



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 THE
MUNICIPALITY OF HANI I ELEZIT FOR
THE YEAR 2019

Prishtina, July 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 Hani i Elezit 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 *Ajtene Llapashtica* - Team Leader, and *Selvete Foniqi, Aurora Morina* - team members, under the management of the Head of Audit Department, *Bujar Bajraktari*.

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Executive Summary

This report summarises the key issues arising from our audit of the Municipality of Hani i Elezit 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 Financial Statements - Annual Financial Statements were in compliance with the applicable rules and standards, except for disclosure of information under assets which is detailed below in the separate subchapter of report.

Conclusion on Financial Management and Control - in terms of financial systems, controls over revenues and expenditures have not been generally implemented effectively due to irregularities in revenues management, payment execution and assets management.

Conclusion on Implementation of prior year Recommendations - the municipality has made a good progress in implementation of prior year recommendations of the Auditor General, however they should continue with efforts for full implementation of recommendations.

Opinion of the Auditor General¹

Unmodified Opinion

For more details, see Chapter 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 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 response on audit results is presented in Annex II.

1 Audit Opinion on Annual Financial Statements

We have audited the AFS of the Municipality of Hani i Elezit 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

In our opinion, 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 according to cash based accounting.

Basis for the 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.

Responsibility of Management for AFS

The Mayor of Hani i Elezit is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the 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 terms of financial systems, controls over revenues and expenditures are generally appropriate and effective though further improvement is needed to prevent irregularities. Main areas requiring improvements are implementation of rules in planning and execution of expenditures, management of revenues. Further, the municipality should take actions to improve management and full reporting of registers of assets, accounts receivable and outstanding liabilities.

2.1 Budget Planning and Execution

We have considered the sources of budget funds and spending 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	2,915,921	3,205,548	3,133,210	98%	2,861,153	2,422,548
Government Grant - Budget	2,600,555	2,600,554	2,582,110	99%	2,463,145	2,240,415
Carried forward from previous year ³ -	0	193,189	169,163	88%	138,390	31,440
Own Source Revenues ⁴	289,129	289,129	259,569	90%	171,825	113,852
Domestic Donations	0	116,600	116,486	100%	84,970	36,841
Borrowings	26,237	6,076	5,882	97%	2,823	0

The final budget is higher than the initial budget by €289,627. This increase is a result of carried forward revenues and donations, while there was a decline on financing from borrowing.

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.

In 2019, the Municipality spent 98% of the final budget or €3,133,210, with an improvement of 6% compared to 2018. The budget execution remains at a satisfactory level and explanations for the current position are detailed below.

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	2,915,921	3,205,548	3,133,210	98%	2,861,153	2,422,548
Wages and Salaries	1,493,148	1,493,148	1,478,773	99%	1,451,064	1,367,010
Goods and Services	263,236	262,142	261,827	100%	226,206	188,215
Utilities	54,400	54,400	54,369	100%	44,405	49,932
Subsidies and Transfers	61,104	66,240	66,103	100%	47,659	49,801
Capital Investments	1,044,033	1,329,618	1,272,138	96%	1,091,819	767,590

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries, and Utilities did not change from the initial budget;
- The final budget for Goods and Services was reduced by €1,094. The budget changes were impacted from the borrowing fund (Kosovo Health Project as per agreement with Ministry of Health) and reduction of government grant by €22,567 while there was an increase from carried forward revenues in €18,567, donations €500 and borrowings in €2,406⁵;
- The final budget for Subsidies was increased from carried forward revenues by €5,136;
- The final budget for Capital Investments compared to initial budget was increased by €285,585., of which €169,486 comprised of carried forward revenues and €116,099 of donations.

⁵ The borrowing concerns the agreement between the Municipality and the Ministry of Education, Science and Technology for the project Reforms in Education system

Issue A1 – Misclassification of expenditures

Finding

The law on budget of the republic of Kosovo for year 2018 and the chart of accounts clearly define that expenditures should take place from the adequate economic categories. Furthermore, Article 23.1 of LPP defines that the responsible procurement officer of a contracting authority shall be the only person authorized to enter into or sign a public contract on behalf of such contracting authority. During our audit we found that:

- From testing of payments⁶ we found that funeral expenses amounting €9,690 and rehabilitation expenses amounting €1,520 were wrongly paid from and registered in Goods and Services, while they belong to subsidies. Other than that, the contract concluded with the medical rehabilitation centre Banja e Klllokotit for physiotherapy services was signed by director of Department for Health and Social Welfare (with no procurement procedures).
- Two payments for court decisions for accompanying salaries expenses amounting €1,454 were made from Goods and Services, while they belonged to Wages and Salaries.

