



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE NORTH MITROVICA MUNICIPALITY FOR YEAR 2021

Prishtina, May 2022

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1 Audit Opinion

We have completed the audit of the financial statements of Municipality of North Mitrovica for the year ended on 31 December 2021 in accordance with the Law on the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion the financial statements and conclusion on compliance with authorities¹.

Qualified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Municipality of North Mitrovica, which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports², for the year ended as at 31 December 2021.

In our opinion, the annual financial statements of Municipality of North Mitrovica give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

Basis for the Qualified Opinion

B1 In 2021, the Municipality did not manage to record the non-financial capital assets in KFMIS. The unrecorded assets are public buildings, roads and lands. This issue has been addressed in the last year's audit and proper recommendations were given, but no action has been taken in this regard. The Municipality's management presented the problems on recording of property and the reasons behind them as well as other administration issues.

For more details, see sub - chapter 2.1 Issues with impact on audit opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. NAO is independent from the auditee in accordance with INTOSAI-P-10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit Conclusion on Compliance

We have also audited whether the processes and underlying transactions have been in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

¹ Compliance with authorities -- compliance with all the public sector laws, rules, regulations, and relevant standards and good practices

² Other reports are required under Article 8 of Regulation no.01/2017 on Annual Financial Report

In our opinion, except for the matters described in the Basis for Compliance Conclusion section, transactions carried out in the process of execution of Municipality's budget have been, in all material respects, in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

Basis for the Conclusion

- A1 In two contracts of €9,300, signed between NGOs and the Municipality, no financial and narrative reports on incurred expenditures were submitted, as stipulated in the contract and the Regulation on Public Funding of NGOs.
- B2 The Municipality did not plan property tax revenues in the 2021 budget because of its failure to put a property tax function in place (they do not have a property tax manager, nor survey officials, or officials trained to use the Pretax system etc.). In addition, they have not identified the properties in order to have a property register in place subsequently. Although the property inventory process started in 2014, with the support of the Kosovo Cadastral Agency, the Municipality has not completed it yet.

For more details, see sub – chapter 2.2 Issues with impact on compliance conclusion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. NAO is independent from the auditee in accordance with INTOSAI-P 10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of Management and Those Charged with Governance for the Annual Financial Statements

The Mayor is responsible for the preparation and fair presentation of financial statements in accordance with the International Public Sector Accounting Standards -- Financial reporting under the cash basis of accounting. In addition, the Mayor is responsible for establishing internal controls which he determines are 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 of the Law no.03/L-048 on Public Finance Management and Accountability and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

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

Management's Responsibility for Compliance

North Mitrovica Municipality's Management is also responsible for the use of the Municipality's financial resources in compliance with the Law on Public Financial Management and Accountability, and all other applicable rules and regulations.³

³ Collectively referred to as compliance with authorities

Auditor General's Responsibility for the audit of AFS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our objective is also to express an audit opinion on compliance of respective authorities of the North Mitrovica's Municipality with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

As part of an audit in accordance with the Law on NAO and ISSAIs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Identify and assess the risks of non-compliance with authorities, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on compliance with authorities. The risk of not detecting an incidence of non-compliance with authorities resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of North Mitrovica's internal control.
- Assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Assess the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements give a true and fair view of the underlying transactions and events.

We communicate with management and those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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 Findings and recommendations

During the audit, we have identified that the internal control system of the Municipality of North Mitrovica needs improvement in certain areas. Areas for possible improvements are such as: the necessary correction of financial information presented in annual financial statements; collection of property tax, payment of unspecified liabilities; reporting of subsidies by beneficiaries; management of non-financial assets; recording of properties in KFMIS, and staffing of IAU which are presented for your consideration below in the form of findings (as shown in Graphic 1 below) and recommendations for which immediate actions to prevent further damage to the Municipality's budget are needed. This report comprises eight (8) recommendations of which two (2) are new recommendations, five (5) repeated, and one (1) partly repeated.

For the status of previous year's recommendations and the extent of their implementation see Chapter 4.

