



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

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

Prishtina, July 2020

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control and is accountable to the Assembly of Kosovo for its work.

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 *Rahovec Municipality*, 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 the Team Leader, *Sabile Musa*, and team members *Aida Podrimaj* and *Besa Morina*, under the management of Audit Department Director *Bujar Bajraktari*.

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Executive Summary

This report summarises the key issues arising from our audit of Rahovec Municipality 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

Conclusion on the Annual Financial Statements - Some positions were adjusted in the Annual Financial Statements following our suggestions. However, the Annual Financial Statements were in full compliance with the applicable rules and standards, with the exception of the misclassification of expenditures between different economic categories. This is explained in detail in the Emphasis of Matter Paragraph.

FMC Conclusion - The management of municipality has implemented a number of internal controls to ensure that the systems function properly, and in order to improve overall performance. However, the organization and communication of structures within the municipality still needs to improve, which would affect better reporting and co-operation between organizational units.

Conclusion regarding prior year recommendations - The implementation of recommendations made in the 2019 audit report has made significant progress, given that some recommendations have been implemented and most of them are in the process of implementation.

Opinion of the Auditor General¹

Unmodified Opinion with Emphasis of Matter

For more details, refer to Section 1 of this report.

Response of Management in audit 2019

The Mayor has agreed with our audit findings and conclusions and committed to address all recommendations given. The National Audit Office appreciates the cooperation by the management and staff of Vushtrri 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 related substantive tests, as well as related governance arrangements to the extent considered necessary to effectively 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 a detailed description of the audit findings and recommendations in each audited area. Management response on audit results is presented in Annex II.

1 Audit Opinion on Annual Financial Statements

We have audited the AFS of Rahovec Municipality for the year ended on 31 December 2019 in accordance with the Law on NAO and the International Standards of Supreme Audit Institutions (ISSAIs). 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 with Emphasis of Matter

In our opinion, the Annual Financial Statements (AFS) 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 (IPSAS) according to cash basis of accounting.

Emphasis of Matter

We would like to draw your attention to the fact that expenditures in the amount of €225,373 were paid and recorded in inadequate categories. Payments in the amount of €105,373 were made by the Treasury based on court/enforcement decisions. The remaining €120,000 were incorrectly budgeted. The municipality has provided explanations in the AFS to the explanatory notes no. 3 and 6. In this report, this issue is addressed in finding B1. Our opinion has not been qualified on this issue.

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 Rahovec Municipality. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for AFS

The Mayor of Rahovec is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Cash Basis of Accounting. In addition, the Management is responsible for establishing internal controls, which the management determines as necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. This includes the fulfilment of requirements set forth in 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 selected procedures 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 internal audit function.

Financial Management and Control Conclusion

Regarding Rahovec Municipality, procurement remains a major concern, where regulations are not being implemented, resulting in poor value for money. In the context of financial systems, controls over revenues and expenditures are not being implemented effectively. The main areas where more improvements are needed are the implementation of Memorandum of Understanding with ministries, the area of goods and services, collection of accounts receivable and asset management.

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 following tables:

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Source funds:	13,760,891	15,155,251	14,688,602	97	13,064,949	11,661,181
Government Grant - Budget	12,423,508	13,423,508	13,192,922	98	11,995,391	10,591,533
Carried forward from previous year ³ -		402,564	376,714	94	153,712	205,751
Own source revenues ⁴	1,168,768	1,168,768	961,842	82	778,167	769,469
Domestic donations		1,259	652	52	4,853	
External donations		64,375	64,280	100	95,493	89,100
Financing from Borrowing	168,615	94,776	92,191	97	37,333	5,328

The final budget compared to the initial budget was increased by €1,394,360 as a result of revenues carried forward from the previous year, donations and the increase of the government grant by

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

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

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

€1,000,000 by government decision. While there was a decrease of financing from borrowing by €73,839.

In 2019, the municipality spent 97% of the final budget or €14,688,602, with an improvement of 5.5% compared to 2018.

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	13,760,891	15,155,251	14,688,602	97	13,064,949	11,661,181
Wages and Salaries	7,537,669	7,559,595	7,330,406	97	7,219,001	6,991,962
Goods and Services	1,514,330	1,421,464	1,352,072	95	975,106	694,080
Utilities	255,500	255,500	246,469	96	248,823	249,753
Subsidies and Transfers	250,001	1,250,001	1,216,728	97	179,062	188,900
Capital Investments	4,203,391	4,668,690	4,542,926	97	4,442,957	3,536,486

Explanations for changes in budget categories are given below:

The final budget for Capital Investments compared to the initial budget was increased by €465,299, as a result of revenues carried forward from the previous year and donations. The budget execution for Capital investments had a higher performance this year, which includes payments for the current year, payments for unpaid liabilities from previous years, payments executed by the Treasury and by court decision.

The increase of the budget for Subsidies and Transfers by €1,000,000 was made by government decision no. 03/100, dated 26.04.2019, for "Repair of damage caused by hail and floods".

Financing from Borrowing was decreased by €73,839. This amount was not allocated by the Ministry of Finance for the performance payment scheme for the Kosovo Health project.

Issue A1 – Misclassification of expenditures

Finding Based on Administrative Instruction No. 19/2009 on the chart of accounts for use by Budget Organizations - Economic Code means the nature of expenditures and revenues in the budget register.

As we presented in the Emphasis of Matter, the municipality paid €120,000 for goods and services from the capital investment⁵ budget. This happened due to the poor planning of the municipality to budget all the necessary amounts in the category of goods and services.