The reason for misclassification of expenditures was mainly due to poor budgeting and lack of funds in adequate categories.

Impact

Recording of expenditures in inadequate economic categories leads to overstatement/understatement of certain categories of expenditures and unfair presentation of expenditures in AFS.

Recommendation A1 The Mayor should ensure that all actions are taken in order to plan the expenditures under adequate budget appropriations (or reallocation of funds are made when necessary), and payment and recording of expenditures is strictly made under adequate economic codes. Purchase of services should be made through the procurement procedures and contracts should be signed by the procurement manager.

2.1.1 Revenues

Revenues generated by municipality in 2019 totalled €297,254. These mainly relate to revenues from property tax, revenues from construction permits, administrative fees, revenues from business activities, revenues from rent etc. Compared to last year, the municipality had an increase of revenues by 8%.

⁶ The two (2) tested payments concerning funeral services amounting €3,740 and the total of payments for this purpose during the year was €9,690. There was only one (1) for rehabilitation services amounting €1,520.

Table 3. Revenues (in €)

Description	Initial Budget	Final Budget	2019 Receipts	% of 2019 Receipts	2018 Receipts	2017 Receipts
Own source revenues	289,129	289,129	297,254	103%	288,496	225,193
Tax revenues	125,409	125,409	117,792	94%	133,801	79,588
Non-tax revenues	163,720	163,720	179,462	110%	154,695	145,605

Other than the revenues presented in the table, the municipality also generated indirect revenues from traffic fines amounting €24,181.

Issue A1 - Shortcoming in updating property tax data

Finding

Article 11.1 of Law no. 06/L-005 stipulates that "The natural person who, until 30th of November of the year before the tax year, establishes that the object unit serves as primary residence and declares this in the Municipality or during the inspection stage, shall be allowed a deduction of fifteen thousand (15,000) Euro from the appraised value of the object unit".

- In two samples tested in the first phase of audit we found that from the appraised value of the object unit the allowed deduction for primary residence was not made. These cases were corrected while we were auditing. However, nothing has been done in identifying other cases because during the final phase of the audit we found that the deduction for primary residence was not made to four other taxpayers.
- In two samples for tax on residential parcel units and for tax on commercial parcel units, the name of street in the invoice does not match with the number of the assessment area according to the report on the overall assessment for the municipality, made by the property tax department. In one case the invoice belongs to Paldenica place with an assessment area of 3309 in amount of €30, while in the invoice it set the area of 3310 to street Imer Vila in an amount of €80). The other invoice with the name of street Lepenci, this street is not described in the assessment area, as it was set with the assessment area number 3305 with the name of street Dëshmorët e kombit.

Impact

Shortcomings identified make the calculation of taxes difficult by risking on over-/understatement of tax liability.

Recommendation A2 The Mayor should ensure that, in cooperation with Property Tax Department within the Ministry of Finance, the report on overall assessment of properties for municipality is reviewed, in order to include all street names into areas. There should also be identified and corrected the errors concerning taxpayers' data systems so that the tax calculation is correct.

Issue A3 – Poor management of public properties allocated for use

Finding

Law no. 06/L-092 on Allocation for Use and Exchange of Municipal Immovable Property, Article 6, paragraph 1.3, stipulates that the “Municipalities may allocate the immovable property for use for less than one (1) year. Procedures and forms for allocation for use of immovable property of the municipality for the period up to one (1) year shall be governed and determined with a municipality regulation.”

The municipality adopted the internal regulation on allocation for short-term use of municipal immovable property. In 2019, there were signed 27 contracts for one-year use of public municipal property. The contracts were extended by inviting the contractors to extend the contracts, without conducting procedures for allocation for use of properties. From the five (5) tested samples, we found that four (4) contracts⁷ were signed although the lessees did not perform their previous obligations.