2.1 Issues with impact on compliance conclusion

Issue B1 - Untrue assets register in AFS disclosures

Finding

Regulation MoF -- No. 02/2013, on Management of Non-Financial Assets by Budget Organizations, Article 6, requires that each budget organization shall put in place and update a register of non-financial assets under its management. The register should be maintained separately for each property and summarized according to the classified categories based on the accounting plan. In the regulation it is specified that capital assets must be recorded in KFMIS, whilst non-capital assets must be recorded in the E• assets.

In 2021, the Municipality did not manage to record the non-financial capital assets in KFMIS. The unrecorded assets are public buildings, roads and lands. This issue has been addressed in the previous year's audit and proper recommendations have been given, but no action has been taken in this regard. The Municipality's management presented the reasons and problems on recording of property as well as other administration reasons.

This occurred due to failure to start the stocktaking procedure and to conduct a full evaluation of the owned property. Therefore, there is no certainty with regards to Municipality's assets value presented in the 2021 AFS.

Impact

Failure to record all assets makes it difficult for the Municipality to successfully manage and use the assets, so that rational decisions in the interest of all citizens would be taken. Moreover, incomplete data and information in assets register result in untrue presentation in the AFS.

Recommendation B1

The Mayor should ensure that an analysis to identify the causes behind failure to record the assets is conducted. Specific actions to address the problems systematically are needed, in order to avoid the shortcomings in true and fair identification and record of assets.

Response of entity's management (agree)**2.2 Issues with impact on compliance conclusion****Issue A1 – Beneficiaries' failure to report on granted subsidies****Finding**

Based on MF Regulation No.04/2017 on Criteria, Standards and Procedures on Public Funding of NGOs, Article 23 - Monitoring and reporting of projects and programs on which the beneficiary reports to the monitoring officer on a regular basis regarding the implementation/program of the project as provided in the contract, Article 22 of this regulation. Reporting includes narrative and financial reporting and the reporting periods will be determined in accordance with the provisions of the contract with the beneficiary.

In two contracts of €9,300, signed between NGOs and the Municipality, no financial and narrative reports on incurred expenditures were submitted, as stipulated in the contract and the Regulation on Public Funding of NGOs.

This occurred due to the dysfunctional control over the monitoring of the subsidy given by the municipal officials and the subsidy beneficiary's failure to fulfil the obligations established in the contract.

Impact

Beneficiaries' failure to report on expenses incurred from the granted subsidies may result in misuse of budgets and failure to achieve municipal objectives.

Recommendation A1 The Mayor should take actions in accordance with the Regulation on Public Funding of NGOs, notably on the beneficiaries reporting on the spending of subsidies.

Response of entity's management (agree)**Issue B2 – Failure to implement the law on revenue collection (Property tax revenues)****Finding**

Law No.06/L-005 on Immovable Property Tax, Article 2, stipulates that all Budget Organizations are obliged to collect property tax revenues. In 2021, the Municipality had not started to collect the property tax revenues.

The Municipality did not plan property tax revenues in the budget for 2021 due to failure to establish a property tax function (they do not have property tax managers, surveyors, trained officials for the Protax system etc.). Property identification, in order to subsequently make a property register, has not been done. Although the property inventory process started in 2014 with the support of Kosovo Cadastral Agency, the Municipality has not completed it yet.

This has happened because the Municipality has not yet established a law enforcement policy and has not taken concrete actions to collect revenues from these activities that have a significant impact on the level of the municipal budget.

From the audit perspective, this issue and the recommendation have been repeated over the years, yet there are no signs from the municipality to take concrete measures.

Impact

Failure to implement the Law and Regulations on the collection of property tax has an important and priority impact, considering the fact that the property tax is the only decentralised tax at the municipal level. In this way, the revenues are not collected, which directly affects achievement of objectives of the Municipality where the funding basis are the revenues.

Recommendation B2

The Mayor should ensure the Law on Property Tax is implemented and an internal regulation to determine the tax rate is drafted. In addition, the Mayor should ensure that a property tax function is put in place, and through pro-active communication should influence on the awareness of citizens on the importance of property tax and its benefits to citizens.

