not included in the payroll during 2019; and
- In five (5) other cases, the municipality has presented in the AFS the names of five (5) teachers for whom the municipality has not signed contracts and there was no evidence of work performed. According to officials responsible, their names were incorrectly presented in the statements.

This happened because the municipality has not complied with the legal rules set out in the budget law for the systematization of employees in sub-programmes as a result of the limited number of staff in the relevant departments.

Impact

Non-inclusion of employees in payrolls and non-payment of recruited staff by the municipality, not only is discriminating employees, but also increases the risk of making payments through lawsuits that cause additional costs for the Municipality.

Recommendation A5 The Mayor should ensure that before the start of the recruitment procedures there are vacant budgeted positions and that the relevant approvals have been obtained from the Municipality required for the approval of the decision by the MoF, in order to ensure that the staff engaged will not remain out of payroll.

Issue B2 - Contractual arrangements and hiring of staff on fixed-terms**Finding**

According to Article 12, para. 4 of Law No. 03/L-149 on Civil Service (LCS) Fixed-term appointments of less than six (6) months shall be governed by contracts called Special Service Agreements and shall be regulated by the Law on Obligations and a simplified recruitment procedure shall be applied.

Out of 23 engaged persons through the special service agreements, in four (4) cases, the municipality concluded special service agreements without recruitment procedure and in all four cases, the employees were for regular positions and had nothing to do with specific works¹⁰. Failure to apply simplified recruitment procedures was due to non-compliance with municipal legal requirements. According to officials, this happened because the directorates have applied for recruitment without applying simplified recruitment procedures.

Impact

Covering regular positions with special service agreements results in poor staff performance and monitoring, and increases uncertainty if adequate staff has been engaged in such positions. Lack of proper competition also increases the risk of engaging incompetent people in respective positions.

Recommendation B2 The Mayor should ensure a reasonable plan for works related to special service agreements. Additional needs for workers with regular positions should be addressed with the relevant bodies and an acceptable solution should be found, and foreseen when planning the budget. In the case of employees with special service agreements, the Mayor should also apply a simplified recruitment procedure as provided for by the established legal acts.

¹⁰ Administrative officials in CSW; accountants, administrative assistants; assistant officer for the library

2.1.3 Goods and Services

The final budget for Goods and Services and Utilities in 2019 was €2,789,040, out of which €2,554,826.30 were spent. We have tested 34 samples of €275,224 as part of substantive testing and 12 samples as part of substantive testing. In regard to our testing, we have found the following:

Issue A6 - Exceeding of the framework contract in its first year of implementation

Finding

According to PPL, namely Article 38, a contracting authority may award a public framework contract where it plans to award several identical contracts over the period to be covered by the public framework contract, and the conclusion of a public framework contract covering such contracts would reduce the procurement and administration costs of the contracting authorities concerned. The contracting authority should specify in the tender dossier the value or amount of the contract as a threshold or a ceiling and will allow derivation from it, also stating the percentage of permissible discrepancy, which cannot be higher than plus/minus thirty percent (30%).

On 25.01.2019, the Municipality signed a framework contract with the Regional Waste Company "Uniteti" for the project "Illegal waste management, washing, wiping and winter maintenance of roads and emergency works in the city of Mitrovica" for a duration of 36 months. The indicative value for the three years mentioned in the contract was €600,000. During the first year, €776,071 or 129% of the estimated total of the contract was spent, out of which €687,996 were spent whilst €88,075 is carried forward to be paid in 2020.

This happened because the Municipality had initially planned for households only, whilst during the development of procurement procedures works such as washing and wiping of roads, winter maintenance of roads and emergency works in Mitrovica were included.

Impact

Poor needs assessment leads to the repetition of tendering procedures, thus resulting in unreasonable spending of public money. In addition, exceeding the three-year indicative values in the first year leads to the increase of unplanned liabilities.

Recommendation A6 The Mayor should ensure that an accurate needs assessment is made prior to the initiation of procurement procedures and entry into contractual obligations in order to prevent tender procedures from being repeated and contract values from being exceeded.

Issue B3 – Irregular acceptance of supplies

Finding According to Regulation No. 01/2013 Public Funds Expenditure, (article 23, para. 1), on acceptance of supplies, provides for the establishment of the Commission for Acceptance of Non-financial Assets. Its responsibilities are to verify the quantity, quality, type and value of non-financial assets received and documented with meeting minutes, as to whether they comply with the contract.

In two payments¹¹ with a joint value of €12,185, the acceptance of supplies/ inventory was made by a single person.