Payments made by the Treasury in the amount of €105,373, based on court/enforcement decisions were recorded in inadequate economic categories. From capital investments, and goods and services, €72,010⁶ were paid for jubilee and accompanying salaries, and €33,363⁷ were paid from Goods and Services for Capital investments. Payments from inadequate codes were made mainly in the absence of funds in adequate categories.

Risk Misclassification of expenditures, regardless of the circumstances in which it occurred, causes an overestimation of one category of expenditures and an overestimation of another economic category. In addition, payments by court decision have damaged the municipality's budget due to additional costs for enforcement procedures in the amount of €14,406. This may also affect the inaccurate statement of expenditures presented in the AFS.

Recommendation A1 The Mayor should ensure that all actions are taken so that expenditures are planned in the appropriate budget allocations and that the payment and recording of expenditures is done accurately according to the appropriate economic codes, and all obligations are paid in a timely manner in order to avoid the possibility of additional payments for court proceedings.

2.1.1 Revenues

Revenues generated by Rahovec Municipality in 2019 were in the amount of €1,103,403. They are related to revenues from property tax, revenues from construction permits, administrative fees, revenues from business activities, revenues from rent, etc. Compared to the previous year, the level of revenue generation was higher by 11%. In addition to direct revenues, the municipality also generates revenues from indirect revenues, such as court fines and traffic fines.

⁵ The project "Services for the execution of the vitalization of infrastructure for the functionalization of the project - home beds"

⁶ €32,908 were paid from Capital Investments, €39,103 from Goods and Services.

⁷ For the project "River regulation in the village of Zoqishtë"

Table 3. Revenues (in €)

Description	Initial Budget	Final Budget	2019 Receipts	% of Receipts 2019	2018 Receipts	2017 Receipts
Own source revenues	1,168,768	1,168,768	1,103,403	94	994,864	820,959
Tax revenues	389,300	389,300	459,286	118	419,434	302,606
Non-tax revenues	681,468	681,468	644,117	95	575,430	518,353

Issue C1 High number of grounded complaints by citizens**Finding**

According to "Law no. 06/L-005, Article 12, paragraph 2, Each Municipality shall be responsible for the administration of the property tax process for immovable properties located within the territory of the Municipality. According to this paragraph, the Municipality has the following responsibilities: registers and manages property tax data in the property tax registers, cooperates with the Ministry of Finance for appraising immovable properties; reviews and decides on complaints; for immovable property tax.

We have identified that despite efforts the municipality has not managed to have a proper co-operation in terms of updating the information in the Property Tax database and property valuation. Consequently, 221 complaints were received in the municipality regarding the improper valuation of properties (142 for residential properties, 72 for commercial properties and 7 for industrial properties). Out of 221 complaints, only nine were rejected and the rest of the complaints were accepted as grounded. This indicates the high level of errors in the database.

This happened due to difficulties in implementing the new Law no. 06. L/005 on immovable property tax, due to insufficient communication between the municipality and the Ministry of Finance and due to insufficient staff.

Risk

Failure to update information and inadequate evaluation of properties in the property tax database can lead to difficulties in collecting property tax revenues and increasing accounts receivable due to dissatisfaction and complaints of citizens.

Recommendation C1 The Mayor should ensure that the joint activities of the municipality and the property tax department within the Ministry of Finance are intensified, in order to improve the data in the database.

2.1.2 Wages and Salaries

The final budget for Wages and Salaries was €7,559,595. The number of employees according to the budget was 1,186 while at the end of the year their number was 1,161. During 2019, six new employees were hired. We tested 44 samples for substantive tests in the amount of €281,856, as well as seven samples for compliance tests. The findings from the tests are presented below.

Issue B1 – Shortcomings in staff management

Finding For 19 officials who are engaged in the Emergency and Security Directorate, the municipality was not able to provide us with the completed files or contracts of these officials, based on which the salary compensation has been performed. The value of compensation for these officials during 2019 was €113,871. According to the personnel manager, there is no relevant documentation for these officials. This occurred because of non-transfer of the budget to the Emergency Management Agency (EMA), respectively the Ministry of Internal Affairs, part of which are these employees according to current legislation in force.⁸

Risk Payment of salaries to officials in the absence of relevant documentation results in the inability to justify wages/salary or to enable the review of results from performance appraisals, as well as wages payments.

Recommendation B1 The Mayor should request from the responsible persons to provide at least the files with basic information including the employment contracts as well as the monthly reports for their attendance for the officials who are paid from the municipal budget, to ensure that only legitimate workers and those who have provided services are paid.

⁸ After the entry into force of Law no. 04/L-049 on Fire-fighting and Rescue, as well as the approval of Administrative Instruction No. 21_2012, on the transfer of fire-fighting services from municipalities to MIA, the process of transfer of competencies has been developed through memoranda signed by EMA with municipalities, and in this respect, all management competencies, including staff recruitment procedures and salary compensation, have been transferred to EMA. However, the budget for fire-fighters has not yet been transferred to EMA, despite a decision of the Prime Minister (2013), and many requests addressed to the MoF and the Assembly.

2.1.3 Goods and Services

The final budget for Goods and Services (including Utilities) in 2019 was €1,676,964, of which €1,598,542 was spent. They are mainly related to office supplies, equipment supply, court decision payments, maintenance, travel expenses, municipal expenses, contracting services, etc. We tested 34 samples for substantive tests in the amount of €302,986 as well as six samples for compliance tests.

Issue C2 - Delays in the payment of invoices

Finding According to Article 37, para 1 of Regulation 01/2013 MoF - Public Funds Expenditure - All invoices received by the budget organization must be paid within 30 days.