According to officers ascertainment these contracts were transferred from the time the municipality was under administration of the Municipality of Kacanik⁸, continuing with the same contracts by not changing them. The contracts were extended upon the agreement concluded to make the payments in instalments.

Impact

Lack of written procedures and allocation of properties for short-term use without any procedure harms competition and equal treatment of interested parties. Extension of contracts to persons who have not performed their prior obligations increases the risk of non-collection of revenues and brings financial losses to the municipality.

Recommendation A3 The Mayor should ensure that the procedures for allocation for use of immovable properties are defined and approved by regulation as provided by law. Furthermore, before signing new contracts, all lessees/users of properties should perform their prior contracting obligations.

⁷ In the 4 tasted contracts, there were debts prior to contract signing: M.D had a debt of €5,994; Z.B had a debt of €2,023; J.K had a debt of €1,605; H.A had a debt of €2,042.

⁸ Before year 2008, these properties were under the management of Municipality of Kacanik as in August 2008 the MLGA certified Hani i Elezit as a Municipality.

2.1.2 Wages and Salaries

The final budget for Wages and Salaries is €1,493,148. The number of employees by budget was 224, whereas by the end of the year the number of employees was 221. We have tested 24 samples as part of substantive testing, and 13 samples as part of compliance testing.

Issue A4 - No Certifying Officer position

Finding Article 14.1 of LPFMA stipulates that “Each budget organization, autonomous executive agency and public undertaking shall have a Certifying Officer. The Certifying Officer shall be appointed by and report to the Chief Administrative Officer”.

The municipality has not employed neither presented in the organisational chart the position of the Certifying Officer, although this is a key position required by LPFMA. The Head of Budget and Finance is engaged by CAO (although there is no decision nor evidence on authorisation thereof), and is certified by treasury to certify the payments.

According to municipal officers, the engagements is reasoned with the fact that there was insufficient staff and therefore the CAO tasked the Head of Budget and Finance with the additional responsibility of the position of certifying officers.

Impact Additional engagement and without formal authorization / decision for the key position provided by law, increases the risk that officials will encounter obstacles in the performance of duties and responsibilities in relation to legal requirements.

Recommendation A4 The Mayor should initiate the review of the municipality’s organisational chart to ensure that the position of the Certifying Officer is included therein, and financial means for this position are budgeted in order to meet legal requirements for filling this position.

Issue A5 – Shortcomings in hiring of staff under Special Service Agreement (SSA)

Finding Article 12 of the Law no. 03/L-149 on Civil Service stipulates that fixed-term appointments of less than six (6) months shall be governed by contracts called Special Service Agreements (SSA) for which a simplified recruitment procedure shall be applied.

During 2019, the municipality hired 19 employees under SSA (of which 12 were from previous years mainly since 2017). For such hiring, the directorate of education applied simplified recruitment procedure, whereas the Directorate of Health and the Administration applied no such procedures. These engagements were mainly for unspecific positions⁹, which according to personnel manager occurred due to needs for engagement of additional staff to reach the objectives of the municipality.

Impact Avoidance of recruitment procedures/continuation of regular job positions under SSA limits competition and may lead to engaging unmeritorious staff for such positions.

Recommendation A5 The Mayor should ensure that the SSAs are used only for specific jobs and contracts do not last longer than the statutory deadline. Furthermore, actions should be taken to address the needs for regular positions before the Ministry of Finance during budget planning and to ensure that they are budgeted and paid from Wages and Salaries.

2.1.3 Goods and Services

The final budget for Goods and Services (including Utilities) in 2019 was €316,542, of which €316,196 were spent. Those mainly relate to office supplies, expenses for fuel and other heating materials, utilities, facility maintenance, other contracting costs, etc. We have tested 15 samples of €43,826 as part of substantive testing, and six (6) samples as part of compliance testing.

2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €66,240, of which €66,103 were spent in 2019. Subsidies are allocated to public and non-public entities and are mainly spent to support the sectors of agriculture, culture, health, sports and other activities within the Municipality. We have tested five (5) samples of €12,100 as part of substantive testing, and five (5) samples as part of compliance testing.