Response of entity's management (agree)

2.3 Other financial management and compliance issues

2.3.1 Internal Controls over financial reporting

Issue A2 – Shortcomings in the preparation of the AFS

Finding

MoF Regulation No.01/2017 on Annual Financial Statements of Budget Organizations and International Public Sector Accounting Standards • Financial Reporting under cash basis accounting:

In the Municipality's Annual Financial Statements, article 13 -- Statement of Cash Receipts and Payments, source of funds/receipts -- financing from borrowing in the amount of €6,000 has been presented as source of funds/other receipts. In Article 14 - Statement of budget execution - cash inflow in STA, column of outturn - revenues from donations were presented in the amount €0,00 whilst should have been presented in the amount of €15,000.

The budget of €4,081,000 presented in the final column, Trust Development Fund, should have been presented under STA cash outflow in the final budget column. Amounts presented under Capital investments category and explanatory notes were not true and complete.

The Municipality did not prepare the AFS in accordance with the Regulation no.01/2017 on Financial Reporting. Once we found the errors and gave our advices, the Municipality made the necessary corrections and the corrected version of the AFS was in compliance with the International Public Sector Accounting Standards – Financial Reporting under the cash-based accounting – and met all the reporting obligation stemming from the legal framework on reporting.

Lack of an internal control function.

Impact Failure to present true and complete financial and non-financial information in the AFS does not give a true and fair view of data and reduces the extent the end user could rely on them.

Recommendation A2 The Mayor should provide for additional controls over the preparation of the AFS in order to ensure that disclosures in the AFS of 2022 are free from accounting and administrative errors. The statement given by the Chief Administrative Officer and the Chief Financial Officer should not be signed unless all necessary controls over the draft AFS have been applied.

Response of entity's management (agree)

2.3.2 Wages and Salaries

The final budget for wages and salaries was €2,727,672, of which €2,727,522 were spent. The number of employees planned in the budget was 857, whilst by the yearend it was 530. During 2021, the Municipality did not advertise any competition. We tested 27 samples of €40,038 as part of substantive testing and 6 samples as part of compliance testing.

Issue B3 - Challenges in Human Resources management

Finding Human Resources management aims in coordination of organization's activities to ensure the functioning of the system in compliance with the implemented municipal administration policies and the municipal assembly in the organization. Human Resources management comprises: Design and audit of organizational structure; job description and categorization; control of staff budget expenditures and recruitment process; staff training and development, including staff performance measurement by conducting performance appraisal.

The Municipality has drafted an internal draft regulation on the organizational structure but, according to HR manager, has not been finalized yet due to technical and financial issues with regards to the procedure of entry into force of this document. This concern has been discussed several times with the representatives of Central Authorities and hopefully an adequate solution will be found.

Based on the action plan, as well as staff statements, due to the Covid-19 pandemic, the Municipal Assembly was unable to hold sessions and adopt a regulation on the organizational structure.

Impact Lack of organizational structure does not provide assurance on the internal organization of the Municipality, nor for the allocation of duties and jobs, especially in health and education sectors.

Recommendation B3 The Mayor should ensure that appropriate actions are taken to urgently address the abovementioned issues for the municipality to put in place an appropriate and well-organised structure.

Response of entity's management (agree)**2.3.3 Goods and Services, and Utilities**

The final budget for Goods and Services in 2021 was €558,894, of which €494,529 or 88% were spent. Most of the expenses related to fuels €47,865, stationeries (under €1,000) €227,899, other equipment €123,765. We tested five (5) samples of €95,135 as part of substantive testing and 5 samples as part of compliance testing.

Issue B4– Payment of unspecified invoices

Payment of water supply is regulated by the Law no. 04/L-147 on Waters, namely by the Administrative Instruction 02/2016 on the Water Payment Structure. Whereas, the issue of statute-barred requests is regulated by the Law on Obligations, Article 320.