This was due to improper supervision and control by the management to establish the commission in case of acceptance of certain goods or supplies.

Impact Acceptance of supplies without an acceptance commission established may lead to supplies being accepted in breach of contractual terms and of poor quality.

Recommendation B3 The Mayor should ensure that, when purchasing goods, acceptance commissions are appointed in order to confirm that supplies have been received in accordance with the quality and quantity provided by the contract.

¹¹ 1. Supply with inventory for archives, in the amount of €993 - in addition to inventory supplies, this payment included services and works executed in the archive (ceiling; plasterworks, patching and painting)
2. Office Supply, in the amount of €11,192.40

2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €570,724, out of which €531,282 were spent. Those mainly relate to expenditures for funerals, scholarships for students, support to farmers and physical persons as individual beneficiaries in social-economic difficulties, support to NGOs, etc. We have tested 7 samples of €79,461 as part of substantive testing and 20 samples as part of compliance testing. In regard to our testing, we have found the following:

Issue A7 – Failure to report the annual plan on funding of NGOs and poor monitoring on granting of subsidies.

Finding The Municipality did not prepare and submit the financial support plan and the annual report on financial support on NGOs for 2019 to the Office of the Prime Minister, as required by the Regulation no. 04/2017 on the Criteria, Standards and Procedures of public financing of NGOs, Article 6, and Article 26 respectively, in order to monitor and report annual public financial support provided to NGOs.

In two (2) cases¹² in the amount of €5,900 we found that the beneficiaries did not provide the narrative and financial¹³ reports to prove the benefit gained from the incurred spending, as required by the above mentioned regulation. Despite this, the Municipality has not taken any steps to hold those responsible accountable for the spending of its budget funds. This was as a result of the lack of supervision by the management of the respective municipal directorate.

Impact Failure to submit the annual plan for approval and the report on annual financial support makes transparency and public access to the spending on public funding of NGOs impossible. In addition, the lack of narrative and financial reports may lead to the risk that the subsidy's intended purpose will not be met.

Recommendation A7 The Mayor should strengthen controls over NGO funding and ensure that the annual financial support plan is submitted to the relevant government office in compliance with the established criteria. The Mayor should also strengthen controls in order to hold the beneficiaries of financial support accountable and ensure that they report in accordance with the established criteria.

¹² 1. The Project human rights and freedoms in the financial value of €500 expenditures from the category of subsidies and transfers, and

2. Financial support in the amount of €5,400 for co-financing the construction of two bridges in the village of Broboniq and Selac, transfer from the category of capital investments.

¹³ For the payment of €5,400, reports were provided following the submission of the audit report

2.1.5 Capital Investments

The final budget for Capital Investments was €4,877,162, out of which €4,583,690 were spent in 2019. Those relate to capital expenditures on road infrastructure and other buildings.

We have tested 55 samples of €2,427,964 as part of substantive testing and 10 samples as part of compliance testing. Based on our testing, we have found the following:

Issue A8 – Lack of executive construction projects

Finding We have identified that in 7¹⁴ signed employment contracts of a total of €1,158,858, the Municipality did not draft the executive project as required by Article 28.10 of LPP, which clearly defines that the contracting authority should possess an executive construction project before the commencement of contracted works.

The Municipality initiated procurement procedures by just preparing the bill-of-quantities and cost estimates. The lack of execution projects was mainly in the construction of roads and pavements. According to the Municipality, this was due to the lack of Municipality's internal capacities and the contract for the drafting projects.

Impact The lack of executive projects and the initiation of procedures for capital projects only with bill-of-quantities and cost estimates prepared may lead to setbacks during projects' execution process in professional aspect, delays, and increase in the cost of projects.

Recommendation A8 The Mayor should provide for either building internal capacities or entering into an executive projects designing contract in order to ensure that projects are completed before procurement procedures are initiated.