⁹ Positions hired under SSA were for Nurse, architect in city planning office, guard-technical staff for forestry, etc.

2.1.3 Capital Investments

The final budget for Capital Investments was €1,329,618, out of which €1,272,138 were spent in 2019. Those relate to expenditures for construction of local roads, sewerage, water supply, expropriation, etc. We have tested 51 samples of €1,021,492 as part of substantive testing, and five (5) samples as part of compliance testing.

Issue A6 – Weaknesses in procurement process

Finding The Rules and Operational Guidelines for Public Procurement, Article 20.10, stipulates that “Technical Specifications for works contracts shall determine the exact nature and performance characteristics of the required works. Technical Specifications shall include, as a substantial part of it, an Executive Project.”

In three work projects the municipality had not drafted the executive project, but it conducted procurement procedures only on the basis of bill of quantities and cost estimates.

Impact Lack of executive projects leads to poor management of projects, difficulties in field work, and delays in execution of them.

Recommendation A6 The Mayor should ensure that for all works projects the executive projects are prepared as part of technical specifications in order to ease their execution pursuant to contracts.

2.2 Capital and non-capital assets

The amount of capital assets presented in 2019 AFS is €15,490,368, that of non-capital assets is €203,250, and of stock is €28,043. We have tested 92 samples of €1,097,609 as part of substantive testing. we have also assessed the general process of assets management, assets inventorying, and the way the municipal assets registers were kept.

Issue B1 – Shortcomings in management of assets register and disclosure of information in AFS**Finding**

Regulation MoF – No. 02/2013 on Management of Non-financial Assets by Budget Organizations clearly defines the rules and procedures for management of assets and stocks. This regulation requires BOs to approve internal rules for asset management. This regulation also defines the obligations and activities related to assets inventorying. During the audit testing we identified shortcomings in management of registers and disclosure of information in AFS, which are described below:

- The Municipality did not approve any regulation or internal procedure for recording, preserving and alienation of non-financial assets as required by the financial rule;
- The Municipality did not establish the Assets Inventory Commission;
- The project financed by the Ministry of Economic Development related to application of energy efficiency measures in public premises amounting €66,744, invested in two schools, although the official handover took place, such investments/assets were not registered in the registers and were not disclosed in AFS. However, these assets were registered on 29.06.2020;
- Payments for capital investments amounting €56,900¹⁰ were not recorded in the assets registers in KFMIS and were not disclosed in AFS, hereby understating the capital assets for this amount;
- Shortcomings were also identified during the physical examination of assets purchased on previous years, such as: a Toyota vehicle which has been registered in KFMIS since 2007 with an initial and carrying value of €4,000, the depreciation was not calculated at all. IT equipment that have been listed in KFMIS since 2012 with a carrying value of 0 (zero). Officials have not been able to provide us with information on their location, so we do not provide assurance of their physical existence;

¹⁰ Concrete blocks paving in urban areas, amounting €4,473; Asphaltting of pedestrians sidewalk Hani Elezit - Uji i thartë, amounting €13,997.80; Memorial plaques for martyrs, amounting €6,429.91; Construction of local roads, amounting €9,999.29, and Equipping of cabinets with teaching and laboratory tools, amounting €22,000.

- The value of assets less than €1,000 are disclosed in the AFS according to the inventory report in use in the amount of €203,250. The e-assets report (report by value, including depreciation) has not been provided to us, on the grounds that no purchases are registered in the e-assets system due to absence of system access. Accesses were provided on 13.02.2020..

Finding Such shortcomings occurred due to insufficient attention to the assets management.

Impact Shortcomings identified in asset registers management have affected the inaccurate disclosure of asset values in AFS. Lack of internal procedures and non-compliance with the requirements of the regulation on asset management make the management unable to have accurate information about the state of municipal assets thus making it difficult to decide on potential investments in existing assets or the assessment of the need for investment in new assets.

Recommendation B1 The Mayor should initiate the approval of internal rules for asset management to clarify each activity related to asset management. The Mayor should also ensure that all municipal assets (including capital and non-capital assets) are registered in registers and correctly disclosed in AFS, in accordance with statutory requirements.