In December 2020, the Municipality received and recorded the invoice in the amount of €58,837 from the Regional Water Supply Company "Mitrovica" regarding the water consumption for the invoiced period 01-30.11.2020. Based on the received invoice and financial card of the buyer dated 15.12.2020 and also on Regional Water Supply's letter of the Municipality on the debt of Municipality and its facilities, the latter paid the remaining debt of €14,337 on 09.02.2021 for water consumption. Invoices do not contain clear and specified data on customer costs, individually (municipal facilities). The Company did not deliver invoices to the Municipality on monthly basis, as a result the Municipality did not record this invoice as a liability (in the statement of liabilities) for 2021.

This occurred due to the Municipality's poor management of invoices and liabilities towards the company despite the fact that the Municipality was not provided with invoices on a monthly basis and neglected to pay debts as per the received invoice. Therefore the Municipality does not have a statement of its liabilities to present in the report.

Impact

Paying for water supply without recording it as Municipality's liability leads to the risks of failure to record the paid liabilities of the Municipality, or to the risk of paying liabilities that do not belong to the Municipality.

Recommendation B4

The Mayor should ensure that payments are only made for the specified bills and that bill indicate clear information on the due amount of individual customer.

Response of entity's management (agree)

2.3.4 Subsidies and transfers

The final budget for Subsidies and Transfers was €244,243, of which €125,660 or 51 % were spent. Subsidies were given for funding NGOs, whereas a part of subsidies was spend on social assistance and medical treatment. We tested 5 samples of €19,000 as part of substantive testing.

Issue C1 – Failure to prepare the annual plan on subsidies

Finding

Pursuant to the Regulation MF no.04/2017, Article 6, providers of financial support should prepare the annual plan of financial support for NGOs at the latest 30 days after the approval of the annual budget of the Republic of Kosovo and should send it to respective office for good governance at the Prime Minister's Office and Article 26 - Each provider of public financial support, upon the preparation of annual report will submit it no later than 1^o March.

The Municipality did not manage to prepare and submit/send the plan to the respective office for good governance at the Office of the Prime Minister and publish it on the Municipality's website.

This was due to lack of effective controls on fulfilling the requirements for the preparation of the annual subsidy plan and completing the requirements for reporting on the plan at the Prime Minister's Office.

Impact

Lack of an annual subsidy plan makes it impossible to timely inform stakeholders on the annual program and the goals to be achieved through project funding.

Recommendation C1 The Mayor should ensure that the legal requirements for the preparation of annual NGO financial support plan are met and that the plan is reported to the Prime Minister's Office within the set deadline.

Response of entity's management (agree)

2.3.5 Internal audit function

Budget organisations are required to ensure that their operations and process are subject to internal audit. Internal audit assists the organisation to achieve its objectives by applying a systematic and disciplinary approach to business evaluation through the planning of audit work, by identifying and assessing the nature and level of risk associated with each activity of the organisation.

Issue B5 – Failure to establish an Internal Audit Unit**Impact**

Law no. 06/L-021 on Public Internal Financial Control, Article 19, provides for the establishment and functioning of the IAU. Despite our repeated recommendations, the Municipality did not manage to provide internal audit services yet and they have not been covered by any other organisation either.

In 2021, the Municipality did not advertise any competition for the Internal Auditor position, whose recruitment is included in the Personnel Plan for 2020.

According to the statement of the Chief of HR, the competition was not advertised due to technical matters and amendments to legislation. However, this issue has been repeated from year to year and shows the unwillingness of the municipality to implement the given recommendations.

Impact

Lack of internal audit reports leads to repeated weaknesses in key internal control systems and the management may not be able to identify the control weaknesses and react on a timely manner to eliminate them.

Recommendation B5

The Mayor should establish the IAU in order to provide support for the management of risk areas and to assist in the ongoing operational activities. In addition, we propose the establishment/functioning of the Audit Committee, which would review the results of the internal audit as well as the activities undertaken by the management in regards to the recommendations given.