¹⁴ 1- "Regulation of roads in the Frashër Village" 2- "Construction of roads in Kushtovë Village" . 3- "Construction of roads in Suhodoll Village". 4- "Construction and asphaltting of roads in Vidimiriq Village ". 5- "Construction of roads in Bajgorë Village". 6- "Construction of roads in Stan Terg village" and 7- "Construction of roads in Kqiqë village"

Issue B4 – Signed contracts exceeded the budgeted amount**Finding**

According to LPP, Article 9, para.3 - If the contracting authority is a public authority or budget organization and the concerned procurement will give rise to financial obligations that are to be satisfied from appropriations expected in future fiscal years, the CFO shall ensure that the schedules attached to the Law on Appropriation provide a reasonable basis to expect that sufficient funds will be appropriated to it in such future fiscal years for the purpose of satisfying such obligations. In this regard, we have found that:

- In the co-financing with the Ministry of Environment and Spatial Planning for the project "*Rehabilitation of Sitnica-Mitrovica riverbed*" the three-years estimated and budgeted amount was €3,100,000, whilst the contract was signed in the amount of €6,045,726, with a difference of €2,945.726 higher than the planned amount;
- In the project "*Regulation of Ibër-Mitrovica riverbed*" the three-years estimated and budgeted amount was €950,000, whilst the contract was signed in the amount of €1,777,427, or by €827,427 higher than the estimated amount;
- In the project "*Construction and maintenance of parks in public spaces*" the estimated value for three years was €600,000 whilst the contract was signed in the amount of €1,200,000, or €600,000 higher than the estimated amount;
- In the project "*Construction and asphaltting in Fushë Ibër street*" the three-years estimated amount was €100,000, whilst the contract was signed in the amount of €206,720;
- In the project "*Maintenance of cemeteries and memorials*" the three-years estimated amount was €165,403, whilst the contract was signed in the amount of €211,545;
- In the project "*Construction of the road in Frashër Village*" the three-years estimated amount was €120,000, whilst the contract was signed in the amount of €255,097. The contract was signed in 2018. By the end of 2019 only 27% of works were executed. Delays in execution of works were due to lack of budget because the budget of this project was spent on other projects.

The abovementioned shortcomings occurred as a result of poor project planning and inclusion of projects into the budget law without any proper projects analysis made in advance.

Impact Entering into contractual obligations by exceeding the budget limits and in violation of the law undermines the projects implementation according to the plan and incurs additional costs for the municipality, thus putting the municipality in difficulties in fulfilling its obligations.

Recommendation B4 The Mayor should ensure that the legal requirements are strictly applied so that contracts are signed in accordance with the planned and approved budget and the implementation of projects is carried out on time and at no additional cost.

Issue A9 - Shortcomings in contract management

Finding During on-site physical examinations, we have found the following:

- For the project “*Rehabilitation of schoolyards and sports fields*”, in the amount of €95,409, namely ELSS “Abdulla Shabani” and ELSS “Aziz Sylejmani”, two¹⁵ items were invoiced and paid in the amount of €3,587 but work were not executed according to the contract; and
- For the project “*Construction and repair of roads and pavements*” signed in the amount of €2,468,275, in the works acceptance report for “Shtjefën Gjeqovi” road - in the amount of €10,495 - four manhole covers were not placed at all, although the payment was issued based on the works stage which included the item in question. The payment was made on 12.12.2019, whilst manhole covers were placed following the submission of the audit report, i.e. on 21.05.2020, namely 5 months following the payment’s data.

This was as a result of poor controls operated by the supervisory body and contract manager.

Impact Poor controls or the supervisory body’s, contract managers’ and certifying officers’ neglect in exercising controls may result in payments for unexecuted works and increases the risk of misuse of public money.

Recommendation A9 The Mayor should ensure that supervisory bodies, contract managers and the certifying officers apply effective controls over the process of spending public money to ensure that payments are made only for delivered works/supplies and in compliance with contracted items.

¹⁵ 1. Six (6) seats were invoiced, but only five were mounted. 2. The contract stipulated metal woven meshes with 4mm dimensions with 4x4cm spaces for dividing the terrain on all four sides, whilst the metal meshes placed in schools did not correspond to the invoiced and contracted items.

Issue B5 - Irregularities in procurement procedures**Finding**

Our testing of procurement procedures has identified the following:

- For two¹⁶ high value projects, the contracts concluded between the Municipality and the Economic Operators were signed by the Head of the Procurement Office, but not by the Mayor, thus ignoring the specific request of the LPP, namely Article 26, that large values contracts must be signed by the Chief Administrative Officer, i.e. the Mayor, in addition to the Procurement Manager. The signatures determined under this Article confirm and accept the rights and obligations set out in the contract, otherwise the contracts are unenforceable. After our remark, contracts were signed by the mayor;
- The Municipality has developed the tendering procedures for the project "Construction of the market massacre monument" out of the procurement plan, without notifying the CPA as required by Article 9.6 of the PPL for procedures, which are not included in annual procurement plan.
- On 04.02.2019, the Municipality signed a contract in financial value €2,468,275 for the project "Construction, repair and regulation of roads and pavements in co-financing with citizens". The contract in question was not presented in the annual public contracts report, as required by Article 87 of the PPL, that each signed contract should be presented in the annual report of contracts identifying all supplies, services and works that the contracting authority has developed throughout the year with all reasonable details.