2.3 Receivables

The Municipality disclosed in the 2019 AFS receivables in amount of €515,267. This is made of property tax by €249,195, business tax by €253,121, and rents by €12,951.

2.4 Liabilities

2.4.1 Outstanding liabilities

The statement of outstanding liabilities towards suppliers at the end of 2019 was €42,256. These liabilities are carried forward to be paid in 2020. Compared to 2018, the outstanding liabilities increased by €20,180.

2.4.2 Contingent liabilities

The statement of contingent liabilities at the end of 2019 was €20,813. They mainly relate to damage compensation claims, and jubilee salaries according to the collective agreement. Compared to last year, these liabilities increased by €2,814.

2.4.3 Contractual obligations

According to information provided by Municipality, the amount of contractual obligations at the end of 2019 was €495,599.

2.5 Internal audit function

The Municipality established an Internal Audit Unit as Regulation GRK – no. 01/2019 on Establishment and Implementation of Internal Audit Function at the Public Sector Entity, Article 5.2, stipulates that “Public Sector Entity which has a budget less than three (3.000.000, 00€) million euro, should exercise internal audit function through other manners”¹¹.

Based on the abovementioned regulation (Article 4 para 1.3), on 27.09.2019 the municipality filed a request with the Ministry of Finance to carry out the internal audit for 2019, and on 11.06.2020, the internal audit unit of MoF received the Audit Report with Recommendations on “Operations of the Municipality of Hani i Elezit”. The Municipality prepared the action plan for implementation of four (4) recommendations made by this report.

3 Progress in Implementing Recommendations

Our Audit Report on the 2018 AFS resulted in seven (7) key recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented.

The Municipality submitted to NAO two periodic reports on implementation of recommendations under requests deriving from the Rules of Procedure on implementation of audit and action plans.

At the end of our 2019 audit, three (3) recommendations were implemented, one (1) was not implemented yet, and three (3) were closed. For a more thorough description of the recommendations and the way they have been addressed, see Table 4 (or Table of recommendations).

¹¹ Other manners are provided for by Article 4 – The way of implementation of internal audit function, para 1.2 Joint Internal Audit Unit according to criteria set by Ministry of Finance; para 1.3. Through an agreement on ensuring internal audit service from a public sector entity to another entity with prior approval of Minister of Finance; or para 1.4. By contracting a professional company on conducting internal audit after approval of Minister of Finance.

Table 4 Summary of prior year recommendations and of 2019

No	Audit area	Recommendations of 2018	Actions undertaken	Status
1	Annual Financial Statements	The Mayor should ensure that an analysis is carried out to determine the reasons for the Emphasis of the matter of the Audit Opinion. Specific actions should be undertaken to address the causes systematically in order to eliminate errors in the disclosure of assets and capital assets and to confirm their accurate assessment. Furthermore, the Mayor should ensure that effective processes have been established to confirm that the draft plan of the AFS 2019 addresses all issues pertaining to compliance. This should also include the review of the AFS by management, with particular emphasis on high risk areas or fields where errors have been identified in previous years. The statement made by the Chief Administrative Officer and the Chief Financial Officer should not be signed unless all the necessary controls have been applied to the AFS.	No actions were undertaken. Recommendation on emphasis of matter from previous year was given regarding the assets	Recommendation closed
2	Budget Planning and Execution	The Mayor should conduct a comprehensive assessment of causes behind poor execution in relevant categories, and ensure adequate budget planning in line with projects aimed, and regularly monitor budget performance with the aim of budget execution and avoiding of bad statements.	In 2019, the municipality had a good budget execution of 98%.	Recommendation implemented
3	Revenues	The Mayor should ensure and take the appropriate measures that in shorter time period to collect all of the accounts receivables. Furthermore, all possible options should be considered, including the legal ones, to ensure the collection of	Compared to last year, revenues increased by €20,881, and the Municipality undertook actions by sending warnings at the	Recommendation implemented