Response of entity's management (agree)

3 Summary on budget planning and execution

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

Table 1. Expenditures by sources of budgetary funds (in €)

Description	Initial Budget	Final Budget ⁴	2021 Outturn	2020 Outturn	2019 Outturn
Sources of Funds	4,996,273	9,031,006	4,705,516	5,894,153	5,170,718
Government Grant -Budget	4,933,588	4,757,195	4,628,511	5,852,090	4,795,398
Funding through borrowing	0	6,111	6,111	0	0
Development Trust Fund	0	4,080,544	0	42,063	319,282
Carried forward from previous year	0	109,432	56,266	0	37,181
Own Source Revenues	62,685	62,685	0	0	0
External Donations	0	15,039	14,627	0	18,856

The final budget for 2021 was €9,031,006, compared to the initial budget it has increased by €4,034,733. The difference between the initial and final budget was as a result of carried-forward own source revenues (€109,432), revenues from external donations in the amount of €15,039, transfers of funds from the Development Fund (€4,080,554) and loan financing (€6,111), whilst the Government Grant was reduced by €176,393.

In 2021, the Municipality spent 52% of the final budget with a decrease of 6% compared to 2020 (58%). Budget implementation remains at an unsatisfactory level and explanations for the current position are given in more details below:

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

Description	Initial Budget	Final Budget	2021 Outturn	2020 Outturn	2019 Outturn
Spending of funds by economic categories	4,996,273	9,031,006	4,705,516	5,894,153	5,170,718
Wages and Salaries	2,897,805	2,727,672	2,727,523	2,760,067	2,491,232
Goods and Services	512,761	512,895	478,909	990,551	606,692
Utilities	46,000	46,000	15,620	46,657	51,453
Subsidies and Transfers	162,000	244,243	125,660	90,735	15,950
Capital Investments	1,332,707	5,500,196	1,357,804	2,006,144	2,005,391
Reserves	45,000	0	0	0	0

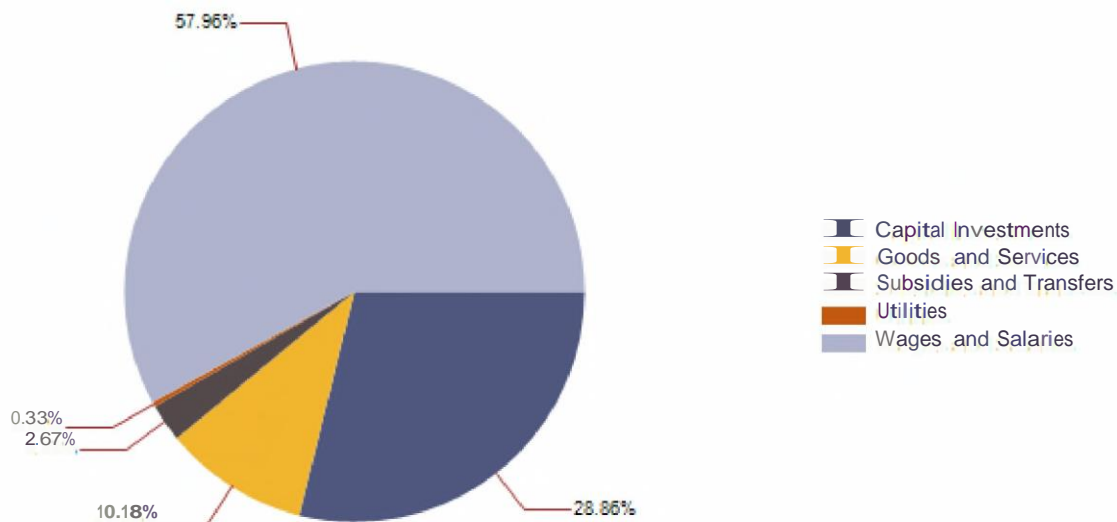
⁴ Final budget – the budget approved by the Assembly and subsequently adjusted for by the Ministry of Finance