This was as a result of the lack of senior management's due diligence in adhering to the criteria established in the law.

Impact

Mayor's failure to sign contracts leads to the risk of execution of irregular payments based on those contracts. The conclusion of contracts outside the procurement plan affects the implementation of planned contracts and results in changes in the municipality's priorities. Lack of information on the signed contracts, as a result of their non-presentation in the annual report, leads to unfair reporting on signed or executed contracts.

¹⁶ 'Repair, rehabilitation and asphaltting of roads in the city and suburbs of Mitrovica' signed on 28.06.2019 in the amount of €1,667,260 and the project "Construction, repair and rehabilitation of roads and pavements co-financed by citizens" signed on 04.02.2019 in the amount of €2,468,275

Recommendation B5 The Mayor should commit to assume all responsibilities in accordance with legal requirements. He should also ensure that the procurement plan is designed following a detailed analysis by all the requesting units and has included, according to priorities, all projects the appropriate budget funds have been provided for. In the end, he should provide for transparency and accuracy in the presentation of all signed contracts.

Issue B6 – Poor segregation of duties

Finding For the project "Regulation of the river SITNICA" in the amount of €6,045,726, the member of the evaluation commission was also appointed as a contract manager, not respecting the principles of the segregation of tasks as defined in Article 62.3 of the Operational Guidelines for Public Procurement, where it is specified that officials who have been members of the evaluation commission cannot be appointed as project managers.

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

Impact Non-implementation of Rules and Operational Guidelines for Public Procurement affects the violation of the principles of adequate segregation of tasks aimed at avoiding any possible conflict.

Recommendation B6 The Mayor should ensure that all Rules and Operational Guidelines for Public Procurement apply regarding the fair segregation of duties during the procurement process in order to avoid any possible conflict of interest.

2.2 Capital and non-capital assets

The value of capital assets presented in the AFS was €29,969,992, that of non-capital assets was €595,771, and of stock was €17,067.

We have tested 57 samples of €3,019,294 as part of substantive testing and seven samples as part of compliance testing.

In regard to our testing, we have found that:

Issue B7 - Irregularities in asset management and disclosure in the AFS**Finding**

Regulation MoF No. 02/2013 on the Management of Non-Financial Assets by Budget Organizations, Article 6, stipulates: Each budget organization shall put in place and update a register of non-financial assets under its management. Further, Assets Register should include capital assets over €1.000 that must be recorded in KFMIS, whilst non- capital assets and stocks under €1,000 in the e-asset system. Further, Article 19, para 4.7 stipulates that asset inventory should be carried out before the completion of the AFS.

The value of capital assets presented in the AFS was understated by €870,758, which were not recorded in the assets registers. The value of assets under €1,000 presented in the AFS was not correct either. According to the responsible municipal officer, although the e-asset module was not used during 2019, the information disclosed in the financial statements shows a difference of €42,710 more than the real value of these assets.

This has occurred as a result of poor management and control by the responsible persons to harmonise payments and recordings in the relevant registers.

The Municipality's Asset Inventory Commission has not been able to complete the report before the AFS were prepared. The report on the inventory of municipal assets was completed on 09.03.2020. Consequently, no inventory result has been reflected in the AFS. This is because the inventory commission has not performed its duties in accordance with the decision to appoint the commission and the provisions of the regulation on asset management have not been implemented.

Furthermore, for 2019, the municipality has verified the municipal properties, but still failed to assess and fully record the assets in the KFMIS registers (lands and facilities); this was so in the absence of experts for asset valuation.

Impact

Weaknesses identified in asset management related to non-registration of capital assets and non-use of the E-asset system as well as the inventory process affect the reporting of inaccurate information on municipal assets and their value in the AFS. At the same time, it increases the risk of their misuse and mismanagement.

Recommendation B7 The Mayor should take measures to ensure that assets over and under €1,000 are recorded in the relevant registers for all owned assets so that the presentation of information in the AFS is accurate and complete. At the same time, the Mayor should ensure that e-asset is put in place and the inventory report is taken into account before AFS are prepared.

2.3 Receivables

The Municipality disclosed in the 2019 AFS accounts receivables in amount of €8,946,826. This is made of property tax receivables of €6,019,069 and the remaining from municipal taxes and fees of €1,894,987, payments for households waste, renting of municipal properties etc.