Four payments (including four 2018 invoices in the amount of €29,299 and eight 2019 invoices in the amount of €21,750) have resulted in late payments. Delays range from 13 days to ten months. This occurred due to late allocations in the beginning of 2019, as well as unplanned payments executed by court decision present financial difficulties for regular payments.

Risk Exceeding the legal deadline for payment of liabilities may result in the municipality being subject to direct executions by the MoF and court decisions.

Recommendation C2 The Mayor should ensure that the execution of payments is done in accordance with the deadlines set by the MoF Regulation. Priority should be given to liabilities carried forward from the previous year and those that have a longer waiting period.

Issue C3 - Payment of expenditures prior to receiving services and their non-documentation

Finding Based on the contract signed on 06.12.2019 on the teachers' training on the use of information technology in teaching, paragraph 2 specifies that the deadline for the implementation of services begins in December 2019 and continues until the end of December 2019, or whatever other period agreed in writing, between the parties. While the terms of payment should be executed no later than 30 days after the consultant has submitted duplicate invoices to the co-ordinator.

Invoice number 58/2019; dated 13.12.2019 in the amount of €3,375 was paid on 18.12.2019 on behalf of teachers' training, while these services were provided during February 2020. In addition, teachers' training was not provided under the contract, as foreseen that five modules be developed by two days, while during the training one module was developed within one day. In addition, the invoice for Annex C (sub-total) in the amount of €1,725 was paid by €300 more, and no evidence was provided, for the expenses presented in the main invoice of Annex C, except for the food invoice which was not complete, because the number of participants who were identified in the training did not match the number of those who were served.

This occurred due to lack of internal controls and poor contract monitoring by the Municipal Education Department, the contract co-ordinator and the certification officer.

Risk

Payment of expenses prior to receiving the service increases the risk of not receiving contracted services or receiving poor quality services. Payments without adequate evidence increase the risk of irregular payments occurring and damaging the municipal budget.

Recommendation C3 The Mayor should ensure that payments are made only after ensuring that contracted services are received and confirming that they are in accordance with the contracted terms. Each payment for such services should be supported with complete documentation, including receipts and participation evidence.

Issue C4 – Lack of relevant evidence for provision of services**Finding**

According to the contract "Services for the execution of the vitalization of infrastructure for the functioning of the project-home beds" in the total value of €194,398, EO should provide seven types of services for a period of one year.

The work report for this contract for September 2019 reflects that medical services have been provided by Caritas Kosova in the capacity of EO and invoice no. 234/2019 in the amount of €15,000, paid on 16.10.2019, but only partially (€10,000) was issued, due to lack of budget. We tested two of the seven types of services invoiced and we found that:

- the number of services invoiced, the third⁹ type of services under the contract, in September 2019 does not correspond to the records of services received by patients;
- the number of services invoiced, the sixth¹⁰ type of services under the contract, as well as for September 2019, there is no evidence at all who were the beneficiaries of these services;

⁹ Outpatient services for patients, as described in section III (service description), within the contracted period, injection, infusion administration, catheter placement, wound cleaning, decubitus treatment, etc. (32,300 services of this type are planned to be provided within the year).

¹⁰ Social services will include, improving living conditions in a safe and comfortable environment, helping maintain personal hygiene and the indoor environment of the elderly people alone without family care. Opportunity to maintain and develop social relationships through contact with them (800 services of this type are planned to be provided within the year).

Furthermore, services invoiced according to invoice 498/2019 in the amount of €15,000 and paid on 05.12.2019 reflecting the services provided during November 2019 are identical by number with the services invoiced for December 2019, according to invoice 522/2019 in the amount of €15,000, but which was partly paid (€ 5,000) on 23.12.2019 due to lack of budget.

This occurred as a result the lack of contract monitoring by the contract manager, and due to the fact that the commission for the acceptance of services has not exercised its complete function, after signing the invoice issued by the contractor and the report¹¹ without ensuring that the services are provided in accordance with the contract.

Risk Payment for services that have not been received/accepted indicates mismanagement of public money.

Recommendation C4 The Mayor should initiate a review of the implementation of this contract to ensure that it is being implemented according to the contracted specifications. Detailed reports should be compiled for each month for each service provided and payments should be made only after assurance has been obtained that services have been accepted. The possibility of returning the funds to the municipality budget should be considered for the above cases, where there is no reliable evidence that the services were provided and payment was made. The persons responsible for the management of this contract should be held accountable for their work.

Issue C5 – Shortcoming in procurement process

Finding All participants in the procurement process are required to respect and act in full compliance with the procedural and material requirements of the Law on Public Procurement No. 04/L-042 as amended and supplemented.

In the contract "Services for execution of the vitalization of infrastructure for the functioning of the project Home beds" in the amount of €194,398, we found that the requirements of the above law were not adhered to, since: initially the contract was classified as a "medium-value contract" and not "large-value contract" as provided for by Article 19, paragraph 1 of the LPP. This was followed by deadlines for receipt of tenders of 20 days instead of 40 days as defined by Article 44, paragraph 2.1 of the same law. Further "Contract award notice" was made after five days (and not within two days from the contract award, as required by Article 41 of the Law on Public Procurement). In addition, all payments for this contract are paid from Capital Investments, while they would have to be paid from Goods and Services.

¹¹ The word report is put in quotation marks because this report is a fruitless description, which does not indicate exactly which services were performed and when.

These irregularities have occurred as a result of non-compliance with the established rules and norms of law, on the part of actors involved in the development of this procurement activity.