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries was €2,727,672, compared to the initial budget it was decreased by €170,133. Of the final budget, 99,9% was spent whilst €149 from external donations have remained unspent.
- The final budget for Goods and Services and Utilities was €558,895, an increase of €134 compared to the initial budget. Of the final budget, €494,529 or 89% were spent.
- The final budget for Subsidies was €244,243, an increase of €82,243 compared to the initial budget. Of the final budget, €125,660 or 51 % were spent. The final budget for Subsidies increased by €82,243 from own source revenues carried forward from 2019. Execution of the final budget in the category of Subsidies and Transfers is still at a low level, however there is a slight increase of 6.5% compared to the previous year. This low level of final budget execution was due to unspent own source revenues of €62,685 as well as unspent carried-forward own source revenues and government grants.
- The final budget for Capital Investments was €5,500,196, an increase of €4,167,489 compared to the initial budget. The final budget was as a result of: €4,080,543 from Development Trust Fund; €45,000 from government grant; €27,105 from own source revenues; and €14,839 from donations. Despite the increase in Capital Investments budget, only €1,357,803 or 25% of the final budget were spent, that is 8% less than in 2020.

The low level of execution of capital investments is a consequence of the unspent final budget from the Government Grant in the amount of €51,337, unspent revenues from the Development Trust Fund in the amount of €4,080,554. The project "Construction of the Cultural Centre in North Mitrovica" amounted to €3,500,000, was not executed from this fund (the Economic Operator's bank accounts have been blocked due to the investigation process initiated by the judicial body, and the Municipality and the EO have therefore come to an agreement for bilateral termination of the contract). The remaining part was €179,982 for land expropriation, €399,900 for the Regional Institute of Culture, €160 for firefighters' expenses, and €501 for sports hall. Moreover, out of the funds of €27,105 carried forward from own source revenues, €16,806 were spent under capital investments and €212 under donations.

As a result of the Covid-19 pandemic situation, the Municipality has spent €6,111 on wages and salaries.

Chart 1. **Expenditures** by economic categories in 2021

The Municipality planned revenues of €62,685 for year 2021, whilst collected revenues totalled to €47,802. No revenues were collected from property tax. The Municipality has also collected indirect revenues from police fines amounting to €2,824.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2021 Receipts	2020 Receipts	2019 Receipts
Total of revenues	62,685	62,685	47,802	38,869	41,297
Non-tax revenues	62,685	62,685	47,802	38,869	41,297

4 Progress in implementing recommendations

Our audit report on 2020 AFS of Municipality of North Mitrovica resulted in 11 recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented.

By the end of our 2021 audit, five (5) recommendations have been implemented, five (5) were not addressed yet, and one (1) was under implementation as shown in following Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or the recommendations table).

The audit report on the AFS of the Municipality of North Mitrovica for the year ending in 2020 has not been deliberated in the Municipal Assembly.