Issue A10 – Incorrect disclosure of the value of accounts receivable in the AFS

Impact According to MoF Regulation no. 01/2017 on Annual Financial Reporting by Budget Organizations, Article 16, stipulates that budget organizations that collect revenue are required to keep registers of the revenues collected and invoiced and uncollected amounts. Receivables shall be disclosed in the annual financial report in the relevant table by type of revenues.

From the analysis of the data presented in the AFS, it results that the accounts receivable presented by the property tax management office were overstated by €142,228. While the accounts receivable from the Directorate of Culture, Youth and Sports were understated by €40,838.

While the accounts receivable presented by the waste management office were understated by €440,039, since the 2019 liabilities were presented in the AFS, not including the balances of previous years.

The Municipality has not been able to provide us with evidence to justify the differences presented.

Impact Weaknesses identified in the disclosures of accounts receivable leads to disclosure or presentation of inaccurate information about their value in the AFS. At the same time, such differences also affect the planning of projects that could be planned based on the Municipality's efficiency in collecting them.

Recommendation A10 The Mayor should undertake measures to ensure that accounts receivable are recorded on the basis of invoices and that their value is accurately disclosed in the AFS following reconciliation of records by the relevant directorates with the CFO.

Issue B8 - Inefficient management of accounts receivable

Finding The Municipality has not established internal procedures on the reporting and recording of accounts receivable and application of collection procedures. Increased receivables from year to year remains a challenge for the Municipality.

The Municipality has made efforts to have a better collection of property tax based on a decision issued by the Mayor. All taxpayers were required to pay a certain percentage of the arrears, but this was not reflected in the payment of debts by the taxpayers.

In regard to collection of revenues from contracts for use of public property, the Municipality has not taken any steps to collect them for 2019.

Impact Lack of sufficient action or shortcomings in the process of collecting accounts receivable can discourage other taxpayers from paying their obligations on time. Furthermore, non-execution of planned revenues increases the risk of failure of planned projects from own source revenues. The aging of the receivables makes it difficult to collect them.

Recommendation B8 The Mayor should ensure that efficiency in and controls over management and collection of receivables are strengthened. In this regard, the causes behind increased receivables should be analysed and legal measures to collect them should be taken.

2.4 Liabilities

2.4.1 Outstanding liabilities

The statement of liabilities at the end of 2019 was €1,108,538¹⁷. These liabilities are carried forward to be paid in 2020. We tested 16 samples of €439,437 as part of substantive testing and 16 samples as part of compliance testing. In regard to our tests, we have found the following:

¹⁷ This amount is presented by the audited entity

Issue B9 – Delays in the payment of invoices and failure to disclose liabilities in the AFS**Finding**

According to Article 39.1 of Law no. 03/L-048 on PFMA every valid invoice and request for payment for goods, services and/or works supplied to the budget organization is paid within thirty (30) calendar days after the budget organization receives such an invoice or request for payment.

From the list of liabilities disclosed in the AFS, we have tested 14 samples, and the tests have shown that all invoices totalling to €381,363 were not paid within the established legal deadline, whilst in one (1) case, the Municipality accepted the invoice in the amount of €3,000 for the expenditures occurred for the transport of municipal workers in the direction Mitrovica - Saranda-Mitrovica in 2017, but there was no agreement between the parties, which deprives the Municipality of making such payment.

In testing payments for Goods and Services and Capital investments, we found that: in four (4) cases for Goods and Services in the amount of €25,691 and 18 cases for Capital Investments in the amount of €965,447, invoices were not paid with the stipulated deadline.

Delays exceeded the legal deadline from 5 days to 3 years. This was due to poor management of liabilities by the Municipality. The later has not only been unable to pay off old debts, but has also been generating even more liabilities by entering into contracts exceeding the budget limits. Moreover, as a result of delayed payments due to lack of budget, we have found that in one case the Municipality paid the amount of €9,200 twice for the same invoice while paying off the previous year's debts. Following our examination, the Municipality adjusted the financial error in coordination with Treasury.

Liabilities towards employees by the end of 2019 were at €11,873 and the Municipality did not present them in the AFS.

Impact

Failure to pay suppliers within the statutory deadlines leads to failure to incur current expenditures because of having to pay the previous year's liabilities. This may also lead to lawsuits or payments directly paid by Treasury, thus resulting in additional costs. Incomplete disclosure of liabilities results in understatement of liabilities and incorrect presentation of information for AFS users.