		revenues of this category, as well as to create and maintain a clear and complete evidence with all the necessary information's so that revenue management is more efficient.	end of the year 2019.	
4	Capital and non-capital assets	The Mayor should ensure that the process of registering of assets in the Municipality's assets register should be performed by accurate classifying into the relevant economic codes and after the completion of this process, the asset condition should be inventoried. After the inventorying, the concluded situation should be compared with the general assets register, so that the potential differences can be identified and then reflected in the asset registers.	No actions were undertaken.	Recommendation unimplemented Ref: B1
5	Receivables	The Mayor should take measures to address the causes of failure of collections of receivables and to provide effective mechanisms for their collection. Likewise, the Mayor should establish appropriate measures to collect all outstanding liabilities within a reasonable period and initiate a process of revaluation of accounts receivable where all accounts will be analysed in terms of seniority, significant amounts and real opportunities for their collection, and in certain cases their provisioning or settlement in case of categorization as bad debts.	The Municipality started procedures by sending warnings, concluding agreements, and sending cases to enforcement agent.	Recommendation implemented
6	Internal Audit System	The Mayor should ensure that the legal requirement is met, respectively to recruit one internal auditor. If this requirement cannot be executed, then the internal audit service should continue to be performed by the Ministry of Finance, or any other public entity. The audit service would support the Management in decision-making and elimination	Based on GRK - No. 01/2019, the Municipality requested from MoF to carry out the audit which had taken place.	Recommendation closed

		of weaknesses.		
7	Management Reporting, Accountability and Risk Management	The Mayor should ensure that a review has been carried through to determine the form of financial and operational reporting to Senior Management. Budgetary performances, including revenues and expenditures, and procurement plan should be subject to regular reporting and review by the Management, the registration and inventorying process must include all of the assets of the municipality. Further on, in order to reduce the impact of risks to acceptable levels, the Organization should draft a risk register with all appropriate measures/actions to put the exposed threats under control.	Management reporting has not been handled with in this report.	Recommendation closed
No	Audit area	Recommendations of 2019		
1	Budget Planning and Execution	The Mayor should ensure that all actions are taken in order to plan the expenditures under adequate budget appropriations (or reallocation of funds are made when necessary), and payment and recording of expenditures is strictly made under adequate economic codes. Purchase of services should be made through the procurement procedures and contracts should be signed by the procurement manager.		
2	Revenues	The Mayor should ensure that, in cooperation with Property Tax Department within the Ministry of Finance, the report on overall assessment of properties for municipality is reviewed, in order to include all street names into areas. There should also be identified and corrected the errors concerning taxpayers' data systems so that the tax calculation is correct.		
3		The Mayor should ensure that the procedures for allocation for use of immovable properties are defined and approved by regulation as provided by law. Furthermore, before signing new contracts, all lessees/users of properties should perform their prior contracting obligations.		
4	Wages and Salaries	The Mayor should initiate the review of the municipality's organisational chart to ensure that the position of the Certifying Officer is included therein, and financial means for this position are budgeted.		
5		The Mayor should ensure that the SSAs are used only for specific jobs and contracts do not last longer than the statutory deadline. Furthermore, actions should be taken to address the needs for regular positions before		

		the Ministry of Finance during budget planning and to ensure that they are budgeted and paid from Wages and Salaries.
6	Capital Investments	The Mayor should ensure that for all works projects the executive projects are prepared as part of technical specifications in order to ease their execution pursuant to contracts.
7	Assets	The Mayor should initiate the approval of internal rules for asset management to clarify each activity related to asset management. The Mayor should also ensure that all municipal assets (including capital and non-capital assets) are registered in registers and correctly disclosed in AFS, in accordance with statutory requirements.

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


DALËSE - IZLAZNA - OUTGOING
REPUBLIKA E KOSOVËS REPUBLIKA KOSOVA, REPUBLIC OF KOSOVA
REPUBLIC OF KOSOVA
KOSOVA
Nr. 02/2020
Data: 30.07.2020
HANI I ELEZIT


Republika e Kosovës-Republic of Kosova
Komuna - Municipality
Hani i Elezit


LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm për vitin 2019 dhe për implementimin e rekomandimeve

Për: Zyrën e 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 Hanit të Elezit, për vitin 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 implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

z. Rufki Suma

Kryetar i Komunës së Hanit të Elezit,
Data: 30 korrik 2020, Hani i Elezit,