Chart 2. Progress on implementation of prior year's recommendations

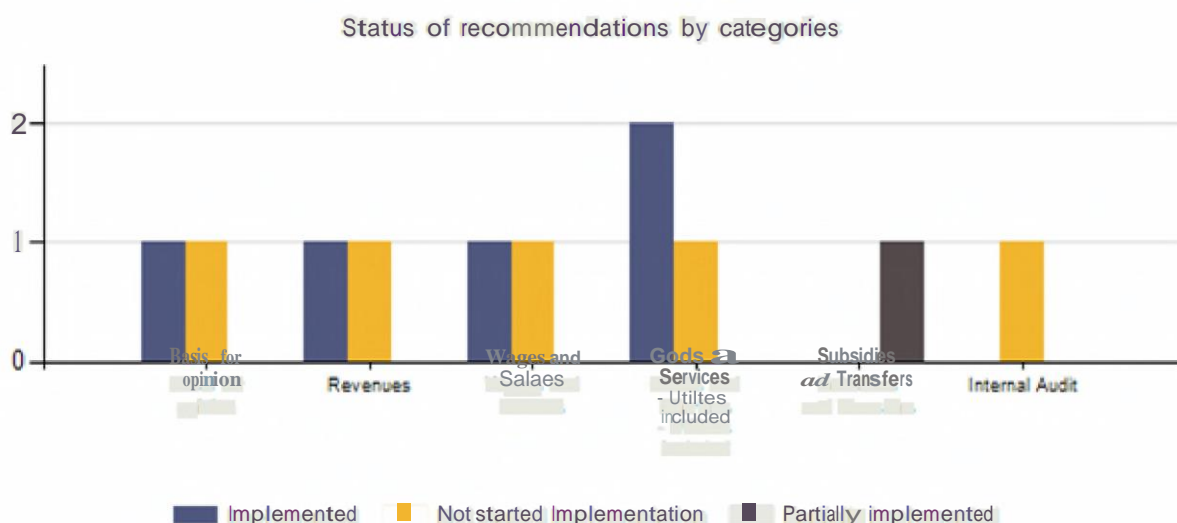


Table 4. Summary of prior year's recommendations and of 2020

No.	Audit area	Recommendations of 2020	Actions undertaken	Status
1	Basis for Opinion	The Mayor should ensure that an analysis is conducted to determine the main causes of failure to record the assets. Specific actions need to be undertaken to systematically address the causes, eliminate shortcomings in true and fair identification and recording of assets.	No actions have been taken. The Municipality faces the same situation this year as well	Implementation not started
2	Basis for Opinion	The Mayor should strengthen controls over the preparation of the AFS so that the disclosures in the AFS for 2021 do not contain accounting and administrative errors. The statement issued by the Chief Administrative and Financial Officer should not be signed unless all necessary controls	Following the identification of errors and our suggestions to rectify them, the Municipality has	Implemented

		have been implemented under the draft AFS.	rectified the errors and a revised version of the AFS has been prepared in line with the standards.	
3	Revenues	The Mayor should ensure the Law on Property Tax is implemented and an internal regulation to determine the tax rate is drafted. Also, the Mayor should ensure to put into function the municipal service for property tax, and through pro-active communication should influence on the awareness of citizens on the importance of property tax and its benefits to citizens.	No actions have been taken. The Municipality faces the same situation this year as well	Implementation not started
4	Revenues	The Mayor should ensure that the competent officials have the appropriate level of responsibility so that the recording of revenues and their reporting is regular and timely. It should also ensure that revenues are recorded in the appropriate economic codes in KFMIS.	Actions have been taken to address this issue	Implemented
5	Wages and Salaries	The Mayor should ensure that appropriate actions are taken to urgently address the abovementioned issues for the municipality to put in place an appropriate and well-organised structure.	No actions have been taken. The Municipality faces the same situation this year as well	Implementation not started
6	Wages and Salaries	The Mayor should require from the responsible people to provide files with basic data on the officials paid from the municipal budget, as well as monthly reports on continuity/presence at work, to ensure that only the legal employees were paid.	Actions have been taken to address this issue	Implemented
7	Goods and Services, and Utilities	The Mayor should ensure that the applicable decisions for the set limits on prepaid phone plans are respected. If it is necessary to increase the limit on telephone costs/expenditures then actions should be taken to review the decision, which should be in compliance with good financial management and due diligence in spending public funds. The supply with cards should be done only on the basis of spending needs in order to avoid creating unnecessary stocks.	Actions have been taken to address this issue	Implemented
8	Goods and Services, and Utilities	The Mayor should ensure that the controls in place are functional and the commissions are competent to keep evidence and provide accurate reports on the goods received and distributed, as well as to have an accurate report regarding the remaining situation.	Actions have been taken to address this issue	Implemented
9	Goods and Services, and Utilities	The Mayor should ensure that payments for water spent are made only for expenses that are due on the Municipality on basis of invoices with specified titleholder.	No actions have been taken. The Municipality	Implementation not started

			faces the same situation this year as well	
10	Subsidies and Transfers	The Mayor should ensure that the legal requirements for the preparation of annual NGO financial support plan are met and that the plan is reported to the Prime Minister's Office within the set deadline.	The Municipality did not manage to prepare and submit the plan to the respective office for good governance at the Office of the Prime Minister and publish it on the Municipality's website. The Municipality started the publishing of public announcements for the allocation of subsidies in electronic media.	Partly Implemented
11	Internal audit	The Mayor should establish the IAU in order to provide support for the management of risk areas and to assist in the ongoing operational activities. In addition, we propose the establishment/functioning of the Audit Committee, which would review the results of the internal audit as well as the activities undertaken by the management in regards to the given recommendations.	No actions have been taken. The Municipality faces the same situation this year as well	Implementation not started