Recommendation B9 The Mayor should consider handling the outstanding liabilities with the Ministry of Finance and prioritise the payment of such liabilities while planning the budget. He should ensure that confirmed invoices or other spending decisions are paid within the statutory deadline of 30 days and that payroll liabilities are fairly presented in the AFS.

2.4.2 Contingent liabilities

The statement of contingent liabilities at the end of 2019 was €3,727,300.

In regard to contingent liabilities, they were not archived. Improper archiving of contingent liabilities material hampers their correct disclosure and positioning.

2.4.3 Contractual liabilities

We have requested information for the value of the contractual obligations which the Municipality has by the end of 2019, but we received no information on how much is their value at the end of 2019.

As a result of poor procurement management, the Municipality's outstanding liabilities to economic operators by the end of 2019 were in the amount of €1,108,538. These liabilities increased as a result of concluded contracts exceeding the approved budget; the development of procurement procedures only with the bill-of-quantities and cost estimates, without any executive plan of works and without any accurate planning of which roads would be built, thus giving the opportunity to economic operators to work according to their assessment and provide the Municipality with invoices that go beyond its budgetary possibilities.

During our tests, we have found that payments of €1,073,362 and additional expenditures (interest, bailiffs expenditures and other administrative expenses) in the amount of €15,481 were executed during 2019 only for the project for "Road rehabilitation in Municipality of Mitrovica" in order to pay previous year's outstanding liabilities.

2.5 Internal audit function

The Internal Audit Unit (IAU) operates with three staff members, the Director of IAU and two auditors. In addition to the Strategic Plan, IAU had prepared the annual work plan where six audits were planned to be conducted. Moreover, it prepared the annual and semi-annual reports and submitted to the Central Harmonisation Unit. IAU managed to complete all planned audits, but the produced audit reports were mainly concerning activities of 2018. Only two out of six reports were covering the current year. In regard to IAU operations, we examined the following issue.

Issue B10 - The Audit Committee was not established

Finding Law no. 06/L-021 on Public Internal Financial Control and Administrative Instruction MoF-no. 01/2019 on the Establishment and Functioning of the Audit Committee in the Public Sector Entities has determined the function and the manner of establishing the Audit Committees (AC).

In this regard, the Municipality had not managed to establish the AC this year either, despite last year's recommendation. This was because the Municipality was not able to provide external staff to participate in the AC.

Impact Failure to establish and non-functioning of the Audit Committee may impede provision of assurance on the work of IAU and the handling and implementation of audit recommendations by the management.

Recommendation B10 The Mayor should take the necessary measures to ensure the AC is established and operational, which should consider the results of internal audit and the actions taken by management regarding the recommendations of internal and external audit.

3 Progress in Implementing Recommendations

Our Audit Report on the 2018 AFS of the Municipality of Mitrovica South resulted in 16 recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented.

The Municipality submitted the Progress report on implementation of recommendations (30th of September and 15th of March) under requests deriving from the Rules of Procedure on implementation of audit and action plans. Although the Management commented that recommendations were addressed or in the process of implementation, we found that 10 recommendations were not implemented.

At the end of our 2019 audit, four (4) recommendations have been implemented; two (2) were considered closed; whilst 10 were not implemented at all. For a more thorough description of the recommendations and the way they have been addressed, see Table 4 (Table of recommendations).

Table 4 Summary of prior year recommendations and of 2019

No	Audit area	Recommendations of 2018	Actions undertaken	Status
1	AFS	The Mayor should ensure when planning the budget for the organisation are assessed real needs of the Municipality, in order to make an adequate budget planning and eliminate errors in the classification of expenditures within the respective economic categories. The Mayor should also consider the issue of managing accounts receivable and assets management, namely their full disclosure and other issues, which will be reflected in fair presentation of AFS.	There are misclassifications in this year too, see B1. Issues of accounts receivable and assets are addressed in the relevant chapters.	Not implemented
2	Budget process	The Mayor should ensure that a thorough analysis precedes all factors with an impact on the budget execution during the preparation of the budget requests. While planning and budgeting of certain projects should be made based on the chart of accounts approved by the Treasury.	This issue will not be addressed in the 2019 audit report.	Closed
3	Revenues	The Mayor should ensure an adequate registration system to support revenue collection and management. The waste management process from municipal waste should be reconsidered in regulations in order to clearly recognise the rights and obligations of the parties as well as segregation of duties. The Mayor should also pay more attention to internal controls regarding the accurate collection of revenues from this sector.	During the 2019 audit, we did not notice any irregularities in the recording and management of waste revenues.	Implemented
4	Wages and salaries	The Mayor should ensure a reasonable plan for works related to services with special service agreements. Furthermore,	We have the same issue this year, see B2.	Not implemented