Risk

The omissions mentioned in the procurement process constitute a violation of Law, while the treatment of the contract regarding Goods and Services, as a Capital investment, results in an inaccurate statement of expenditures and assets at the end of the year.

Recommendation C5 The Mayor should ensure that contracts planned according to the annual procurement plan as supplies are treated as such during the development of the procurement activity and payments in order to ensure accurate classification/reflection of expenditures. All provisions of the LPP regarding procurement procedures should also be adhered to.

Issue C6 – Lack of contract management plan**Finding**

According to Operational Guidelines for Public Procurement, Article 61.7 it is required that upon receipt of the contract, the project manager shall prepare a contract management plan, using the standard form adopted by the PPPC. The contract management plan shall be prepared and signed by the Project Manager and Economic Operator, and within 2 working days, shall forward a copy of the signed contract management plan to the procurement department. This is valid for all medium and large value contracts.

For the contract: “Insurance of the Municipality of Rahovec vehicles”, signed on 04.10.2019 and in the amount of €11,228 and with a duration of 12 months, no contract management plan was prepared. This is because the contract manager was not appointed according to the LPP requirements. Instead, the Mayor through the authorisation dated 12.01.2018, authorised the head of the car park to take all necessary administrative actions to register all official motor vehicles owned by the municipality. According to the discussions with the municipality officials, the practice of the Mayor is that through a decision authorises every director of the department and head of the unit to be the project manager for the projects that fall in that department. This occurred due to lack of sufficient knowledge of legal requirements related to contract management.

Risk Failure to prepare Contract Management Plans prior to the commencement of contract implementation and with the agreement of the contracting parties may result in vehicles not being provided in time and the contract manager will not have full control over the service situation regarding the ordered/received and payments made.

Recommendation C6 The Mayor should ensure that the contract managers are appointed for each medium and large value contract in accordance with the requirements of the PPL, and the legal requirements should be made clear to contract managers regarding the management of contracts. Consequently, they should prepare, monitor and report on the contract management plan in accordance with the requirements.

2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €1,250,001, of which €1,216,728 was spent in 2019. They are related to Subsidies for Agriculture, Forestry and Rural Development, Culture, Youth and Sports, Health and Social Care. We tested 24 samples for substantive tests in the amount of €116,476 as well as six samples for compliance tests.

2.1.5 Capital Investments

The final budget for Capital Investments was €4,668,690, of which €4,542,926 was spent in 2019. They are related to the construction of local roads, construction of health and educational facilities, investment with Memorandum of Understanding, investment maintenance, capital transfer - non-public entities, other equipment, etc. We tested 91 samples for substantive tests in the amount of €2,682,076, as well as eight samples for compliance tests.

Issue B2 - Signing of contracts without financial coverage

Finding Based on Law no. 06/L-133 on budget appropriations for the budget of the Republic of Kosovo for 2019, Article 12, limits on commitments and expenditures, para 6, Signing of contracts for multi-year capital projects is done by BO only if such expenditures are provided for by budget law for fiscal year 2019 and for the following two (2) years.

The Municipality of Rahovec, based on Memoranda of Understanding with the Ministry of Infrastructure, has signed contracts for infrastructure projects, but the values of the signed contracts exceed the amounts provided for by the budget law and memoranda:

- For the project "Construction of a four-lane road from Rahovec to Xërxe" €3,400,000 are foreseen with the budget law for 2019 and the following two years, while 3 contracts were signed for LOT 1,2 and 3 in

the amount of €6,513,954, the difference of €3,113,954 is not covered by financial means with the budget law;

- For the project "Asphalting of the road Fortesa-Hamoc-Rahovec", €700,000 are foreseen, while the contract was signed in the amount of €997,993, the difference of €297,933 is not covered by the budget law; and
- For the project "Construction of road Xërxe - Sapniq - Ratkoc", €800,000 are foreseen, while the contract was signed in the amount of €898,888, the difference of €98,888 is not covered by the budget law.

This happened due to incomplete analysis and unrealistic estimates of the financial costs of projects when budgeting them.

Risk

The lack of proper analysis of financial costs for capital projects and the signing of contracts beyond the budget limits creates difficulties and disrupts the financial flow of the municipality, since many budget adjustments and reallocations of funds have to be made to cover the deficit of these projects. This prevents the implementation of other projects foreseen to be executed from the re-allocated means.

Recommendation B2 The Mayor should ensure that the procurement law will be applied – to initiate a procurement activity only after having completed a formal needs assessment and sign a contract for capital projects only if such expenditures are provided for in the budget law for the fiscal year and for the following two (2) years.

Issue A2 – Implementation of activities outside the procurement plan and failure to notify CPA in this respect**Finding**

Based on Article 8 of the Law on Public Procurement (as amended and supplemented), CA should make the procurement plan, in which all supplies, services and works that CA intends to procure during the fiscal year in question are identified with reasonable details. Whereas according to Article 9, para 6, of the same law, it is specified that if the procurement activity is not included in the final procurement planning, the Central Procurement Agency (CPA) shall be notified at least 5 days before the authorisation to initiate the procurement activity.

The final procurement planning of Rahovec Municipality included 57 procurement activities for supplies, works and services which were procured during the fiscal year 2019. However, the report of contracts implemented proves that in 2019, 30 activities were implemented, which were not included in the final procurement plan. This indicates that the procurement plan does not include all needs for supplies, works and services. Furthermore, for activities carried out outside the plan, a copy of the relevant Statement of Needs and Determination of Availability of Funds was not sent to the CPA before initiating the relevant procurement activity.

The non-inclusion of all requests/needs of the units in the procurement plan occurred due to the lack of communication and co-operation with other units, which make procurement requests.