Vlora Spanca: Auditor General

Zuk~ Zuka: Assistant Auditor General

Blerim Kabashi: Head of Audit

Nebojsha Risti~: Team leader

Stana Dancetovi~: Team member

Hysen Restelica: Team member

Annex I: Letter of confirmation

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KOMUNA E ZVECANIT ZVECAN

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LET~R E KONFIRMIMIT

Per pajtueshm~rin~ me gjetjet e Auditorit t~ P~rgiithsh~m p~r vitin 2021 dhe p~r zbatimin e rekomandimeve

Per: Zyr~n e Komb~tare t~ Auditimit

Te nderuar,

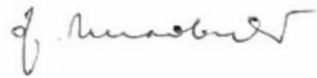
Permes k~saj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyr~s Komb~tare t~ Auditimit p~r auditimin e Pasqyrave Financiare t~ Komun~s s~ Zvecanit, p~r vitin 2021 (n tekstin e m~tejm~ "Raporti");
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonj~ koment p~r p~rmbajtjen e Raportit; si dhe
- brenda 30 diteve nga pranimi i Raportit final, do t'ju dor~zoj nj~ plan t~ veprimit p~r zbatimin e rekomandimeve, i cili do t~ p~rfshij~ afatet kohore dhe stafin p~rgjegj~s p~r zbatimin e tyre.

Z. Dragisa Milovic

(Kryetar i Komun~s Zve~ani),

Data: 04/05/2022



Annex 11: Explanation regarding different types of opinion applied by NAO and other parts of the Auditor's Report

Auditor's Report on the financial statements⁵ should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities⁶. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

For the purpose of concluding whether an opinion on the financial statements is modified or unmodified an auditor should assure himself/herself whether audit results include or not (a) detected material or pervasive misstatement(s) or potential one(s) presumed in the event of a limitation of scope.

A misstatement is a difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

(Extract from ISSAI 200)

Forms of opinion

Unmodified opinion

It is formulated when no misstatements or non-compliance were detected or misstatements and/or non-compliance were detected, a single one or aggregate, that do(es) not equal or exceed the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions do(es) not equal or exceed the level of lower materiality established for this class of transactions. It is also formulated if there is no limitation of scope or a limitation of scope may not lead to omission of (a) material misstatement(s) and/or non-compliance).

Limitation of scope occurs when an auditor 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 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.

Modifications to the opinion in the auditor's report

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

⁵ Financial statements in the public sector include also the statement(s) of budget execution

⁶ Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

and/or non-compliance, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement and/or non-compliance, the auditor should modify the opinion in the auditor's report. A modified opinion may be:

- Modified (qualified)
- Adverse, or
- Disclaimer

Qualified opinion

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that equals or exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions equals or exceeds the level of lower materiality established for this class of transactions. It is also formulated if there is a limitation of scope that may not lead to omission of (a) material misstatement(s).

Adverse opinion

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that pervasively exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions pervasively exceeds the level of lower materiality established for this class of transactions.

"Pervasive is a term used, in the context of misstatements and/or non-compliance, to describe the effects of misstatements and/or non-compliance on the financial statements or the possible effects on the financial statements of misstatements and/or non-compliance, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- a) Are not confined to specific elements, accounts or items of the financial statements
- b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Disclaimer of opinion

It is formulated when limitation of scope, i.e. inability to obtain sufficient appropriate audit evidence, is material and pervasive.

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

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.

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.

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.