		additional needs for regular staff should be handled with relevant bodies and find an accepted solution, which should be foreseen upon budget planning. In addition, in case of employees engaged under special service agreements should be applied a simplified recruitment procedure, as set forth by defined legal acts.		
5	Goods and services and utilities	The Mayor should ensure that the procurement plan is drafted after a detailed analysis of all requesting units and has included, according to priorities, all projects for which the appropriate budget funds are provided.	We noticed similar cases this year too, see B5, point 2.	Not implemented
6	Goods and services and utilities	The Mayor should ensure that all public procurement procedures and rules are applied with respect to the fair segregation of duties during the procurement process, in order to avoid any possible conflict.	We have the same issue this year, see B6.	Not implemented
7	Goods and services and utilities	The Mayor should conduct an internal review to determine the decisions related to the establishment of the relevant commission to confirm that supplies have been accepted according to the quality and quantity set out by contract.	During the audit, we noticed two cases; the supplies were received without commission. See issue B3.	Not implemented
8	Subsidies and Transfers	The Mayor should ensure that the Evaluation Commission selects beneficiaries in accordance with the rules and criteria set out in the Subsidy Regulation so that the process is beneficial to those meeting the criteria.	During the audit, we did not notice such cases.	Implemented
9	Subsidies and Transfers	The Mayor should monitor the issue being in dispute and during 2019 should sign a Memorandum of Understanding in advance with the NGO and determine the rights and obligations of the parties regarding	During the audit, we did not notice such cases.	Implemented

		the subsidy awarded so that the funds provided are used for the intended purpose.		
10	Capital investments	The Mayor should ensure that changes/re-destination in capital projects of Municipality, presented in Table 4.2 are preliminarily approved by the Municipal Assembly. The Mayor should also ensure that requesting units have a realistic planning of projects so that they do not enter into obligations without sufficient budget funds.	Even this year, we noticed that the municipality had signed 6 contracts, which exceeded the planned value of the budget. See issue B4.	Not implemented
11	Capital investments	The Mayor should ensure effective controls in implementing the procurement process so that the timelines foreseen for the submission of tenders are in accordance with Public Procurement Law in order to provide sufficient time to all economic operators to bid.	We did not notice such cases during the 2019 audit.	Implemented
12	Capital and non-capital assets	The Mayor should ensure that necessary actions are taken to apply the asset management system (E-assets) in order to have an asset management and reporting in accordance with the requirements of the Regulation on Management of Non-financial Assets. Appropriate training for the municipal staff responsible for the implementation of this system should be ensured.	Even this year we noticed irregularities similar to last year. See issue B7.	Implemented
13	Accounts receivable	The Mayor should ensure that controls in the management of receivables are strengthened, increased efficiency and strengthening of controls in their management and collection. In this regard, causes of the increase of receivables should be analysed in order to undertake legal actions for their collection.	We have the same issue this year, see B8.	Not implemented
14	Outstanding liabilities	The Mayor should consider when planning budget that obligations and remaining contingent liabilities	We have the same issue this	Not implemented

		are handled with the Ministry of Finance and should set budget priorities in their performance. The Mayor should also make all confirmed invoices or other expenditure decisions in time, in accordance with the legal deadline of 30 days. While, the filing of cases for contingent liabilities should be accurate even in the electronic form for their quicker verification.	year, see B9.	
15	Internal audit system	The Mayor should review the appointment of members of the Audit Committee and ensure that their selection is adequate according to the requirements of the relevant law and regulation, averting officers who may be subject to internal audit in order to improve Finance Management and Control.	We have the same issue this year, see B10.	Not implemented
16	Management Reporting, Accountability and Risk Management	The Mayor should ensure that a review is carried out to determine the form of financial and operational reporting to senior management, which is required to support the activity's effective management and ensure that an appropriate solution is established within a reasonable period of time.	This issue will not be addressed in the 2019 audit report.	Not implemented
No	Audit area	Recommendations of 2019		
1	Budget Planning and execution	The Mayor should ensure that all actions are undertaken in order to enable that all expenditures are planned under adequate budget lines or funds are re-designated and that payments and recording of expenditures are made under adequate economic codes.		
2	Revenues	The Mayor should ensure that the property tax system is updated in a timely manner and before the application or processing of the property tax invoice. This is in order to ensure that invoicing is based on accurate valuation and application of tax rates according to the zones or sub-zones defined in the regulation.		
3		The Mayor should ensure that no construction permit is issued without obtaining all the necessary consents to start construction and that any construction permit is issued only after all construction documents have been verified.		
4		The Mayor should ensure that appropriate legal action is taken to		