Risk

Incomplete planning of procurement activities and implementation of procurements outside the plan make the implementation of the procurement plan and performance monitoring difficult and create financial difficulties for the municipality.

Recommendation A2 The Mayor should ensure that necessary measures are taken that the planning of procurement activities will include requests from all units so that as few activities as possible are carried out outside the procurement plan. If any activity occurs outside the plan, the CPA should be notified in advance in accordance with legal requirements.

2.2 Capital and Non-capital Assets

The value of capital assets presented in the AFS is €128,001,655, non-capital assets €445,530, as well as stocks €41,381. We tested 91 samples for substantive tests in the amount of €2,682,281, as well as five samples for compliance tests.

Issue A3 - Failure to disclose assets "Sports Hall Building" financed by MCYS**Finding**

According to Article 11 of Regulation MoF No. 02/2013 - On Asset Management by Budget Organizations, after the completion of the investment process, non-financial capital assets will be classified as non-financial assets in use. Depreciation will also apply from the moment when the property is put to use.

According to the Memorandum of Understanding concluded between the MCYS and the Municipality of Rahovec, the construction of the Sports Hall "Mizahir Isma" is fully funded by the MCYS. The technical acceptance process was completed for this project, in which case the final technical report was prepared by the supervisory body, with protocol no. 861/2019, dated 25.06.2019. While in the asset register is registered only the plot where the Sports Hall was built, as "Infertile Land" with no. 40789 in property class 32100. The building of the Sports Hall "Mizahir Isma" is currently in use and meets all the criteria to be considered as municipal asset. Consequently, this asset would have to be recorded in the registers and depreciation should be calculated. This happened due to the lack of financial documentation and information regarding the payments (value) of the building in question.

Risk The non-inclusion of significant assets with significant value in the asset registers affects the quality of information in the AFS not to be good and the value of assets disclosed in the AFS is not accurate.

Recommendation A3 The Mayor should request from the Minister of Culture, Youth and Sports financial information regarding the building of sports hall and based on this information this asset should be included in the municipal asset registers.

Issue C7 - Lack of general asset inventory report and information regarding the out-of-use assets

Finding According to Regulation 02/2013 on Management of Non-Financial Assets by BOs, the responsibilities of the inventory commission, among others, is the drafting of the general report based on individual reports of the Commission for Inventory of Non-Financial Assets at the appropriate time of preparation of the AFS. The inventory report should contain the physical condition of the non-financial assets, the conditions of their storage and remarks on the character of the differences and damages ascertained. According to Article 24, para 4 of the same Regulation, the non-financial assets out of use will not be presented during reporting.

During the inventory process, the municipality has compiled individual inventory reports, such as for out-of-use assets under €1,000, for buildings, and for registered lands. However, the municipality does not yet possess the General Report on all non-financial assets over which it exercises control and has economic benefits. The commission also identified 821 items of assets, which it classified as out of use. Although the asset register has been updated due to this change and the records have been reconciled before and after the inventory, no disclosure has been made in this AFS regarding this change.

This happened due to insufficient attention by the municipality to possess a document, which will reflect all the information on the value and physical condition of the assets as well as other activities undertaken related to the general assets.

Risk

Failure to complete the inventory of assets as required for by regulation affects the municipality not to identify the real and factual situation of assets, which may be exposed to loss or alienation. This may also result in an overestimation of assets in the financial statements.

Recommendation C7 The Mayor should ensure that the inventory and evaluation commission of non-financial assets records and evaluates all assets in the possession of the municipality, and after the completion of the process, prepares a final report on the status of assets, which should be harmonised with municipal accounting records. The differences displayed should be clarified and the records should be updated according to the data of the latest registrations.

2.3 Receivables

Rahovec Municipality disclosed receivables in the amount of €2,159,689 in the 2019 AFS. This value included Property Tax, business tax and rents.

Issue C8 - High level of accounts receivable on property tax

Finding

The Municipality of Rahovec for 2019 reported receivables of property tax in the amount of €1,231,456 and land tax of €56,377. A considerable part of the accumulated property tax debts (amount of €267,915) belong to the former Socially Owned Enterprises, privatized during the privatization process. During 2019, €37,562 were collected from A/R of these enterprises. These and other receivables have become a burden for the municipality, they have been increasing year after year, and the chances of mandatory collection are very small.

This occurred due to the lack of a joint initiative to resolve the issue of aged accounts receivable between the municipality and the PAK, which are followed by calculations of additional charges of fines and interest by the municipality for property tax on these account.

Risk The trend of continuous growth of A/R affects the deterioration of the collection performance of municipality's A/R and, on the other hand, the trend will be negative year after year in the future.

Recommendation C8 The Mayor should take adequate action for a joint settlement with the PAK regarding the liabilities of the Socially Owned Enterprises under their management and those of the former Socially Owned Enterprises. Legal measures should also be taken to collect other A/R from all property owners.

2.4 Liabilities

2.4.1 Outstanding liabilities

The statement of liabilities at the end of 2019 was €870,338. These liabilities relate to Goods and Services, Utilities, Subsidies and Transfers and Capital Investments, which includes the highest value of €765,427. These liabilities were carried forward to be paid in 2020. Compared to the previous year, there is a decrease in the value of unpaid liabilities by 39% or €565,275. The main reason for the transfer of these liabilities is the lack of funds that has come as a result of improper budget planning from previous years.

2.4.2 Contingent liabilities

The statement of contingent liabilities at the end of 2019 was €1,238,923. After the proper classification of contingent liabilities by the municipality, the value of contingent liabilities remained over one million, as the amount of €31,372,807 was for civil disputes of lawsuits which were filed by the Serbian community, after 2000, where there was material damage, and that this liability does not belong to the municipality, as KFOR is in charge of the security in the Republic of Kosovo.

On the Treasury's request, this value has been removed from the Table, Article 18 - Contingent liabilities in the AFS.

2.4.3 Contractual liabilities

According to the municipality's data, the value of contractual liabilities for Rahovec Municipality at the end of 2019 was €3,128,331.

2.5 Internal Audit Function

The Internal Audit Unit (IAU) operates with two staff members - the head of IAU and one auditor. The IAU has drafted the Annual Plan for 2019 as well as the Strategic Plan for 2019-2021. For 2019, 10 regular audits and one (1) audit on-demand were planned, of which there were four high-risk audits and seven medium-risk audits.

For 2019, IAU managed to fulfil the audit plan and to conduct an additional (ad hoc) audit on the request of management. Of the audits performed, 44% cover 2019, while 56% cover 2018, as follows:

The municipality has established an Internal Audit Committee consisting of five members, during the year, three meetings were held due to delayed staff restructuring in this committee.

Issue B3 - Ineffective functioning of IAU

Finding

In the framework of our audit, we have also assessed the efficiency of the IAU in order to improve governance and internal control. In this regard, the IAU was not effective enough, despite the fact that it performed all planned audits. This is due to the fact that the scope of more than half of the audits performed was in 2018. According to the IAU, out of 57 recommendations made in 2019, only 30 were implemented, while other recommendations were in process. However, this is difficult to confirm, given that 10 out of 12 audits conducted in 2019 lacked the management action plan to implement the recommendations from IA reports (this is contrary to standard operating procedures approved by MoF). The quality of audits can also be improved, as some of the recommendations are not very clear.

These occurred due to lack of proper attention, due to the negligence of the staff of the departments where the audits were conducted, while the Audit Committee did not contribute to improving the effectiveness of the work of the IAU.

Risk

The focus of audits on the activities of previous years makes it impossible for the IAU to be able to provide advice regarding the current process and prevent the occurrence of omissions and eventual irregularities. The lack of plans for the implementation of the recommendations makes it impossible to assess their implementation and, consequently, to avoid the weaknesses identified by the IAU. Unclear recommendations cause confusion among the staff and do not contribute to the improvement of management or internal controls.

Recommendation B3 The Mayor should ensure that the annual audit plan focuses more on the current year processes, in the departments where it is estimated that the risk is higher, should request that the quality of the audit is improved and the departments are required to treat audit recommendation in accordance with standard operating procedures approved by the Minister of Finance.

3 Progress in implementing recommendations

Our audit report on the 2018 AFS of Rahovec Municipality has resulted in 21 recommendations. The municipality has prepared an Action Plan stating how all recommendations will be implemented.

The municipality has submitted the Progress Report on the implementation of the recommendations (30 September and 15 March) according to the requirements of the Rules of Procedure for the implementation of the audit and action plans. According to municipal officials, 15 recommendations have been implemented, four have been partially implemented and two others will be implemented in 2020. However, according to the audit from these findings the situation looks different.

At the end of our audit for 2019, five (5) recommendations have been implemented, two (2) are closed, 11 were in the process of implementation, and three (3) have not yet been addressed. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or Table of recommendations).

Table 4 Summary of recommendations of the previous year and of 2019

No	Audit area	Recommendations of 2018	Actions taken	Status
1	Unmodified Opinion with Emphasis of Matter	The Mayor should ensure that an analysis is undertaken to determine the causes for Emphasis of Matter. Actions should be taken to address key weaknesses in correct classification of expenditure, and to eliminate weaknesses for fair presentation of receivables and liabilities, disclosed in the Emphasis of Matter in Audit Opinion. Further on, the Mayor should ensure that effective processes are in place to confirm that the 2019 AFS production plan formally addresses all compliance issues related to the AFS. This should also include Management review of the draft AFS with specific focus on high risk areas and/or areas where errors have been identified in previous years. The Declaration made by the Chief Administrative Officer and Financial Officer should not be signed unless all necessary checks have been applied to the draft AFS.	Accounts Receivable and Outstanding Liabilities were presented correctly in the AFS, while the incorrect classification of expenditures was evident this year as well.	Recommendation closed (recommendations related to the Emphasis of Matter are given in the relevant fields).
2	Budget	The Mayor should ensure that budget	The budget for CI is	Recommendation

	Planning and Execution	performance is monitored systematically on a monthly basis, and that this review identifies and addresses obstacles for budget execution at a planned level. Budget planning should refer to real possibilities to secure funds from revenues, and to prioritize budget execution in settlement of outstanding liabilities.	spent by 97%, and for goods and services 95%.	ion implemented
3	Revenues	The Mayor should establish sound controls that ensure effective collection of revenues by including and determining a fair assessment of the tax charge in accordance with the rules and real situation in the field by engaging competent surveyors.	Errors in the calculation of multipliers have been eliminated; however, shortcomings have been identified due to the valuation of properties with the new law.	Recommendation in process of implementation (see issue C1)
4		The Mayor should review the reasons behind the existing situation and set appropriate measures so that the responsible departments within a reasonable timeframe will collect the arrears, or to stop them for using public properties or exercising their activities if they do not meet the obligations towards the municipality.	Measures have been taken in the application of new mechanisms, written remarks have been made and cases of higher value debtors have been sent to the enforcement agents, however, no positive results have been noticed yet in terms of collecting late revenues.	Recommendation in process of implementation (see issue C8)
5	Wages and Salaries	The Mayor should ensure the review the possibility for these officials to be transferred to the institutions where they work or to complete their files in the municipality, to establish legal basis for execution of their wages. Allowances are made only to officials foreseen by the Government's decision and the amounts obtained in violation of this decision are returned to the municipal budget.	Personnel files for emergency and security officers are under the administration of the independent Emergency Agency in the MIA, the municipality executes only their salaries.	Recommendation unimplemented
6		The Mayor should ensure that the Directors of Educational/Health Institutions and the Personnel Manager must complete the documentation about work experience	Evidence of work experience is complete; however, there is a lack of other evidence	Recommendation partly implemented (Recommendation is given in