		restore the properties used by natural or legal persons under the management of the municipality, or to renew contracts in order for the municipality to collect revenues from the rented properties.
5	Wages and Salaries	The Mayor should ensure that every employee in the municipality is provided with a valid contract in accordance with the instructions, including information on the amount of the monthly salary.
6		The Mayor should ensure that before the start of the recruitment procedures there are vacant budgeted positions and that the relevant approvals have been obtained from the Municipality required for the approval of the decision by the MoF, in order to ensure that the staff engaged will not remain out of payroll.
7		The Mayor should ensure a reasonable plan for works related to special service agreements. Additional needs for workers with regular positions should be addressed with the relevant bodies and an acceptable solution should be found, and foreseen when planning the budget. In the case of employees with special service agreements, the Mayor should also apply a simplified recruitment procedure as provided for by the established legal acts.
8	Goods and Services	The Mayor should ensure that an accurate needs assessment is made prior to the initiation of procurement procedures and entry into contractual obligations in order to prevent tender procedures from being repeated and contract values from being exceeded.
9		The Mayor should ensure that, when purchasing goods, acceptance commissions are appointed in order to confirm that supplies have been received in accordance with the quality and quantity provided by the contract.
10	Subsidies and Transfers	The Mayor should strengthen controls over NGO funding and ensure that the annual financial support plan is submitted to the relevant government office in compliance with the established criteria. The Mayor should also strengthen controls in order to hold the beneficiaries of financial support accountable and ensure that they report in accordance with the established criteria.
11	Capital Investments	The Mayor should provide for either building internal capacities or entering into an executive projects designing contract in order to ensure that projects are completed before procurement procedures are initiated.
12		The Mayor should ensure that the legal requirements are strictly applied so that contracts are signed in accordance with the planned and approved budget and the implementation of projects is carried out on time and at no additional cost.
13		The Mayor should ensure that supervisory bodies, contract managers and the certifying officers apply effective controls over the process of spending public money to ensure that payments are made only for delivered works/supplies and in compliance with contracted items.
14		The Mayor should commit to assume all responsibilities in accordance with legal requirements. He should also ensure that the procurement

		plan is designed following a detailed analysis by all the requesting units and has included, according to priorities, all projects the appropriate budget funds have been provided for. In the end, he should provide for transparency and accuracy in the presentation of all signed contracts.
15		The Mayor should ensure that all Rules and Operational Guidelines for Public Procurement apply regarding the fair segregation of duties during the procurement process in order to avoid any possible conflict of interest.
16	Capital and non-capital assets	The Mayor should take measures to ensure that assets over and under €1,000 are recorded in the relevant registers for all owned assets so that the presentation of information in the AFS is accurate and complete. At the same time, the Mayor should ensure that e-asset is put in place and the inventory report is taken into account before AFS are prepared.
17	Receivables	The Mayor should undertake measures to ensure that accounts receivable are recorded on the basis of invoices and that their value is accurately disclosed in the AFS following reconciliation of records by the relevant directorates with the CFO.
18		The Mayor should ensure that efficiency in and controls over management and collection of receivables are strengthened. In this regard, the causes behind increased receivables should be analysed and legal measures to collect them should be taken.
19	Liabilities	The Mayor should consider handling the outstanding liabilities with the Ministry of Finance and prioritise the payment of such liabilities while planning the budget. He should ensure that confirmed invoices or other spending decisions are paid within the statutory deadline of 30 days and that payroll liabilities are fairly presented in the AFS.
20	Internal audit function	The Mayor should take the necessary measures to ensure the AC is established and operational, which should consider the results of internal audit and the actions taken by management regarding the recommendations of internal and external audit.

*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: Confirmation letter



REPUBLIKA E KOSOVËS
Republika Kosova - Republic of Kosovo



Komuna e Mitrovicës së Jugut

Opština Južna Mitrovica - Municipality of Mitrovica South

LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2019 dhe për zbatimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Komunës së Mitrovicës së Jugut për vitin e përfunduar më 31 dhjetor 2019 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë komente për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimit, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tij.

z. Agim Bahtiri

Kryetar i Komunës të Mitrovicës së Jugut

Data: 15 qershor.2020, Mitrovicë e Jugut