		in order to establish a legal basis for execution of the allowance based on experience. Further on, school directors should monitor staff leave requests and performance evaluations and to update personnel files with new documents	required for the file.	the Management Letter).
7	Goods and Services as well as Utilities	The Mayor should ensure that the entry into the agreement for special services / contracts for specific duties is done in full compliance with the legal framework and the term of contract does not exceed the deadlines set by the laws. The Mayor must also ensure that such recruitments are made only in cases where there are specific needs	We have not identified any irregularities in the engagement with SSA.	Recommendation implemented
8		The Mayor should ensure that measures are taken for supervision of the co-financing agreements including clear reporting requirements during the implementation and monitoring of the project, in accordance with the requirements of the agreements and the rules on expenditure of public money	For 2019, the selection of the project with Caritas Kosova was carried out with an open procurement procedure, where the criteria and responsibilities of the contract were defined; however, shortcomings were identified in the implementation of the project.	Recommendation partly implemented (see issue C4 and C5)
9	Capital Investments	The Mayor should ensure that the responsible persons perform checking of the necessary documentation prior to the execution of the payments, and strengthen control measures that the works or goods are received through relevant evidence or with reports on acceptance.	The Mayor has decided that contract managers and the supervisory company contracted by the municipality conduct management, submission and ascertainment of the work performed in capital investments for all EO.	Recommendation in process of implementation (See issue C6)
10		The Mayor should develop policies and procedures to ensure that the implementation of the projects is fulfilled within specified time frame in the respective contract, and the		Recommendation closed

		execution of all payments shall be made in accordance with the contract and guaranteed with performance security, eliminating the possibility of entering into contract without sufficient funds		
11		The Mayor should ensure that the requesting units evaluate requirements correctly, and ensure to prevent initiation of any procurement procedure in the absence of an executive project, and should pay higher attention in determining positions so that such errors are not repeated.	Measures have been taken, the executive projects have been drafted for the implemented projects before the initiation of the procurement procedures, with the exception for the projects financed by another organization.	Recommendation in process of implementation (See issue A8)
12		The Mayor should ensure that the procurement office carries out additional controls so the signing of the contracts is made upon commitment of funds	The contracts were signed after the commitment of funds, however, the budget planned by the budget and the MTEF does not cover the contract price.	Recommendation unimplemented
13		The Mayor through the Procurement Manager should ensure that each procurement procedure is carefully analysed and evaluated by the evaluation committee in order to avoid potential errors during the procurement process, and to ensure compliance with established legal criteria.	We have not identified such cases in the 2019 audit.	Recommendation implemented
14		The Mayor should ensure that drafting of executive projects is carried out in accordance with legal requirements and the Procurement Office is in possession of completed projects prior to initiating procurement procedures for execution of works	Measures have been taken with the exception of Memoranda of Understanding, which have been signed without an accurate needs assessment and without an executive project.	Recommendation in process of implementation (See issue B2)
15	Common Issues for Goods and	The Mayor should strengthen controls to ensure they have available funds needed to meet their financial	There are payments by court orders, although the	Recommendation in process of

	Services and Capital Investments	obligations on time. Further on, should ensure that the Municipality handles all legal obligations to legal claimants, and take necessary actions to address them in order to eliminate additional unnecessary expenditures	municipality has taken steps to eliminate unnecessary additional costs. One of the actions for this has to do with the identification of retired education and health workers, calculation of jubilee and accompanying salaries and the request submitted to the MoF to provide funds for their compensation.	implementation (See issue B1)
16	Capital and Non-capital Assets	The Mayor should ensure that the commission of inventory and valuation of non-financial assets makes the registration and evaluation of all assets in the possession of the Municipality and after the completion of the process prepares a final report on the condition of assets, which should be reconciled with the accounting registers of the municipality. Displayed differences should be clarified and registries should be updated according to the latest recorded data	Measures have been taken, the municipality has formed an inventory commission, but the commission has not performed its work according to the decision of the Mayor.	Recommendation in process of implementation (See issue C7)
17		The Mayor should ensure drafting of an internal policy that clearly defines the requirements and responsibilities for use of vehicles. The persons responsible for oversight of the parking lot should ensure that trip tickets for use of official vehicles are updated and that vehicles are used only upon approval of the authorised persons	The use of vehicles is applied only after the forms are approved by the relevant persons.	Recommendation implemented
18	Receivables	The Mayor should ensure that all possible options are actively reviewed by setting policies, regulations and other mechanisms in order to increase the efficiency in collecting receivables. Further on, all measures in accordance with the law should be considered, against operators who do not meet their contractual obligations.	Measures have been taken in the application of new mechanisms, written remarks have been made and cases of customers with higher values have been sent to the	Recommendation in process of implementation (See issue C8)

			enforcement agents, however, no positive results have been noticed regarding the collection of A/R.	
19	Outstanding liabilities	The Mayor should strengthen controls in the payment management process to ensure that the Municipality does not enter into obligations without sufficient funds available, so that all invoices are paid within the legal deadline. Further on, should ensure that the reporting of the obligations is done on a monthly basis, in accordance with the legal requirements which should include their exact status.	Liabilities are reported on a monthly basis; however, there are still liabilities that exceed the legal deadline for payment.	Recommendation in process of implementation (See issue C2)
20	Internal Audit System	To achieve maximum benefit from internal audit services, the Mayor should review the reasons for the limited actions undertaken by management in relation to internal audit recommendations, and to cooperate with the Audit Committee for establishment and improvement of the quality of internal control. Further on, to ensure that a quality control review will be applied to each audit file by the IAU Director	There is no evidence for following the implementation of the recommendations.	Recommendation unimplemented
21	Management reporting, accountability and risk management	The Mayor should ensure that a review has been carried out to determine the form of financial and operational reporting to senior management from which all relevant information that influences the quality and timely decision-making by the management. Budget performance, including revenues and expenditures, and implementation of the procurement plan should be subject to regular reporting and review by the management.	Financial reports are completed.	Recommendation implemented

No	Audit area	Recommendations of 2019
1	Budget Planning and Execution	The Mayor should ensure that all actions are taken so that expenditures are planned in the appropriate budget allocations and that the payment and recording of expenditures is done accurately according to the appropriate economic codes, and all obligations are paid in a timely manner in order to avoid the possibility of additional payments for court proceedings
2	Revenues	The Mayor should ensure that the joint activities of the municipality and the property tax department within the Ministry of Finance are intensified, in order to improve the data in the database
3	Wages and Salaries	The Mayor should request from the responsible persons to provide at least the files with basic information including the employment contracts as well as the monthly reports for their attendance for the officials who are paid from the municipal budget, to ensure that only legitimate workers and those who have provided services are paid
4	Goods and Services	The Mayor should ensure that the execution of payments is done in accordance with the deadlines set by the MoF Regulation. Priority should be given to liabilities carried forward from the previous year and those that have a longer waiting period
5		The Mayor should ensure that payments are made only after ensuring that contracted services are received and confirming that they are in accordance with the contracted terms. Each payment for such services should be supported with complete documentation, including receipts and participation evidence
6		The Mayor should initiate a review of the implementation of this contract to ensure that it is being implemented according to the contracted specifications. Detailed reports should be compiled for each month for each service provided and payments should be made only after assurance has been obtained that services have been accepted. The possibility of returning the funds to the municipality budget should be considered for the above cases, where there is no reliable evidence that the services were provided and payment was made. The persons responsible for the management of this contract should be held accountable for their work.
7		The Mayor should ensure that contracts planned according to the annual procurement plan as supplies are treated as such during the development of the procurement activity and payments in order to ensure accurate classification/reflection of expenditures. All provisions of the LPP regarding procurement procedures should also be adhered to
8		The Mayor should ensure that the contract managers are appointed for each medium and large value contract in accordance with the requirements of the PPL, and the legal requirements should be made clear to contract managers regarding the management of contracts. Consequently, they should prepare, monitor and report on the contract management plan in accordance with the requirements.
9	Capital Investments	The Mayor should ensure that the procurement law will be applied - to initiate a procurement activity only after having completed a formal needs

		assessment and sign a contract for capital projects only if such expenditures are provided for in the budget law for the fiscal year and for the following two (2) years
10		The Mayor should ensure that necessary measures are taken that the planning of procurement activities will include requests from all units so that as few activities as possible are carried out outside the procurement plan. If any activity occurs outside the plan, the CPA should be notified in advance in accordance with legal requirements
11	Assets	The Mayor should request from the Minister of Culture, Youth and Sports financial information regarding the building of sports hall and based on this information this asset should be included in the municipal asset registers
12		The Mayor should ensure that the inventory and evaluation commission of non-financial assets records and evaluates all assets in the possession of the municipality, and after the completion of the process, prepares a final report on the status of assets, which should be harmonised with municipal accounting records. The differences displayed should be clarified and the records should be updated according to the data of the latest registrations
13	Receivables	The Mayor should take adequate action for a joint settlement with the PAK regarding the liabilities of the Socially Owned Enterprises under their management and those of the former Socially Owned Enterprises. Legal measures should also be taken to collect other A/R from all property owners.
14	IAU	The Mayor should ensure that the annual audit plan focuses more on the current year processes, in the departments where it is estimated that the risk is higher, should request that the quality of the audit is improved and the departments are required to treat audit recommendation in accordance with standard operating procedures approved by the Minister of Finance.

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

Annex I: Explanation of the Different Types of Opinion Applied by NAO

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex II: Letter of confirmation

REPUBLIKA E KOSOVËS-REPUBLIKA KOSOVA-REPUBLIC OF KOSOVO ZYRA KOMBËTARE E AUDITIMIT NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE			
DATE PRANIAL DORËZUAR: DATE PRINDJEHOSYVLJENI: 07.07.2020 DATE SHËRVEJES SHËRVEJES:			
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REPUBLIKA E KOSOVËS / REPUBLIKA KOSOVO / REPUBLIC OF KOSOVO

KUVENDI KOMUNAL / SKUPŠTINA OPŠTINE ORAHOVAC / MUNICIPAL ASSEMBLY RAHOVEC

Zyra e Kryetarit/Ured Predsednika/ Office of Mayor



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 Rahovecit për vitin e përfunduar më 31 dhjetor 2019 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimit, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tij.

z. Smajl Latifi

Kryetar i Komunës së Rahovecit

Data: 02.07.2020, Rahovec,

